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 and twelve months ended December 31, 2019.

This MD&A should be read in conjunction with Cequence's December 31, 2019 audited annual consolidated financial statements, 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. Throughout this MD&A certain comparative information has been revised for the effects of the restatement disclosed in the "Restatement of Previously Issued Financial Statements" section of the MD&A.

This MD&A was prepared effective March 10, 2020 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 10, 2020.

Cequence was incorporated under the *Business Corporations Act* (Alberta). The Company's common shares trade on the Toronto Stock Exchange under the symbol CQE. Additional information regarding Cequence including its Annual Information Form 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 crude 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 December 31,		Twelve months ended December 31,	
	2019	2018	**2019**	2018
Financial				
Total revenue[1]	**$14,859**	$12,184	**$55,479**	$58,921
Net loss and comprehensive loss	**(1,733)**	(3,802)	**(13,002)**	(9,699)
Per share – basic and diluted	**(0.04)**	(0.16)	**(0.39)**	(0.61)
Funds flow from operations[1]	**4,254**	2,071	**11,844**	13,087
Per share - basic and diluted	**0.10**	0.08	**0.35**	0.82
Capital expenditures, before acquisitions (dispositions)	**1,941**	13,397	**8,920**	23,800
Total assets			**267,662**	283,640
Net debt[1]			**54,778**	62,523
Production volumes				
Natural gas (Mcf/d)	**26,549**	27,645	**26,658**	30,098
Crude oil (bbls/d)	**527**	736	**679**	763
Natural gas liquids (bbls/d)	**353**	227	**230**	250
Condensate (bbls/d)	**587**	427	**455**	478
Total (boe/d)	**5,892**	5,997	**5,807**	6,507
Netback ($/boe)				
Price, including realized hedges	**$27.41**	$22.08	**$26.18**	$24.81
Operating netback[1]	**$11.49**	$7.05	**$9.50**	$9.99

[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 crude 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.

Within this MD&A, references are made to terms and financial measures commonly used in the oil and gas industry but that do not have a standardized meaning and are not defined by International Financial Reporting Standards ("IFRS") in Canada. These terms have been identified with "(1)". Please refer to "Non-IFRS Measures" at the end of this MD&A for further information.

RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Following the completion of the 2019 financial year, management determined that as at December 31, 2019 certain accrued liabilities relating to operating expenses for periods prior to January 1, 2018 were overstated by an aggregate of $9.6 million. The Company has disclosed in Note 4 of the annual audited consolidated financial statements for the year ended December 31, 2019 the effect of this adjustment. The effects of the restatement on the consolidated statements of financial position as at December 31, 2018 and January 1, 2018 are as follows:

(in thousands of dollars)	December 31, 2018	January 1, 2018
Accounts payable and accrued liabilities – As originally reported	$35,736	$33,106
Accrual adjustment	(9,580)	(9,580)
Accounts payable and accrued liabilities – As restated	$26,156	$23,526
Deficit – As originally reported	$(523,269)	$(513,570)
Accrual adjustment	(9,580)	(9,580)
Deficit – As restated	$(513,689)	$(503,990)

In addition, $1.6 million of the $9.6 million of overstated accrued liabilities, were previously reversed in the three and nine months ended September 30, 2019. The effects of the restatement on the consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2019 are as follows:

	For the three months ended September 30, 2019			For the nine months ended September 30, 2019		
(in thousands of dollars)	As originally reported	Adjustment	As restated	As originally reported	Adjustment	As restated
Operating expenses	$4,404	$1,573	$5,977	$16,036	$1,573	$17,609
Net loss and comprehensive loss	$(3,417)	$(1,573)	$(4,990)	$(9,696)	$(1,573)	$(11,269)
Per share basic and diluted	$(0.08)	$(0.04)	$(0.12)	$(0.32)	$(0.05)	$(0.37)

The effects of the restatement on the consolidated statements of financial position as at September 30, 2019 are as follows:

	As at September 30, 2019		
(in thousands of dollars)	As originally reported	Adjustment	As restated
Accounts payable and accrued liabilities	$25,742	$(8,007)	$17,735
Deficit	$(532,965)	$8,007	$(524,958)

The Company has not amended and does not intend to amend the annual filings made for the years ended December 31, 2018 and prior or the interim filings made in 2019 or prior. The adjustments noted in the tables above will be included in the comparative information in future filings where appropriate.

Management has concluded that a material weakness in its internal controls over financial reporting existed as at December 31, 2019. A material weakness is a deficiency, or combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness was caused by a failure to effectively operate an internal control to review and assess accrued liabilities relating to operating expenses. The weakness and managements remediation plan are described in the "Internal Controls over Financial Reporting" section of this MD&A.

HIGHLIGHTS

Funds flow from operations[1] was $4.3 million for the three months ended December 31, 2019, $2.2 million higher than the same prior year period and $3.8 million higher than the restated third quarter 2019. The increase in funds flow from operations[1] compared to the prior year period was due primarily to higher realized prices for crude oil and condensate.

Key highlights included:

- Production was 5,892 boe/d, 25% of which was comprised of crude oil and liquids for the three months ended December 31, 2019 compared to 5,997 boe/d, 23% of which was comprised of crude oil and liquids for the same period in 2018.
- The Company entered into a farm-in agreement in December 2019 committing to equip and operate two shut-in Montney oil wells in Simonette in exchange for a 50% interest in 5 net sections (10 gross) of Montney land surrounding the two wells. February 2020 gross production per calendar day for the two wells was approximately 570 bbls/d of oil and 1,150 mcf/d of natural gas.
- Capital expenditures for the three months ended December 31, 2019 were $1.9 million to complete natural gas lift optimization projects in Simonette started in the third quarter 2019.

For the twelve months ended December 31, 2019 funds flow from operations was $11.8 million, $1.2 million lower than the same prior year period. The decrease was due to production declines and higher transportation expenses partially offset by higher realized natural gas and crude oil prices and lower finance expenses. Production was 5,807 boe/d, 23% of which was comprised of crude oil and liquids for the twelve months ended December 31, 2019 compared to 6,507 boe/d, 23% of which was comprised of crude oil and liquids for the same period in 2018.

Capital expenditures for the twelve months ended December 31, 2019 of $8.9 million focused on Simonette including the completion and tie in of 2 Dunvegan horizontal oil wells and investment in enhancing and optimizing well performance using gas lift solutions.

On June 27, 2019, the Company completed the repayment of $10.0 million of its $60.0 million term loan facility (the “Term Loan”) and certain amendments to the Loan Agreement governing the Term Loan, including extending the maturity date from October 3, 2022 to October 3, 2023, fixing the interest rate at 5%, removing the interest rate escalation to 10% when funds flow from operations(1) is equal to or greater than $40.0 million, and canceling the 1.8 million Warrants held by the Term Loan holders. In consideration for the amendments, the Company agreed to pay the holders of the Term Loan fees in the amount of $1.2 million, which included a modification fee and the prepayment of due diligence costs payable in accordance with the Term Loan agreement, eliminating a future obligation of the Company under the agreement.

On June 27, 2019, the Company also completed a private placement (the “Private Placement”) of 17.2 million common shares of the Company at a price of $0.65 per share for aggregate gross proceeds of $11.2 million. The shares were issued on a Canadian development expense “flow-through” basis at a premium of $0.31 per share compared to the closing price on that date. Upon completion of the Private Placement the Company had 41.8 million common shares outstanding.

INDUSTRY OVERVIEW

	Three months ended December 31,		Twelve months ended December 31,	
Benchmark pricing	**2019**	2018	**2019**	2018
AECO-C spot gas (CDN$/Mcf)	**$2.48**	$1.58	**$1.76**	$1.52
Ontario Dawn gas (CDN$/Mcf)	**2.95**	5.74	**3.19**	4.15
WTI crude oil (US$/bbl)	**56.96**	60.70	**57.03**	65.20
Edmonton City Gate oil (CDN$/bbl)	**67.99**	44.14	**69.05**	68.89
US$/CDN$ exchange rate	**0.76**	0.75	**0.75**	0.77

Volatile and weak natural gas prices remain below thresholds where investment in natural gas wells is economically beneficial. AECO prices averaged $2.48/Mcf for the three months ended December 31, 2019 compared to $1.58/Mcf for the same prior year period. The improvement was due to low natural gas storage in the Western Canadian Sedimentary Basin (“WCSB”) entering the 2019 winter withdrawal season. Low natural gas storage was primarily caused by limited access during pipeline maintenance through the 2019 spring and summer injection periods. The implementation of the Temporary Service Protocol (“TSP”) by TC Energy allowing interruptible service to be used during pipeline maintenance in the spring and summer of 2020 is expected to reduce AECO price volatility in these lower demand periods. The TSP uses interruptible service to balance supply and demand during periods of pipeline maintenance which is expected to provide price support and stability.

The WCSB natural gas market continues to be oversupplied as Canada’s most significant customer, the U.S., has increased its own supply thereby reducing reliance on Canadian natural gas. Dawn, Ontario natural gas prices have also declined as increased U.S. natural gas production has created excess supply putting downward pressure on natural gas prices in the Dawn and U.S. markets.

Longer term Canadian natural gas demand is expected to increase as oil curtailments are reduced, coal electrical generation is phased out in favour of natural gas, industrial demand is increased with projects such as co-gen facilities and liquefied natural gas (“LNG”) facilities are developed to access global LNG markets. These projects are expected to support sustained price increases and reduce price volatility through increased demand for WCSB natural gas in the future.

Oil prices were also volatile and lower in the fourth quarter 2019, compared with the same prior year period as increased U.S. supply, trade tensions between the U.S. and China and concerns of a slowing global economy limited demand growth creating an uncertain pricing environment. The Organization of Petroleum Exporting Countries continued to adjust production to offset U.S. supply growth and support global oil prices.

WCSB oil prices were higher in the fourth quarter 2019 compared to the same prior year period as widening crude oil differentials experienced in the fourth quarter 2018 were addressed through the Alberta governments mandated oil curtailments implemented on January 1, 2019. The crude oil curtailments were designed to reduce the excess storage imbalance in the WCSB and support reducing light oil differentials caused by lack of export capacity to move oil to market. The WCSB oil curtailments remain in place and 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 December 31,			
	2019		2018	
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Sales of natural gas, crude oil and condensate	**$14,551**	**$26.84**	$12,591	$22.82
Realized gain (loss) on commodity contracts	**308**	**0.57**	(407)	(0.74)
Total revenue(1)	**14,859**	**27.41**	12,184	22.08
Royalties expense	**1,051**	**1.94**	736	1.33
	13,808	**25.47**	11,448	20.75
Operating expense	**5,177**	**9.55**	5,440	9.86
Transportation expense	**2,401**	**4.43**	2,116	3.84
Operating netback(1)	**6,230**	**11.49**	3,892	7.05
General and administrative expense	**1,349**	**2.49**	1,143	2.07
Finance expense	**862**	**1.59**	975	1.77
Cash netback(1)	**4,019**	**$7.41**	1,774	$3.21
Unrealized loss (gain) on derivative financial instruments	**836**		(4,309)	
Depletion and depreciation expense	**4,854**		11,322	
Share-based payment expense	**87**		114	
Other income	**(25)**		(1,551)	
Net loss and comprehensive loss	**$(1,733)**		$(3,802)	

Operating netback(1) was $11.49 per boe for the three months ended December 31, 2019 compared to $7.05 per boe for the same prior year period. The increase was due primarily to higher realized prices for crude oil and condensate partially offset by higher royalty and transportation expenses.

	Twelve months ended December 31,			
	2019		2018	
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Sales of natural gas, crude oil and condensate	**$53,066**	**$25.04**	$60,196	$25.34
Realized gain (loss) on commodity contracts	**2,413**	**1.14**	(1,275)	(0.53)
Total revenue[1]	**55,479**	**26.18**	58,921	24.81
Royalties expense	**3,215**	**1.52**	3,969	1.67
	52,264	**24.66**	54,952	23.14
Operating expense	**22,786**	**10.75**	24,080	10.14
Transportation expense	**9,351**	**4.41**	7,160	3.01
Operating netback[1]	**20,127**	**9.50**	23,712	9.99
General and administrative expense	**5,532**	**2.61**	5,267	2.22
Finance expense	**3,655**	**1.72**	7,874	3.32
Cash netback[1]	**10,940**	**$5.17**	10,571	$4.45
Unrealized loss (gain) on derivative financial instruments	**3,523**		(3,303)	
Depletion and depreciation expense	**20,169**		27,480	
Share-based payment expense	**432**		300	
Other income	**(182)**		(4,207)	
Net loss and comprehensive loss	**$(13,002)**		$(9,699)	

Operating netback[1] was $9.50 per boe for the twelve months ended December 31, 2019 compared to $9.99 per boe for the same prior year period. The decrease was primarily due to higher transportation expenses due to fixed transportation contracts for crude oil and natural gas and lower production increasing fixed costs per boe.

Crude oil transportation costs prior to entering into the oil transport agreement were included as part of realized price on the crude oil sale whereby the costs offset price. The natural gas marketing arrangement provided diversification away from volatile AECO prices for approximately 40 percent of the Company's gas production to the Dawn, Ontario market. The toll on the Empress to Dawn hub is contracted at a cost of U.S.$0.77 per GJ for a period of 10 years expiring in 2028 with an early termination right that can be exercised following the initial five years of service.

Production

	Three months ended December 31,		Twelve months ended December,	
	2019	2018	**2019**	2018
Natural gas (Mcf/d)	**26,549**	27,645	**26,658**	30,098
Crude oil (bbls/d)	**527**	736	**679**	763
Natural gas liquids (bbls/d)	**353**	227	**230**	250
Condensate (bbls/d)	**587**	427	**455**	478
Total (boe/d)	**5,892**	5,997	**5,807**	6,507
Crude oil and liquids production (%)	**25%**	23%	**23%**	23%
Total production (boe)	**542,028**	551,767	**2,119,501**	2,375,089

Production for the three months ended December 31, 2019 averaged 5,892 boe/d compared to 5,997 boe/d for the same prior year period. The decrease was due to the natural decline of the natural gas wells and lower crude oil production due to natural decline of the 3.0 (2.0 net) Dunvegan horizontal oil wells that were completed in the first quarter 2018. Crude oil and liquids production as a percentage of total production increased to 25 percent in the three months ended December 31, 2019 from 23 percent for the same prior year period.

Production for the twelve months ended December 31, 2019 averaged 5,807 boe/d compared to production of 6,507 boe/d for the same prior year period. The decrease was due to natural decline of natural gas wells, shutting in approximately 3,000 Mcf/d of non-core natural gas production in Northeastern British Columbia from June to September 1st, 2019 and non-core dispositions in 2018.

The Company continues to limit 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. The Company monitors production in periods of low commodity prices and may shut in higher cost, uneconomic production.

Total Revenue and Pricing

(in thousands of dollars except prices)	Three months ended December 31, **2019**	2018	Twelve months ended December 31, **2019**	2018
Natural gas	**\$6,847**	\$7,408	**\$24,662**	\$27,404
Crude oil and condensate	**7,464**	4,038	**29,193**	28,037
Natural gas liquids	**548**	738	**1,624**	3,480
Total revenue(1)	**\$14,859**	\$12,184	**\$55,479**	\$58,921
Prices, including realized hedges				
Natural gas (\$/Mcf)	**\$2.80**	\$2.91	**\$2.53**	\$2.49
Crude oil and condensate (\$/bbl)	**72.82**	37.74	**70.52**	61.89
Natural gas liquids (\$/bbl)	**16.85**	35.37	**19.37**	38.18
Price (\$/boe)	**\$27.41**	\$22.08	**\$26.18**	\$24.81

Total revenue(1) was $14.9 million for the three months ended December 31, 2019 compared to $12.2 million for the same prior year period. The increase was due primarily to higher crude oil and condensate prices. In the fourth quarter 2018 Edmonton city gate crude oil prices decreased with widening oil differentials as excess supply and lack of export capacity caused a supply and demand imbalance in the WCSB. The Alberta government implemented crude oil curtailments on January 1, 2019 that have been successful at improving Canadian light crude oil prices and stabilizing oil differentials.

Total revenue(1) was $55.5 million for the twelve months ended December 31, 2019 compared to $58.9 million for the same prior year period due to lower production volumes for all products and lower realized prices for natural gas liquids. The decrease was partially offset by higher realized prices for natural gas and crude oil.

Effective April 1, 2018, the Company diversified away from the AECO market selling approximately 40 percent of its natural gas production or 10,850 GJ/d of gas in the Dawn, Ontario market. For the twelve months ended December 31, 2019, Dawn prices averaged approximately $3.19/Mcf compared to AECO pricing of approximately $1.76/Mcf.

Commodity Price Management

(in thousands of dollars)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Realized gain (loss) on derivative financial instruments	**$308**	$(407)	**$2,413**	$(1,275)
Unrealized (loss) gain on derivative financial instruments	**(836)**	4,309	**(3,523)**	3,303
(Loss) gain on commodity contracts	**$(528)**	$3,902	**$(1,110)**	$2,028

Revenues and consequently cash flows fluctuate with commodity prices and the U.S./Canadian dollar exchange rate. Commodity prices are determined on both a regional and global basis and circumstances that occur locally in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy and managing its balance sheet in light of prevailing economic conditions. 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 Company's commodity price risk management program, including management approval limits for commodity contracts, is regularly reviewed and assessed by the Board of Directors of the Company, and the Company's commodity contracts are monitored by management to manage the risk to the Company from such contracts.

Cequence has the following natural gas and crude oil hedges in place:

Term	Product	Type	Average Volume	Average Price($)	Basis
January 1, 2020 to March 31, 2020	Gas	Swap	5,000 GJ/day	CDN$2.11/GJ	AECO
April 1, 2020 to June 30, 2020	Gas	Swap	5,000 GJ/day	CDN$1.55/GJ	AECO
April 1, 2020 to June 30, 2020	Gas	Swap	2,500 MMBtu/day	US$2.03/MMbtu	DAWN
July 1, 2020 to September 30, 2020	Gas	Swap	5,000 GJ/day	CDN$1.62/GJ	AECO
July 1, 2020 to September 30, 2020	Gas	Swap	2,500 MMBtu/day	US$2.01/MMbtu	DAWN

Term	Product	Type	Average Volume (bbl/d)	Average Price (CDN$/bbl)	Basis
January 1, 2020 to March 31, 2020	Oil	Swap	300	82.30	WTI
April 1, 2020 to June 30, 2020	Oil	Swap	300	80.34	WTI

Royalty Expense

(in thousands of dollars except percentages and $/boe)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Crown	**$789**	$542	**$2,314**	$2,814
Freehold / Overriding	**262**	194	**901**	1,155
Royalties expense	**$1,051**	$736	**$3,215**	$3,969
Royalties as a percentage of sales of natural gas, oil and condensate, before hedging	**7%**	6%	**6%**	7%
Per unit of production ($/boe)	**$1.94**	$1.33	**$1.52**	$1.67

Royalties as a percentage of sales are consistent for the three and twelve months ended December 31, 2019 compared to the same prior year periods. Crown royalties operate on a sliding scale and royalty rates decrease when commodity prices decline. As revenue and commodity prices decline the gas cost allowance comprises a greater percentage of the royalty expense, reducing royalty expense and royalty expense as a percentage of revenue.

Operating Expense

(in thousands of dollars except $/boe)	Three months ended December 31, **2019**	2018	Twelve months ended December 31, **2019**	2018
Operating expense	**$5,177**	$5,440	**$22,786**	$24,080
Per unit of production ($/boe)	**$9.55**	$9.86	**$10.75**	$10.14

Operating expenses for the twelve months ended December 31, 2019 were $22.8 million or $10.75 per boe compared to $24.1 million or $10.14 per boe for the same prior year period. Lower water handling costs with the completion of a water disposal well in 2018, purchase of the water disposal line at Simonette in the third quarter 2019 and reduced long-term field rentals expenses were partially offset in 2019 by workover, swabbing and chemical expenses to optimize and reactivate production and facility turnaround costs. The increase in per boe operating costs was due to lower production.

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

Transportation Expense

(in thousands of dollars except $/boe)	Three months ended December 31, **2019**	2018	Twelve months ended December 31, **2019**	2018
Transportation expense	**$2,401**	$2,116	**$9,351**	$7,160
Per unit of production ($/boe)	**$4.43**	$3.84	**$4.41**	$3.01

Transportation expense for the three and twelve months ended December 31, 2019 increased per boe compared to the same prior year period due to the company entering into agreements in 2018 to secure service for crude oil and natural gas transportation that were not fully utilized. Prior to entering into these agreements transportation costs incurred were included as part of realized price on the crude oil or natural gas sale.

In April 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 U.S.$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.

General and Administrative Expense ("G&A")

(in thousands of dollars except $/boe)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
G&A expense	**$1,388**	$1,310	**$5,724**	$5,714
Administrative and capital recovery	**(39)**	(167)	**(192)**	(447)
G&A expense	**$1,349**	$1,143	**$5,532**	$5,267
Per unit of production ($/boe)	**$2.49**	$2.07	**$2.61**	$2.22

G&A expenses for the twelve months ended December 31, 2019 include a $0.5 million payment of due diligence fees to the Term Loan lenders as part of the modification of the terms of the Loan Agreement governing the Term Loan. Excluding this prepayment, G&A was lower for the twelve months ended December 31, 2019 compared to the same prior year period. Other one-time variance items in G&A for the twelve months ended 2018 and 2019 are professional fees incurred in 2018 to assess strategic alternatives and renegotiate the Term Loan and in 2019 the Company adopted IFRS 16 – Leases resulting in head office lease costs of approximately $0.3 million in the twelve months ended December 31, 2019 no longer being recorded as a G&A expense. See "Change in Accounting Standard" for further explanation.

Finance Expense

(in thousands of dollars except $/boe)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Finance expense	**$862**	$975	**$3,655**	$7,874
Per unit of production ($/boe)	**$1.59**	$1.77	**$1.72**	$3.32

Finance expenses for the twelve months ended December 31, 2019 were lower compared to the same prior year period due to fees to restructure the senior loan in 2018 replacing it with the Term Loan and reducing the interest rate on the debt from 9.7% to 5.0% as part of the restructuring.

Depletion and Depreciation Expense

(in thousands of dollars except $/boe)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Depletion and depreciation expense	**$4,854**	$11,322	**$20,169**	$27,480
Per unit of production ($/boe)	**$8.96**	$20.52	**$9.52**	$11.57

Depletion and depreciation expense for the three and twelve months ended December 31, 2019 was lower than the same prior year periods due to lower production volumes and recording additional depletion in 2018 for properties that were fully depleted where no reserves were assigned.

Share-Based Payment Expense

(in thousands of dollars)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Share-based payment expense	**$87**	$114	**$432**	$300

Other Income

(in thousands of dollars)	Three months ended December 31, **2019**	2018	Twelve months ended December 31, **2019**	2018
Gain on sale of property and equipment	**$-**	$1,445	**$39**	$3,890
Interest income	**8**	55	**88**	126
Other	**17**	51	**55**	191
Total other income	**$25**	$1,551	**$182**	$4,207

Other income for the three and twelve months ended December 31, 2019 was lower than the same prior year periods due to the disposal of certain oil and natural gas properties including decommissioning liabilities in 2018.

Capital Expenditures

(in thousands of dollars)	Three months ended December 31, **2019**	2018	Twelve months ended December 31, **2019**	2018
Land	**$296**	$213	**$898**	$739
Geological & geophysical and capitalized overhead	**163**	184	**1,044**	1,015
Drilling, completions and workovers	**725**	10,426	**2,937**	17,209
Equipment, facilities and tie-ins	**757**	2,573	**4,026**	4,836
Office furniture & equipment	**-**	1	**15**	1
Capital expenditures	**1,941**	13,397	**8,920**	23,800
Acquisitions	**4**	-	**1,522**	-
Dispositions (i)	**-**	(934)	**(39)**	(2,863)
Total capital expenditures	**$1,945**	$12,463	**$10,403**	$20,937

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

Capital expenditures for the twelve months ended December 31, 2019 focused on Simonette. 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 has invested in enhancing and optimizing existing well performance using gas lift solutions.

The Company acquired a water disposal pipeline in the third quarter 2019 for $1.5 million. This allows the Company to operate and control the pipeline providing greater flexibility over water handling at Simonette and reducing future operating costs.

In December 2019 Cequence entered into a farm-in agreement and committed to equip and operate two shut-in Montney Oil wells in the Simonette area. In exchange the Company receives a majority interest in the wells until the capital invested is repaid. After payout the Company's working interest reverts to 50% and Cequence will earn 5 net sections (10 gross) of Montney land surrounding the two wells. Both wells were brought back on to production in the first quarter 2020. February 2020 gross production per calendar day for the two wells was approximately 570 bbls/d of oil and 1,150 mcf/d of natural gas. The natural gas production is tied into Cequence's gathering system and the oil and water are currently being trucked to facilities for processing and disposal.

Due to oil price volatility, COVID-19 and concerns of a global economic slowdown, the Company is reviewing its 2020 capital plans and will not be providing an outlook for 2020 at this time.

INCOME TAXES

As at December 31, 2019 the Company has tax pools and available losses of $605.2 million (December 31, 2018 $608.8 million). Due to uncertainty of future realization, a deferred tax asset has not been recognized.

At December 31, 2019 Cequence has the following tax pools:

(in thousands of dollars)	**Amount**	**Annual deductibility**
Canadian exploration expense	**$163,876**	100%
Non-capital losses	**307,056**	100%
Undepreciated capital cost	**40,320**	Primarily 25%, declining balance
Canadian crude oil and natural gas property expense	**10,325**	10%, declining balance
Canadian development expense	**56,459**	30%, declining balance
Other	**27,121**	Various
	$605,157	

The non-capital loss carry forwards expire in 5 to 20 years. Based on Cequence's expected cash flow and available tax pools, the Company does not expect to be taxable in the near future.

PROVISIONS – DECOMMISSIONING LIABILITIES

Decommissioning liabilities represent the estimated future cost of decommissioning and reclaiming the Company's crude 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)	**December 31, 2019**	December 31, 2018
Balance, beginning of period	**$35,555**	$38,478
Liabilities acquired	**524**	-
Property dispositions	**-**	(2,149)
Accretion expense	**668**	803
Liabilities incurred	**5**	192
Decommissioning costs incurred	**(4,055)**	(3,756)
Revisions in estimated cash flows	**4,233**	1,870
Revisions due to change in discount rates	**3,244**	117
Balance, end of period	**$40,174**	$35,555

For the twelve months ended December 31, 2019 Cequence incurred approximately $2.1 million of decommissioning costs in excess of amounts provided for related to Silver, British Columbia properties where one-time 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 were removed from Silver were redeployed at Simonette supporting artificial lift optimization projects to increase production. Management expects decommissioning costs for 2020 to be approximately $1.4 million.

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $56.3 million (December 31, 2018 - $55.4 million). These cash flows have been discounted using a risk-free interest rate of 1.67 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 December 31, 2019 compared to December 31, 2018 increased the liability by approximately $3.2 million. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2018 – 1 to 50 years).

LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

The Company's capital comprises equity, a demand credit facility ("Credit Facility"), the Term Loan and working capital. Cequence manages its 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 capital program. Cequence expects to manage its working capital deficiency and ongoing working capital needs through its hedging program, issuing common shares, adjusting capital expenditures, and executing asset dispositions. The Company has $7.0 million available on the Credit Facility with no amounts drawn as at December 31, 2019 (excluding letters of credit of $1.6 million).

(in thousands of dollars except ratios)	**As at December 31, 2019**	As at December 31, 2018 (Restated)
Cash	**$1,738**	$14,496
Credit Facility	**-**	-
Term Loan - principal	**(50,000)**	(60,000)
Accounts payable and accrued liabilities	**(17,309)**	(26,156)
Share-based payment liability	**(50)**	(38)
Decommissioning liability – current	**(1,432)**	(1,782)
Accounts receivable	**11,778**	10,324
Deposits and prepaid expenses	**497**	633
Net debt(1)	**$(54,778)**	$(62,523)
Funds flow from operations(1) - trailing twelve months	**$11,844**	$13,087
Net debt(1) to funds flow from operations(1) trailing twelve months	**4.6:1**	4.8:1

The MD&A has 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.

At December 31, 2019, the Company's net debt to trailing twelve month funds flow from operations(1) of 4.6:1 was 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 Company's ability to repay debt or execute development activity. During this time period, the Company has lowered capital spending, issued flow-through shares and reduced its operating costs and G&A to manage its leverage and to limit borrowing on its Credit Facility.

Due to low commodity prices and declining production volumes the Company has not generated sufficient cash flow to finance future capital investment. Without investing in capital to develop reserves there is no certainty that the Company can sustain production and positive cash flows from operating activities. The inability to finance future capital investment may impact the assessment of the Company as a going concern. These circumstances result in a material uncertainty surrounding the Company's ability to continue as a going concern and may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly the appropriateness of the use of accounting principles applicable to a going concern.

This MD&A does not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

The Company remains focused on developing its crude oil and natural gas properties to sustain production and positive cash flow, including by identifying and pursuing alternative financing arrangements to fund such development, property dispositions, corporate mergers or other recapitalization opportunities to further reduce the net debt[(1)] to trailing twelve month 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 June 16, 2020, 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 December 31, 2019, $nil (December 31, 2018 - $nil) was drawn on the Credit Facility except for letters of credit outstanding of $1.6 million (December 31, 2018 - $1.6 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 December 31, 2019 with a senior debt[(1)] to EBITDA[(1)] ratio of 0.1 times (December 31, 2018 – 0.1 times).

Term Loan

On July 27, 2018, Cequence entered into a Loan Agreement providing for the Term Loan, a second lien secured loan, with CPPIB Credit Investments Inc. ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board. The Term Loan was 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. 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 were 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. Subsequently, the holders of the Term Loan repurchased all interests in the Term Loan and Warrants which were held by the two Company directors, and as of May 13, 2019, none of the Company's officers or directors had any interest in the Term Loan or the Warrants.

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 $20.0 million, and other transactions outside of the ordinary course of business.

On June 27, 2019, the Company completed the repayment of $10.0 million of the $60.0 million Term Loan and certain amendments to the Loan Agreement governing the Term Loan, including extending the maturity date from October 3, 2022 to October 3, 2023, fixing the interest rate at 5%, removing the interest rate escalation to 10% when funds flow from operations[(1)] is equal to or greater than $40.0 million, and canceling the 1.8 million Warrants held by the Term Loan holders. In consideration for the amendments, the Company agreed to pay the holders of the Term Loan fees in the amount of $1.2 million, which included a modification fee and the prepayment of due diligence costs payable in accordance with the Term Loan agreement, eliminating a future obligation of the Company under the agreement.

Following the repayment and modification of the terms of the Term Loan on June 27, 2019, the Company completed a Private Placement of 17.2 million common shares of the Company at a price of $0.65 per share for aggregate gross proceeds of $11.2 million. The shares were issued on a Canadian development expense “flow-through” basis at a premium of $0.31 per share compared to the closing price on that date. Upon completion of the Private Placement the Company had 41.8 million common shares outstanding. Certain subscribers under the Private Placement were holders of the Term Loan or affiliates of holders of the Term Loan.

Upon completion of the Private Placement, Mr. G.A. Cumming held a total of 8,338,584 common shares of Cequence, representing 19.96% of the total number of issued and outstanding common shares of the Company.

Contractual Obligations and Commitments

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

	2020	2021	2022	2023	2024+	Total
Office leases	275	207	-	-	-	482
Pipeline transportation	6,953	6,953	6,117	5,555	20,461	46,039
Gas processing	4,166	4,154	4,154	4,154	26,316	42,944
Total	11,394	11,314	10,271	9,709	46,777	89,465

The Company has two agreements in place for natural gas firm service transportation on pipelines. An agreement to ship approximately 35,000 Mcf/d of natural gas to AECO on the NGTL 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 U.S.$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 42,000 Mcf/d per year concluding April 30, 2030.

The Company has an agreement in place for firm crude oil transportation on a major pipeline system for 600 bbls/d until December 2021.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Except as noted below in “Change in Accounting Standard”, the significant accounting policies used by Cequence are disclosed in Note 2 of the Company’s audited annual consolidated financial statements for the financial year ended December 31, 2019. 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.

CHANGE IN ACCOUNTING STANDARD

IFRS 16 – Leases 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 expense on lease liabilities. The total annual impact was to reduce G&A by approximately $0.3 million and increase depletion, depreciation and finance expenses by approximately $0.3 million.

SHARE CAPITAL

As at March 10, 2020, there were 41,783,563 common shares, 2,241,250 share options and 1,760,218 restricted share units outstanding. Of the 2,241,250 share options, nil were "in-the-money" as at March 10, 2020.

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. As at December 31, 2019, such officers have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Company's disclosure controls and procedures. Based on the evaluation of the Company's internal controls over financial reporting, which are a subset of disclosure controls, it was concluded that because of the material weakness described below, the Company's disclosure controls and procedures were not effective as at December 31, 2019.

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 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.

During the year, the Company's management, under the supervision of and with the participation of its CEO and CFO, completed an assessment on the design and effectiveness of ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework 2013. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that disclosures and financial information is accurate and complete.

During the process of assessing the design and effectiveness of internal controls over financial reporting the CEO and CFO concluded that because of the material weakness described below, the Company's ICFR were not effective at December 31, 2019.

Material Internal Control Weakness

In completing the assessment of the effectiveness of ICFR a material weakness in ICFR was discovered and assessed. The ICFR weakness was management's failure to operate an internal control to review and assess accrued liabilities and related operating expenses. The material weakness arose due to insufficient analysis and review of accrued liabilities and related operating expenses from prior periods. As part of the December 31, 2019 financial close process accrued liabilities and related operating expenses were analyzed and reviewed in detail resulting in an adjustment reducing accrued liabilities by approximately $9.6 million. This amount relates to periods prior to January 1, 2018.

The material weakness will be remediated by management in 2020, including the CEO and CFO, reviewing the operation of the internal control and enhancing the process for reviewing, analyzing and approving accrued liabilities related to operating expenses by requiring greater support for accrued liabilities before they are approved. The CEO and CFO have reaffirmed and re-emphasized to management and staff the importance of internal control, control consciousness and a strong control environment.

Beyond the material weakness noted above the broad scope of management's oversight and strong entity level controls are expected to compensate for other nonmaterial control weaknesses. In addition, non-material control weaknesses identified are mitigated by the active involvement of management in all the affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management; and the existence of a Company whistleblower policy.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

Critical Accounting Estimates

Preparation of consolidated financial statements requires that the Company make assumptions regarding accounting estimates for certain amounts contained within the consolidated financial statements. The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements involves the use of estimates and approximations based on information available as at the reporting date of the financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the provisions for decommissioning liabilities, depletion and depreciation, impairment of property and equipment, operating expenses, share based compensation, and impairment of trade receivables. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represent the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in material differences between estimates and actual results. The effect on the financial statements of changes in such estimates in future years could be material.

Reserves

Oil and gas reserves are estimates made using all available geological and reservoir data, as well as historical production data. The Company's reserves were evaluated and reported on by an independent qualified reserves evaluator. However, revisions can occur as a result of various factors including actual reservoir performance, change in price and cost forecasts or a change in the Company's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs.

Depletion

The net carrying value of development and production assets plus future development costs on proved plus probable reserves is depleted using the unit of production method based on proved and probable reserves, gross of royalties, as determined by independent engineers, on an area by area basis. An increase in estimated proved plus probable reserves would result in a reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

Development and production assets

Property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses.

Development and production assets are grouped into cash generating units ("CGUs") for impairment testing. CGUs are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its CGUs. Based on this assessment, Cequence's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required considering new facts and circumstances. When significant parts of an item of property and equipment, including crude oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Impairment

The carrying amounts of all assets, other than financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is indication of an impairment loss. If any such indication exists, the asset's recoverable amount is estimated.

The recoverability of the carrying amount of an exploration and evaluation asset is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area of interest. Where a potential impairment is indicated, an assessment is performed for each field or area to which the exploration and evaluation expenditure is attributed. To the extent that capitalized expenditures are not expected to be recovered, the excess of the carrying amount over the recoverable amount is recognized immediately as an impairment in the statement of net loss and comprehensive loss.

The recoverable amount of a development and production asset (or CGU) or other intangible asset (or CGU) is determined as the higher of its value in use and fair value less cost to sell. Value in use is determined by estimating future cash flows after taking into account the risks specific to the asset (or group of assets within a CGU) and discounting them to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by external valuation metrics or other available fair value indicators wherever possible.

Where the carrying amount of a development and production asset (or CGU) or other intangibles asset exceeds its recoverable amount, the excess is recognized immediately in the statement of net loss and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognized.

Decommissioning liabilities

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

Share-Based payments

The Company utilizes stock options and restricted share units ("RSUs") for its long-term compensation program for directors, officers, employees and other service providers. Compensation costs attributable to stock options granted are measured at fair value at the date of grant and are expensed over the vesting period, using a graded vesting schedule, with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds together with the amount previously recorded as contributed surplus are recorded as share capital. The Company incorporates an estimated forfeiture rate for stock options that will not vest, and subsequently adjusts for actual forfeitures as they occur.

The RSUs are accounted for in accordance with the requirements for cash-settled share-based payment transactions with the value of one RSU being notionally equivalent to one Cequence common share. Cequence has the option to settle the RSUs with cash or with Cequence common shares, however, management's intent is to settle the RSUs in cash and the amount settled is expected to be deductible for income tax purposes. Compensation costs attributable to RSUs granted are measured at fair value at the date of grant and subsequently remeasured each period end date and are expensed over the vesting period, using a graded vesting schedule, with a corresponding adjustment to share-based payment liability. The Company incorporates an estimated forfeiture rate for RSUs that will not vest, and subsequently adjusts for actual forfeitures as they occur.

Income Taxes

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

The recognition of a deferred income tax asset is also based on estimates of whether it is probable that the Company can realize these assets. This estimate, in turn, is based on estimates of proved and probable reserves, future crude oil and natural gas prices, royalty rates and costs. Changes in these estimates could materially impact the net loss and comprehensive loss and the deferred income tax asset recognized.

Commodity Contracts

The fair value of commodity contracts and the resultant unrealized gains (loss) on commodity contracts is based on estimates of future natural gas and crude oil prices.

RISKS AND UNCERTAINTIES

For a complete discussion of the risks and uncertainties which apply to Cequence's business and its operating results, please refer to the Company's Annual Information Form for the year ended December 31, 2019, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Cequence's Annual Information Form. The risks and uncertainties in Cequence's Annual Information Form are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business.

OUTLOOK

Due to oil price volatility, COVID-19 and concerns of a global economic slowdown, the Company is reviewing its 2020 budget and will not be providing an outlook for 2020 at this time.

SUMMARY OF QUARTERLY INFORMATION

Generally, the quarterly changes in operating and financial measures have been negatively impacted by low commodity prices, in particular natural gas prices. AECO natural gas prices averaged $1.52/Mcf in 2018 and $1.76/Mcf in 2019, below thresholds where investment in natural gas wells are economically beneficial. 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 crude oil wells and optimization of existing 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) are 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).

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

(in thousands of dollars except per share data information)	2019 Q4	2019 Q3[iii]	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
FINANCIAL								
Total revenue[1]	**14,859**	11,018	12,966	16,637	12,184	17,680	14,613	14,443
Royalties expense	**1,051**	578	704	882	736	1,453	1,043	737
Transportation expense	**2,401**	2,263	2,337	2,350	2,116	1,876	1,728	1,440
Operating expense	**5,177**	5,977	5,501	6,131	5,440	5,493	6,758	6,389
Comprehensive income (loss)	**(1,733)**	(4,990)	(2,464)	(3,814)	(3,802)	573	(2,745)	(3,725)
Per share – basic & diluted[ii]	**(0.04)**	(0.12)	(0.10)	(0.16)	(0.16)	0.04	(0.22)	(0.30)
Funds flow from operations [1]	**4,254**	421	1,806	5,364	2,071	5,589	2,191	3,236
Per share – basic & diluted[ii]	**0.10**	0.01	0.07	0.22	0.08	0.38	0.18	0.26
Capital expenditures	**1,941**	3,632	1,163	2,184	13,397	1,119	1,830	7,454
Net acquisitions (dispositions)[i]	**4**	1,517	(39)	1	(934)	(500)	(1,433)	4
Net capital expenditures	**1,945**	5,149	1,124	2,185	12,463	619	397	7,458
OPERATIONAL								
Production volumes								
Natural gas (Mcf/d)	**26,549**	24,414	29,007	26,689	27,645	29,376	28,628	34,828
Oil (bbls/d)	**527**	534	747	916	736	1,198	864	245
NGLs (bbls/d)	**353**	195	186	183	227	259	240	274
Condensate (bbls/d)	**587**	439	374	417	427	382	459	647
Total (boe/d)	**5,892**	5,238	6,142	5,964	5,997	6,734	6,334	6,970
Average selling price, including realized hedges								
Natural gas ($/Mcf)	**2.80**	1.90	1.89	3.56	2.91	2.20	2.14	2.70
Crude oil and condensate ($/bbl)	**72.82**	71.35	74.97	64.14	37.74	73.57	68.79	62.59
NGLs ($/bbl)	**16.85**	19.67	19.89	23.46	35.37	43.51	34.91	38.30
Total ($/boe)	**27.41**	22.86	23.20	31.00	22.08	28.53	25.35	23.02
Operating netback, including realized hedges ($/boe)								
Price	**27.41**	22.86	23.20	31.00	22.08	28.53	25.35	23.02
Royalties	**(1.94)**	(1.20)	(1.26)	(1.64)	(1.33)	(2.35)	(1.81)	(1.18)
Transportation	**(4.43)**	(4.70)	(4.18)	(4.38)	(3.84)	(3.03)	(3.00)	(2.30)
Operating	**(9.55)**	(12.40)	(9.84)	(11.42)	(9.86)	(8.87)	(11.72)	(10.18)
Operating netback	**11.49**	4.56	7.92	13.56	7.05	14.28	8.82	9.36

(i) Represents the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.
(ii) Prior period common shares, 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.
(iii) Operating expenses were understated by approximately $1.6 million for the three months ended September 30, 2019 due to reversing accrued liability related to operating expenses from prior periods. Please see the "Restatement of Previously Issued Financial Statements" section in this MD&A.

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 Company's ability to generate sufficient cash flow to finance capital investment and 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 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, including the effects of well optimization and enhancements on production; future performance expectations of the farm-in to two shut-in Montney oil wells and there impact on funds flow from operations[1] and working capital; the possible curtailing of gas production due to low natural gas prices; 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 2020 and beyond; the effect of the Company's risk management program, including the impact of derivative financial instruments; managements decision to not amend prior period information due to the restatement of previously issued financial statements, and that the material weakness that caused the restatement has been remediated; and the impact of WCSB 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, including the guidance under "Outlook", 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 income (loss) and comprehensive income (loss) and net income (loss) and comprehensive income (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 income (loss) and comprehensive income (loss) and net income (loss) and comprehensive income (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 expense. Cash netback equals operating netback less G&A and finance expenses. 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 expenses, 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 expense. The following table reconciles EBITDA to the IFRS measure net loss and comprehensive loss for the trailing twelve months.

(thousands of dollars)	2019 Q4	2019 Q3[i]	2019 Q2	2019 Q1	Trailing twelve months
EBITDA	$4,906	$1,072	$2,590	$6,170	$14,738
Finance expense	862	858	953	982	3,655
Depletion and depreciation expenses	4,854	4,500	4,739	6,076	20,169
Share-based payment expenses	87	118	92	135	432
Income taxes	-	-	-	-	-
Unrealized (gain) loss on commodity contracts	836	588	(691)	2,790	3,523
(Gain) loss on sale of property and equipment	-	(1)	(39)	1	(39)
Net loss and comprehensive loss	$(1,733)	$(4,990)	$(2,464)	$(3,814)	$(13,002)

(i) Operating expenses were understated by approximately $1.6 million for the three months ended September 30, 2019 due to reversing accrued liabilities and related operating expenses from prior periods. Please see the "Restatement of Previously Issued Financial Statements" section in this MD&A.

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:

(thousands of dollars)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Cash flow from operating activities	**$3,226**	$5,201	**$6,561**	$11,758
Decommissioning costs incurred	**716**	(246)	**4,055**	3,756
Net change in non-cash working capital	**312**	(2,884)	**1,228**	(2,427)
Funds flow from operations	**$4,254**	$2,071	**$11,844**	$13,087

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. 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 total revenue less royalties, operating expenses and transportation expenses. 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. The following table calculates senior debt.

(thousands of dollars)	As at December 31, 2019
Term Loan	**$50,000**
Credit Facility – Letters of credit	**1,590**
Credit Facility	**-**
Senior debt	**$51,590**

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.