cequence
energy ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Cequence Energy Ltd. ("Cequence" or the "Company") is for the three months ended March 31, 2020.

This MD&A should be read in conjunction with Cequence's March 31, 2020 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A for the year ended December 31, 2019, the notes contained therein to which the readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report.

This MD&A was prepared effective May 14, 2020 and was approved and authorized for issuance by the board of directors of the Company (the "Board") on May 14, 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 March 31,	
	2020	2019
Financial		
Total revenue[1]	**$11,762**	$16,637
Net loss and comprehensive loss	**(111,160)**	(3,814)
Per share – basic and diluted	**(2.66)**	(0.16)
Net loss and comprehensive loss before impairment	**(1,290)**	(3,814)
Funds flow from operations[1]	**997**	5,364
Per share - basic and diluted	**0.02**	0.22
Capital expenditures, before acquisitions (dispositions)	**3,264**	2,184
Total assets	**159,796**	277,898
Net debt[1](i)	**56,780**	62,269
Production volumes		
Natural gas (mcf/d)	**25,425**	26,689
Crude oil (bbls/d)	**663**	916
Natural gas liquids (bbls/d)	**269**	183
Condensate (bbls/d)	**500**	417
Total (boe/d)	**5,669**	5,964
Netback ($/boe)		
Price, including realized hedges	**$22.80**	$31.00
Operating netback[1]	**$5.30**	$13.56

(i) Certain accrued liabilities relating to operating expenses for periods prior to January 1, 2018 were overstated by an aggregate $9.6 million. Net debt for the period ended March 31, 2019 was reduced by $9.6 million as a result of this restatement. Please see the "Restatement of Previously Issued Financial Statements" section in the Company's December 31, 2019 MD&A and Audited Consolidated Financial Statements.

[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.

HIGHLIGHTS

Funds flow from operations(1) was $1.0 million for the three months ended March 31, 2020, $4.4 million lower than the same prior year period. The decrease in funds flow from operations(1) compared to the prior year period was due primarily to lower realized prices for all products and reduced crude oil volumes, mainly as a result of the effects of the COVID-19 pandemic on the domestic and global economy.

Key highlights included:

- Production was 5,669 boe/d for the three months ended March 31, 2020 compared to 5,964 boe/d for the same period in 2019, 25% which was comprised of crude oil and liquids for both periods.
- The Company entered into a farm-in agreement in December 2019 and equipped and brought onto production two shut-in Simonette Montney horizontal crude oil wells in the three months ended March 31, 2020. The wells produced a combined 532 bbls/d and 291 bbls/d of crude oil in February and March, respectively. Capital expenditures for the three months ended March 31, 2020 were $3.3 million primarily to bring these two wells back on production.
- Cost reductions were implemented in response to the collapse in oil prices in March 2020 including shutting in uneconomic production, negotiating price reductions with vendors, rolling back compensation and laying off certain employees and contract staff. The Company has shut in approximately 1,050 boe/d of uneconomic production as at April 30, 2020 and expects to realize approximately $5.0 million in cost reductions in 2020.

Crude oil prices declined significantly through the three months ended March 31, 2020 driven by excess supply and reduced demand. Significant demand destruction was caused by the COVID-19 pandemic and the resulting global economic shutdown. The supply/demand imbalance has resulted in lower forecast future commodity prices. As a result of lower prices and the related economic value decline of the Company's oil and gas reserves, the Company incurred a non-cash impairment charge of $109.9 million for the three months ended March 31, 2020. The impairment charge does not impact the Company's funds flow and is reversible in future periods should there be indications of an impairment reversal, including higher forecast commodity prices.

INDUSTRY OVERVIEW

Benchmark pricing	Three months ended March 31, 2020	2019
AECO-C spot gas (CDN$/mcf)	**$2.03**	$2.62
Ontario Dawn gas (CDN$/mcf)	**2.36**	3.87
WTI crude oil (US$/bbl)	**46.17**	54.90
Edmonton City Gate oil (CDN$/bbl)	**51.62**	66.43
US$/CDN$ exchange rate	**0.74**	0.75

Crude oil prices declined through the first three months of 2020 with West Texas Intermediate ("WTI") averaging US$57.53 in January and US$30.45 in March. Prices declined due to expectations of too much crude oil supply following expiry of a previous agreement at the end of March 2020 between the Organization of Petroleum Exporting Countries and Russia. The consortium was not able to reach an agreement in early March to support managing the global supply and demand balance. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic global health risk. Governments around the world responded by implementing measures restricting population movement to limit the spread of the disease, in the process shutting down significant pieces of the global economy and resulting in a significant decline in world oil demand. Coupled with increased supply, the resulting over supply of crude oil put downward pressure on prices. Crude oil prices continued to be volatile in April 2020 and remain uneconomic for most of North American production. Reduced crude oil demand, limited storage capacity and low volatile prices have resulted in companies shutting-in oil production.

Natural gas prices were lower for the three months ended March 31, 2020 compared to the same prior year period. The Western Canadian Sedimentary Basin ("WCSB") natural gas market continued 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 declined for the three months ended March 31, 2020 compared to the same prior year period as increased U.S. natural gas production created excess supply putting downward pressure on natural gas prices in the Dawn and U.S. markets. AECO prices averaged $2.03/mcf for the three months ended March 31, 2020 compared to $2.62/mcf for the same prior year period. Concerns over low natural gas storage in the WCSB entering the 2019 winter withdrawal season were offset by milder winter weather compared to the same prior year period. Low natural gas storage was primarily caused by limited access during pipeline maintenance through the 2019 spring and summer injection periods in the WCSB. 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. Shut-in oil production and reduced drilling activity in both Canada and the U.S. due to uneconomic oil prices is expected to reduce natural gas supply associated with this production which should also support natural gas prices.

Longer term Canadian natural gas demand is expected to increase as oil curtailments and shut-ins 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.

RESULTS OF OPERATIONS

	Three months ended March 31,			
	2020		2019	
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Sales of natural gas, crude oil and condensate	**$11,156**	**$21.62**	$15,651	$29.16
Realized gain on commodity contracts	**606**	**1.18**	986	1.84
Total revenue[1]	**11,762**	**22.80**	16,637	31.00
Royalties expense	**1,133**	**2.20**	882	1.64
	10,629	**20.60**	15,755	29.36
Operating expense	**5,600**	**10.86**	6,131	11.42
Transportation expense	**2,290**	**4.44**	2,350	4.38
Operating netback[1]	**2,739**	**5.30**	7,274	13.56
General and administrative expense	**1,118**	**2.17**	1,156	2.15
Finance expense	**830**	**1.61**	982	1.84
Cash netback[1]	**791**	**$1.52**	5,136	$9.57
Unrealized (gain) loss on derivative financial instruments	**(1,412)**		2,790	
Depletion and depreciation expense	**4,270**		6,076	
Impairment	**109,870**		-	
Share-based payment expense	**51**		135	
Other income	**(828)**		(51)	
Net loss and comprehensive loss	**$(111,160)**		$(3,814)	

Operating netback[1] was $5.30 per boe for the three months ended March 31, 2020 compared to $13.56 per boe for the same prior year period. The decrease was due to lower realized prices for all products, lower oil and natural gas production and higher royalties expense. These were partially offset by lower operating expenses.

Production

	Three months ended March 31,	
	2020	2019
Natural gas (mcf/d)	**25,425**	26,689
Crude oil (bbls/d)	**663**	916
Natural gas liquids (bbls/d)	**269**	183
Condensate (bbls/d)	**500**	417
Total (boe/d)	**5,669**	5,964
Crude oil and liquids production (%)	**25%**	25%
Total production (boe)	**515,903**	536,731

Production for the three months ended March 31, 2020 averaged 5,669 boe/d compared to 5,964 boe/d for the same prior year period. Higher 2019 oil production was due to the Company’s Dunvegan horizontal oil wells that were completed and tied in, in early 2019. Natural gas production declined for the three months ended March 31, 2020 compared to the same prior year period due to natural declines. Crude oil and liquids production as a percentage of total production was 25 percent in the three months ended March 31, 2020 the same as in the prior year period.

In the three months ended March 31, 2020, the Company brought on to production two shut-in Simonette Montney horizontal crude oil wells under a farm-in agreement entered into in December 2019. In exchange the Company receives a majority interest in the wells until the capital invested is repaid at which time the Company's working interest will be reduced to 50%. The wells produced a combined 532 bbls/d and 291 bbls/d of crude oil in February and March, respectively. With the significant decline in crude oil prices in March 2020, one well was shut-in in the middle of March and the second one at the end of April.

The Company is limiting capital spending due to lower funds flow from operations[(1)] and reduced economics of drilling wells with the collapse of crude oil prices in March 2020. The Company has shut-in approximately 1,050 boe/d of uneconomic production as at April 30, 2020 and will continue to monitor commodity prices to assess additional shut-ins or restarts.

Total Revenue and Pricing

(in thousands of dollars except prices)	Three months ended March 31, **2020**	2019
Natural gas	**$5,501**	$8,558
Crude oil and condensate	**5,887**	7,693
Natural gas liquids	**374**	386
Total revenue[(1)]	**$11,762**	$16,637
Prices, including realized hedges		
Natural gas ($/mcf)	**$2.38**	$3.56
Crude oil and condensate ($/bbl)	**55.64**	64.14
Natural gas liquids ($/bbl)	**15.26**	23.46
Price ($/boe)	**$22.80**	$31.00

Total revenue[(1)] was $11.8 million for the three months ended March 31, 2020 compared to $16.6 million for the same prior year period. The decrease was due to lower prices for all products and lower oil and natural gas production.

The Company sells its natural gas on both the AECO and Dawn, Ontario markets selling approximately 40 percent of its natural gas production or 10,850 GJ/d on the Dawn market. For the three months ended March 31, 2020, Dawn prices averaged approximately $2.36/mcf compared to AECO pricing of approximately $2.03/mcf.

Commodity Price Management

(in thousands of dollars)	Three months ended March 31, **2020**	2019
Realized gain on derivative financial instruments	**$606**	$986
Unrealized gain (loss) on derivative financial instruments	**1,412**	(2,790)
Gain (loss) on commodity contracts	**$2,018**	$(1,804)

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, 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
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
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 March 31, 2020	2019
Crown	**$943**	$660
Freehold / Overriding	**190**	222
Royalties expense	**$1,133**	$882
Royalties as a percentage of sales of natural gas, oil and condensate, before hedging	**10%**	6%
Per unit of production ($/boe)	**$2.20**	$1.64

Royalties as a percentage of sales were higher for the three months ended March 31, 2020 compared to the same prior year period due to higher royalties on one of the two shut-in Simonette Montney horizontal wells that was brought back on to production and wells coming of reduced royalty programs. 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 March 31, 2020	2019
Operating expense	**$5,600**	$6,131
Per unit of production ($/boe)	**$10.86**	$11.42

Operating expenses for the three months ended March 31, 2020 were $5.6 million or $10.86 per boe compared to $6.1 million or $11.42 per boe for the same prior year period. Operating expenses decreased for the three months ended March 31, 2020 compared to the same prior year period due to workover, swabbing and chemical expenses incurred in 2019 to optimize and reactivate production. Three (net) Montney wells were reactivated and production from the Dunvegan oil wells completed in the three months ended March 31, 2019 was improved.

Following the collapse of crude oil prices in March 2020, the Company initiated negotiations with vendors for cost savings, implemented compensation reductions and shut-in uneconomic production targeting to achieve approximately $1.0 million per quarter in operating expense savings.

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. The Company has shut-in approximately 1,050 boe/d of uneconomic production as at April 30, 2020.

Transportation Expense

(in thousands of dollars except $/boe)	**Three months ended March 31, 2020**	2019
Transportation expense	**$2,290**	$2,350
Per unit of production ($/boe)	**$4.44**	$4.38

Transportation expense for the three months ended March 31, 2020 was consistent with the same prior year period.

Cequence has secured service on the Simonette NGTL of 35,000 mcf/d and 10,850 GJ/d from Empress to Dawn, Ontario. The toll on the Empress to Dawn hub is contracted at a cost of $0.77/GJ until 2028 with an early termination right that can be exercised in 2023. The Company also has an agreement in place for firm crude oil transportation on a major pipeline system for 600 bbls/d until December 2021.

General and Administrative Expense ("G&A")

(in thousands of dollars except $/boe)	**Three months ended March 31, 2020**	2019
G&A expense	**$1,188**	$1,202
Administrative and capital recovery	**(70)**	(46)
G&A expense	**$1,118**	$1,156
Per unit of production ($/boe)	**$2.17**	$2.15

G&A expense was lower for the three months ended March 31, 2020 compared to the same prior year period. In response to declining cashflows and crude oil prices the Company implemented cost reduction measures in the three months ended March 31, 2020 including compensation reductions for all employees, reduction of contract staff and temporary layoffs for certain employees. In addition, bonus plans were suspended, and Board fees were reduced by 50%. Total savings are expected to be approximately 25% of G&A per quarter for the remainder of 2020.

Finance Expense

(in thousands of dollars except $/boe)	Three months ended March 31, 2020	2019
Finance expense	**$830**	$982
Per unit of production ($/boe)	**$1.61**	$1.84

Finance expenses for the three months ended March 31, 2020 were lower than the same prior year period due to the principal repayment of $10.0 million on the Company's Term Loan (as defined herein) in June 2019. Interest on the Term Loan is 5% per annum.

Depletion, Depreciation and Impairment Expense

(in thousands of dollars except $/boe)	Three months ended March 31, 2020	2019
Depletion and depreciation expense	**$4,270**	$6,076
Impairment loss	**109,870**	-
Depletion, depreciation and impairment expense	**114,140**	6,706
Per unit of production, excluding impairment ($/boe)	**$8.28**	$11.32

Depletion and depreciation expense for the three months ended March 31, 2020 was lower than the same prior year period due to depletion expense for the three months ended March 31, 2019 associated with higher decommissioning costs for properties that were fully depleted where no reserves were assigned.

At March 31, 2020, the decline in futures prices for crude oil and natural gas and the reduction in the Company's enterprise value were considered indicators of potential impairment and an impairment test was conducted. The Company uses its third-party reserves evaluator, GLJ Petroleum Consultants Ltd. ("GLJ"), commodity price forecast in its impairment test. Forward looking commodity prices for the next 10 years based on GLJ's April 1, 2020 commodity price forecast have decreased by an average of 22% for crude oil and 7% for natural gas from December 31, 2019. In addition, the Company's stock price at March 31, 2020 has declined by over 60% from December 31, 2019.

Impairment is recognized when the carrying value of an asset or cash generating unit exceeds its recoverable amount which is determined as the higher of its value in use or fair value less cost to sell. Aggregate impairment expense recognized for the three months ended March 31, 2020 was $109.9 million. The impairment was a result of the decrease in forecast future commodity prices reducing the economic value of the Company's crude oil and natural gas reserves.

Estimates of impairment are sensitive to changes in any of the key judgments, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development expenditures or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or recovery of impairment charges.

Share-Based Payment Expense

(in thousands of dollars)	Three months ended March 31, 2020	2019
Share-based payment expense	**$51**	$135

Other Income

(in thousands of dollars)	Three months ended March 31, 2020	2019
Flow-through share obligation incurred	**$788**	$-
Gain (loss) on sale of property and equipment	**22**	(1)
Interest income	**3**	50
Other	**15**	2
Total other income	**$828**	$51

Other income for the three months ended March 31, 2020 was higher than the same prior year period due to capital expenditures incurred towards meeting the Company's flow-through share obligation.

Capital Expenditures

(in thousands of dollars)	Three months ended March 31, 2020	2019
Land	**$102**	$153
Geological & geophysical and capitalized overhead	**184**	191
Drilling, completions and workovers	**1,785**	1,433
Equipment, facilities and tie-ins	**1,191**	404
Office furniture & equipment	**2**	3
Capital expenditures	**3,264**	2,184
Acquisitions	**-**	-
Dispositions (i)	**-**	1
Total capital expenditures	**$3,264**	$2,185

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

Capital expenditures for the three months ended March 31, 2020 focused on the Company bringing on to production two shut-in Simonette Montney horizontal crude oil wells under farm-in agreement entered into in December 2019. In exchange the Company receives a majority interest in the wells until the capital invested is repaid at which time the Company's working interest will be reduced to 50%. The wells produced a combined 532 bbls/d and 291 bbls/d of crude oil in February and March, respectively. With the significant decline in oil prices in March 2020, one well was shut-in in the middle of March and the second one at the end of April.

Cequence is monitoring the global situation surrounding COVID-19 and taking proactive steps to ensure the safety of its employees, customers and continuity of operations. Due to decrease in global oil prices, COVID-19 and concerns of a global economic slowdown, the Company will not be providing an update for 2020 at this time.

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)	**March 31, 2020**	December 31, 2019
Balance, beginning of period	**40,174**	35,555
Property dispositions	**(22)**	-
Accretion expense	**143**	668
Liabilities incurred	**-**	5
Liabilities acquired	**143**	524
Decommissioning costs incurred	**(277)**	(4,055)
Revisions in estimated cash flows	**(263)**	4,233
Revisions due to change in discount rates	**2,325**	3,244
Balance, end of period	**$42,223**	$40,174

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $55.8 million (December 31, 2019 - $56.3 million). These cash flows have been discounted using a risk-free interest rate of 1.36 percent (December 31, 2019 – 1.67 percent) based on Government of Canada long-term benchmark bonds. The change in the risk-free interest rate as at March 31, 2020 compared to December 31, 2019 increased the liability by approximately $2.3 million. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2019 – 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 March 31, 2020 (excluding letters of credit of $1.6 million).

(in thousands of dollars except ratios)	**As at March 31, 2020**	As at December 31, 2019
Cash	**$2,244**	$1,738
Credit Facility	**-**	-
Term Loan - principal	**(50,000)**	(50,000)
Accounts payable and accrued liabilities	**(19,315)**	(17,309)
Share-based payment liability	**(32)**	(50)
Decommissioning liability – current	**(839)**	(1,432)
Accounts receivable	**10,509**	11,778
Deposits and prepaid expenses	**653**	497
Net debt(1)	**$(56,780)**	$(54,778)
Funds flow from operations(1) - trailing twelve months	**$7,478**	$11,844
Net debt(1) to funds flow from operations(1) trailing twelve months	**7.6:1**	4.6:1

At March 31, 2020, the Company's net debt to trailing twelve month funds flow from operations(1) of 7.6:1 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 and recently crude oil 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.

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.

Due to low commodity prices and declining production volumes the Company has not generated sufficient cash flow to finance future capital investment. The Company expects that low commodity price forecasts applied to its reserve base likely may not support the borrowing base required to renew its Credit Facility on June 16, 2020. 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 produce crude oil or natural gas at profitable prices and finance future capital investment to maintain production 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 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 crude oil and natural gas properties and equipment. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date. At March 31, 2020, $nil (December 31, 2019 - $nil) was drawn on the Credit Facility except for letters of credit outstanding of $1.6 million (December 31, 2019 - $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 March 31, 2020 with a senior debt[1] to EBITDA[1] ratio of 0.2 times (December 31, 2019 – 0.1 times).

Term Loan

Cequence has a $50.0 million second lien secured Term Loan, due October 3, 2023 (the "Term Loan"). Interest on the Term Loan is paid quarterly at the rate of 5% per annum. The Term Loan holders have a 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.

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.

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	207	207	-	-	-	414
Pipeline transportation	5,220	6,953	6,117	5,555	18,172	42,017
Gas processing	3,130	4,154	4,154	4,154	26,317	41,909
Total	8,557	11,314	10,271	9,709	44,489	84,340

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 $0.77/GJ until March 2028. The Dawn agreement provides market diversification for approximately 40 percent of current natural gas production. As part of the Dawn commitment, the Company entered into a five-year contract to transport AECO natural 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 also 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

The significant accounting policies used by Cequence are disclosed in Note 2 of the Company's audited annual consolidated financial statements and the MD&A 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.

SHARE CAPITAL

As at May 14, 2020, there were 41,783,563 common shares, 2,239,250 share options and 1,736,218 restricted share units outstanding. Of the 2,239,250 share options, nil were "in-the-money" as at May 14, 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. Cequence reported on disclosure controls and procedures as part of its 2019 annual disclosure requirements (please refer to the

MD&A for the year-ended December 31, 2019, which is available on SEDAR at www.sedar.com and on Cequence's website at www.cequence-energy.com). There have been no significant changes to the Company's disclosure controls and procedures in the current period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's CEO and CFO are responsible for designing, or causing to be designed under their supervision, ICFR related to the Company, including its consolidated subsidiaries. Cequence reported on ICFR as part of its 2019 annual disclosure requirements (please refer to the MD&A for the year ended December 31, 2019, which is available on SEDAR at www.sedar.com and on Cequence's website at www.cequence-energy.com). There have been no significant changes to ICFR in the current period that have materially affected, or are reasonably likely to affect, the Company's ICFR. The material internal control weakness disclosed in the Company's MD&A for the year ended December 31, 2019 will be remediated by management in 2020.

RISKS AND UNCERTAINTIES

Cequence's operations have been and may continue to be impacted by COVID-19 and related emergency response measures including, but not limited to travel prohibitions, social distancing rules, and other restrictions which may negatively impact demand for oil and the timing and ability of the Company's personnel, suppliers and contractors to access or deliver services, goods and equipment to the Company, and the risk of further shutting in or reducing production due to the decrease in demand for crude oil, continued low commodity prices, the aforementioned restrictions on population movement, and personnel illness. Cequence takes every precaution to follow industrial hygiene and occupational health guidelines and has taken a number of special measures to protect the safety and health of its employees, contractors, customers and suppliers due to the COVID-19 pandemic, including having office personnel work remotely and implementing additional safety and hygiene measures at the Company's field operations. However, there can be no assurance that COVID-19 will not further directly or indirectly negatively impact the operating and financial results of the Company.

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

Cequence is closely monitoring the situation surrounding COVID-19 and taking proactive steps to ensure the safety of its employees, customers and the continuity of its operations. Due to the decrease in crude oil prices, continuing price volatility, the economic effects of COVID-19 and concerns of a global economic slowdown, the Company is 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, $1.76/mcf in 2019 and $2.03/mcf for the three months ended March 31, 2020, 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)	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2
FINANCIAL								
Total revenue[1]	**11,762**	14,859	11,018	12,966	16,637	12,184	17,680	14,613
Royalties expense	**1,133**	1,051	578	704	882	736	1,453	1,043
Transportation expense	**2,290**	2,401	2,263	2,337	2,350	2,116	1,876	1,728
Operating expense	**5,600**	5,177	5,977	5,501	6,131	5,440	5,493	6,758
Comprehensive income (loss)	**(111,160)**	(1,733)	(4,990)	(2,464)	(3,814)	(3,802)	573	(2,745)
Per share – basic & diluted	**(2.66)**	(0.04)	(0.12)	(0.10)	(0.16)	(0.16)	0.04	(0.22)
Funds flow from operations [1]	**997**	4,254	421	1,806	5,364	2,071	5,589	2,191
Per share – basic & diluted	**0.02**	0.10	0.01	0.07	0.22	0.08	0.38	0.18
Capital expenditures	**3,264**	1,941	3,632	1,163	2,184	13,397	1,119	1,830
Net acquisitions (dispositions)[i]	**-**	4	1,517	(39)	1	(934)	(500)	(1,433)
Net capital expenditures	**3,264**	1,945	5,149	1,124	2,185	12,463	619	397
OPERATIONAL								
Production volumes								
Natural gas (mcf/d)	**25,425**	26,549	24,414	29,007	26,689	27,645	29,376	28,628
Oil (bbls/d)	**663**	527	534	747	916	736	1,198	864
NGLs (bbls/d)	**269**	353	195	186	183	227	259	240
Condensate (bbls/d)	**500**	587	439	374	417	427	382	459
Total (boe/d)	**5,669**	5,892	5,238	6,142	5,964	5,997	6,734	6,334
Average selling price, including realized hedges								
Natural gas ($/mcf)	**2.38**	2.80	1.90	1.89	3.56	2.91	2.20	2.14
Crude oil and condensate ($/bbl)	**55.64**	72.82	71.35	74.97	64.14	37.74	73.57	68.79
NGLs ($/bbl)	**15.26**	16.85	19.67	19.89	23.46	35.37	43.51	34.91
Total ($/boe)	**22.80**	27.41	22.86	23.20	31.00	22.08	28.53	25.35
Operating netback, including realized hedges ($/boe)								
Price	**22.80**	27.41	22.86	23.20	31.00	22.08	28.53	25.35
Royalties	**(2.20)**	(1.94)	(1.20)	(1.26)	(1.64)	(1.33)	(2.35)	(1.81)
Transportation	**(4.44)**	(4.43)	(4.70)	(4.18)	(4.38)	(3.84)	(3.03)	(3.00)
Operating	**(10.86)**	(9.55)	(12.40)	(9.84)	(11.42)	(9.86)	(8.87)	(11.72)
Operating netback	**5.30**	11.49	4.56	7.92	13.56	7.05	14.28	8.82

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

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, meet obligations and commitments as they come due 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, capital expenditures and the source of funding thereof; the economic value of the Company’s crude oil and natural gas reserves; projections with respect to the Company’s 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 curtailing of natural gas and crude oil production due to low prices; the projection of future royalty, operating, transportation and G&A expenses; the expectation of operating and G&A savings due to cost reduction measures; 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; the material weakness that caused the restatement of prior financial information and its remediation; the impact of the ongoing COVID-19 pandemic on the global economy and the Company’s operating and financial results; 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)	2020 Q1	2019 Q4	2019 Q3	2019 Q2	Trailing twelve months
EBITDA	$1,570	$4,836	$998	$2,516	$9,920
Finance expense	830	862	858	953	3,503
Depletion and depreciation expenses	4,270	4,854	4,500	4,739	18,363
Impairment	109,870	-	-	-	109,870
Share-based payment expenses	51	87	118	92	348
Income taxes	-	-	-	-	-
Unrealized (gain) loss on commodity contracts	(1,412)	836	588	(691)	(679)
Flow-through share obligation incurred	(788)	-	-	-	(788)
(Gain) loss on sale of property and equipment	(22)	-	(1)	(39)	(62)
Lease liability payments	(69)	(69)	(75)	(74)	(287)
Net loss and comprehensive loss	$(111,160)	$(1,733)	$(4,990)	$(2,464)	$(120,348)

Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning costs incurred and net change in non-cash working capital. The Company uses this measure to analyze operating performance and leverage and considers it a key measure as it demonstrates the Company's ability to generate the cash flow necessary to fund future growth through capital investment and to repay debt. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of net loss and comprehensive loss per share.

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

	Three months ended March 31,	
(thousands of dollars)	**2020**	2019
Cash flow from operating activities	**$2,827**	$243
Decommissioning costs incurred	**277**	2,478
Net change in non-cash working capital	**(2,107)**	2,643
Funds flow from operations	**$997**	$5,364

Net debt is a measure that provides Cequence's total indebtedness. It is calculated as working capital deficiency (excluding commodity contracts, flow through share liability 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 table under "Liquidity, Capital Resources and Going Concern" 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 March 31, 2020**
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.