Unaudited Condensed Consolidated Interim Financial Statements of

CEQUENCE ENERGY LTD.

June 30, 2019

CEQUENCE ENERGY LTD.

Consolidated Interim Statements of Financial Position
(Unaudited)

(In thousands of Canadian dollars)	**As at June 30, 2019 $**	As at December 31, 2018 $
Assets		
Current		
Cash	**4,631**	14,496
Accounts receivable (Note 15)	**10,021**	10,324
Deposits and prepaid expenses	**846**	633
Commodity contracts (Note 15)	**1,481**	3,580
	16,979	29,033
Property and equipment (Note 4)	**253,666**	254,607
	270,645	283,640
Liabilities		
Current		
Accounts payable and accrued liabilities	**24,441**	35,736
Share-based payment liability (Note 12)	**61**	38
Decommissioning liability (Note 10)	**2,232**	1,782
Lease liability (Note 3)	**249**	-
	26,983	37,556
Non-current		
Lease liability (Note 3)	**330**	-
Term loan (Note 6)	**49,223**	60,000
Flow-through share liability (Note 11)	**5,342**	-
Decommissioning liability (Note 10)	**36,800**	33,773
	118,678	131,329
Commitments (Note 14)		
Equity		
Share capital (Note 11)	**647,859**	642,123
Warrants (Note 11)	**-**	737
Contributed surplus	**33,655**	32,720
Deficit	**(529,547)**	(523,269)
	151,967	152,311
	270,645	283,640

See accompanying notes to the unaudited condensed consolidated interim financial statements.

CEQUENCE ENERGY LTD.

Consolidated Interim Statements of Net Loss and Comprehensive Loss
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	**2019**	2018
(In thousands of Canadian dollars, except per share amounts)	**$**	$	**$**	$
Revenue and other income				
Production revenue (Note 7)	**11,935**	14,677	**26,704**	27,618
Other income (Note 8)	**76**	1,708	**127**	1,792
Gain (loss) on derivative financial instruments (Note 15)	**1,018**	(891)	**(786)**	(1,772)
	13,029	15,494	**26,045**	27,638
Expenses				
Operating	**5,501**	6,758	**11,632**	13,147
Transportation	**2,337**	1,728	**4,687**	3,168
Depletion and depreciation (Note 4)	**4,739**	6,310	**10,815**	11,139
General and administrative	**1,871**	1,487	**3,027**	2,737
Finance (Note 9)	**953**	1,881	**1,935**	3,777
Share-based payment (Note 12)	**92**	75	**227**	140
	15,493	18,239	**32,323**	34,108
Loss before income taxes	**(2,464)**	(2,745)	**(6,278)**	(6,470)
Income taxes	**-**	-	**-**	-
Net loss and comprehensive loss	**(2,464)**	(2,745)	**(6,278)**	(6,470)
Loss per share (Note 13)				
Basic and diluted	**($0.10)**	($0.22)	**($0.25)**	($0.53)

See accompanying notes to the unaudited condensed consolidated interim financial statements.

CEQUENCE ENERGY LTD.

Consolidated Interim Statements of Changes in Equity
(Unaudited)

(In thousands of Canadian dollars)	For the six months ended June 30, **2019** **$**	2018 $
Equity		
Share capital		
Balance, beginning of period	**642,123**	633,846
Proceeds on issuance of flow-through shares (Note 11)	**5,858**	-
Share issue costs (Note 11)	**(122)**	-
Balance, end of period	**647,859**	633,846
Warrants		
Balance, beginning of period	**737**	1,300
Cancelled (Note 11)	**(737)**	-
Balance, end of period	**-**	1,300
Contributed surplus		
Balance, beginning of period	**32,720**	31,076
Share-based payment expense (Note 12)	**198**	146
Warrants cancelled (Note 11)	**737**	-
Balance, end of period	**33,655**	31,222
Deficit		
Balance, beginning of period	**(523,269)**	(513,570)
Net loss	**(6,278)**	(6,470)
Balance, end of period	**(529,547)**	(520,040)
Total equity	**151,967**	146,328

See accompanying notes to the unaudited condensed consolidated interim financial statements.

CEQUENCE ENERGY LTD.

Consolidated Interim Statements of Cash Flows
(Unaudited)

(In thousands of Canadian dollars)	For the three months ended June 30, **2019** **$**	2018 $	For the six months ended June 30, **2019** **$**	2018 $
Operating activities:				
Net loss	**(2,464)**	(2,745)	**(6,278)**	(6,470)
Adjustments for non-cash items:				
Depletion and depreciation expense (Note 4)	**4,739**	6,310	**10,815**	11,139
Accretion expense on decommissioning liability (Note 10)	**169**	197	**345**	406
Share-based payment (Note 12)	**92**	75	**227**	140
Amortization of transaction costs (Note 9)	**-**	120	**-**	237
Accretion expense on senior notes (Note 9)	**-**	93	**-**	183
Unrealized (gain) loss on derivative financial instruments (Note 15)	**(691)**	(216)	**2,099**	1,431
Gain on sale of property and equipment (Note 8)	**(39)**	(1,643)	**(38)**	(1,639)
Decommissioning costs incurred (Note 10)	**(211)**	(301)	**(2,689)**	(2,857)
Net change in non-cash working capital (Note 16)	**1,054**	2,489	**(1,589)**	1,857
Cash flow from operating activities	**2,649**	4,379	**2,892**	4,427
Investing activities:				
Property and equipment expenditures (Note 4)	**(1,163)**	(1,830)	**(3,347)**	(9,284)
Proceeds from sale of property and equipment (Note 4)	**39**	1,433	**38**	1,429
Net change in non-cash working capital (Note 16)	**(4,002)**	(8,747)	**(9,616)**	(4,357)
Cash flow (used in) investing activities	**(5,126)**	(9,144)	**(12,925)**	(12,212)
Financing activities:				
Term loan principal repayment (Note 6)	**(10,000)**	-	**(10,000)**	-
Term loan modification fees (Note 6)	**(777)**	-	**(777)**	-
Proceeds on issuance of flow-through shares (Note 11)	**11,200**	-	**11,200**	-
Share issue costs (Note 11)	**(122)**	-	**(122)**	-
Lease liability payments (Note 3)	**(64)**	-	**(127)**	-
Cash settlement of share-based payments	**(6)**	-	**(6)**	-
Cash flow from financing activities	**231**	-	**168**	-
Net decrease in cash	**(2,246)**	(4,765)	**(9,865)**	(7,785)
Cash, beginning of period	**6,877**	7,951	**14,496**	10,971
Cash, end of period	**4,631**	3,186	**4,631**	3,186

See accompanying notes to the unaudited condensed consolidated interim financial statements.

1. NATURE AND DESCRIPTION OF THE COMPANY

Cequence Energy Ltd. (the "Company" or "Cequence") is incorporated under the laws of Alberta and is listed on the Toronto Stock Exchange. Cequence is engaged in the acquisition, exploration and production of petroleum and natural gas reserves in Western Canada. The registered office of the Company is located at Suite 1400, 215 – 9th Avenue. SW, Calgary, Alberta, T2P 1K3.

These unaudited condensed consolidated interim financial statements ("financial statements") include all assets, liabilities, revenues and expenses of Cequence and its wholly-owned subsidiary, 1175043 Alberta Ltd.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and authorization

These financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information or footnote disclosure normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been condensed or omitted.

These financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2018.

The financial statements were approved by the Company's Board of Directors on August 8, 2019.

Basis of presentation

Except as outlined in Note 3, the financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2018. The financial statements have been presented in Canadian dollars, which is also the Company's functional currency, rounded to the nearest thousand, unless otherwise indicated.

Basis of consolidation

The financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany transactions and balances are eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

IFRS 16 - Leases

Effective January 1, 2019, Cequence adopted IFRS 16. The standard supersedes IAS 17 Leases, International Financial Reporting Interpretations Committee ("IFRIC") 4 Determining whether an arrangement contains a lease, and related interpretations. IFRS 16 requires a lessee recognize a right-of-use asset and lease liability on the statement of financial position for most leases. Cequence has elected to apply IFRS 16 using a modified retrospective approach with prospective application which does not require the restatement of prior period financial information. The following table details the impact of the adoption of IFRS 16 on the Company's statement of financial position, as at January 1, 2019:

(All figures expressed in thousands except per share amounts unless otherwise noted)

	January 1, 2019
Right-of-use asset presented in property and equipment	**706**
Lease liability	**706**

Cequence recognized the lease of its head office space as a right-of-use asset and lease liability, using the incremental borrowing rate at January 1, 2019. On transition to IFRS 16 under the modified retrospective approach, lease payments are discounted using the Company's incremental borrowing rate as of the date of adoption. Cequence's incremental borrowing rate was 7.0 per cent.

On adoption of IFRS 16, Cequence applied the optional expedients permitted under the standard and did not recognize short term leases and leases of low-value assets on the consolidated statement of financial position. Lease payments for short term and low dollar value assets are instead recognized in the statement of net loss and comprehensive loss as incurred.

For the six months ended June 30, 2019, the Company recognized $128 in depreciation and $22 of interest expense associated with the adoption of IFRS 16.

Revised Accounting Policy – Leases Ongoing Recognition and Measurement

On the date that the leased asset becomes available for use, Cequence recognizes a right-of-use asset and a corresponding lease obligation. Right-of-use assets and lease obligations are initially measured on a present value basis. Right-of-use assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. Lease obligations are measured as the net present value of the lease payments which may include: fixed lease payments, variable lease payments that are based on an index or a rate, and amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option, if Cequence is reasonably certain to exercise either of those options. The rate implicit in the lease is used to determine the present value of the liability and right-of-use asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

Interest expense associated with the lease obligation is charged to the consolidated statement of net loss and comprehensive loss over the lease term. The lease obligation included on the statement of financial position is reduced as payments are made against the principal portion of the lease. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation of the right-of-use asset is recognized in depletion and depreciation on the statement of net loss and comprehensive loss. Right-of-use assets are included in property and equipment on the statement of financial position.

(All figures expressed in thousands except per share amounts unless otherwise noted)

4. PROPERTY AND EQUIPMENT

Cost:	
Balance at December 31, 2017	928,935
Additions	23,800
Decommissioning obligation additions and change in estimates	2,179
Disposals	(39,997)
Balance at December 31, 2018	914,917
Additions	**3,347**
Decommissioning obligation additions and change in estimates	**5,821**
Right-of-use asset addition (Note 3)	**706**
Balance at June 30, 2019	**924,791**
Depletion, depreciation and impairment:	
Balance at December 31, 2017	(671,705)
Depletion and depreciation	(27,480)
Disposals	38,875
Balance at December 31, 2018	(660,310)
Depletion and depreciation	**(10,815)**
Balance at June 30, 2019	**(671,125)**

Carrying amounts:	
At December 31, 2018	254,607
At June 30, 2019	**253,666**

During the three and six-months ended June 30, 2019, the Company disposed of certain oil and gas properties and associated decommissioning liabilities for proceeds of $39 and $38 (2018 - $1,433 and $1,429) prior to closing adjustments. The sales resulted in a gain recognized in comprehensive loss of $39 and $38 (2018 - $1,643 and $1,639) for the three and six-month periods ended June 30, 2019.

At June 30, 2019, the Company conducted an assessment of impairment indicators for the Company's cash generating units ("CGUs"). In performing the review, management determined that the continued market capitalization deficit to net assets since December 31, 2018 and the decrease in natural gas prices in the forward market may indicate an impairment.

At June 30, 2019, the Company completed an impairment assessment estimating the fair value less cost to sell and determined that there was no impairment of property and equipment.

(All figures expressed in thousands except per share amounts unless otherwise noted)

The benchmark escalated prices on which the June 30, 2019 impairment assessment was based are as follows:

	Natural Gas	**Condensate**	**Crude Oil**
	AECO Spot ($/mmbtu)	Edmonton Pentanes Plus ($/bbl)	Edmonton Par ($/bbl)
2019	1.60	71.06	68.97
2020	1.90	77.27	72.08
2021	2.15	79.75	74.05
2022	2.40	83.13	76.88
2023	2.55	86.88	80.63
2024	2.75	90.00	83.75
2025	2.85	93.13	86.88
2026	2.95	96.25	90.00
2027	3.04	98.96	92.71
2028	3.11	100.96	94.71

5. CREDIT FACILITY

The Company has an extendible revolving term credit facility (the “Credit Facility”) of $7,000 (December 31, 2018 - $7,000) and has drawn $nil (December 31, 2018 - $nil) under the facility. The Company has letters of credit outstanding of $1,590 (December 31, 2018 - $1,590). The Credit Facility matures on June 16, 2020, is renewable at the lender’s consent and is secured by a general assignment of book debts and a $250,000 demand debenture with a first floating charge over all assets of the Company. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date. The Credit Facility is reviewed on a semi-annual basis with the lender holding the right to request an additional review as may be required.

The Credit Facility has a financial covenant that requires Senior Debt to twelve month trailing EBITDA, as defined in the bank agreement, to be less than 3:0 to 1:0. At June 30, 2019 the ratio was 0.1 times (December 31, 2018 – 0.1 times). At June 30, 2019, all financial debt covenants and all banking requirements under the Credit Facility were satisfied.

6. TERM LOAN

Cequence has a second lien secured loan (the “Term Loan”). On May 23, 2019, the Company’s Board of Directors approved a transaction that resulted in repayment of $10,000 of the $60,000 Term Loan and the modification of the Term Loan agreement 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 is equal to or greater than $40,000, and canceling the Warrants that were issued in 2018 when the Term Loan was previously refinanced. In consideration of the Term Loan amendments, the Company agreed to pay the Term Loan debtholders fees in the amount of $1,200, 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. The amendments were determined to be a modification of the terms of the Term Loan agreement and no gain or loss was recognized.

Prior to approving the transaction, the Term Loan debtholders repurchased all interests in the Term Loan and warrants which were held by the two Company directors. As of May 13, 2019, no directors or officers held any interest in the Term Loan.

(All figures expressed in thousands except per share amounts unless otherwise noted)

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

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 and other transactions outside of the ordinary course of business. At June 30, 2019, all financial debt covenants and all banking requirements under the Term Loan were satisfied.

At any time prior to the maturity of October 3, 2023, the Company has the option to make voluntary prepayments without penalty towards the Term Loan. Subject to restrictions in the intercreditor agreement, there are mandatory repayments related to asset sales and the incurrence of unsecured debt.

7. PRODUCTION REVENUE

Cequence sells its oil and condensate, natural gas, and natural gas liquids production pursuant to variable price contracts. The transaction price for variable priced contracts is based on a benchmark commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula (apart from the benchmark commodity price) can be either fixed or variable, depending on the contract terms. Revenues are typically collected on the 25th day of the month following the prior month's production, with revenue being recorded once the product is delivered to a contractually agreed upon delivery point.

The following table presents Cequence's production disaggregated by revenue source:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Natural gas	**4,845**	5,568	**12,860**	12,720
Crude oil and condensate	**7,457**	9,391	**14,707**	14,973
Natural gas liquids	**337**	761	**723**	1,705
Royalties	**(704)**	(1,043)	**(1,586)**	(1,780)
Total production revenue	**11,935**	14,677	**26,704**	27,618

8. OTHER INCOME

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Gain on sale of property and equipment	**39**	1,643	**38**	1,639
Interest income	**19**	17	**69**	57
Other	**18**	48	**20**	96
Total other income	**76**	1,708	**127**	1,792

(All figures expressed in thousands except per share amounts unless otherwise noted)

9. FINANCE EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Standby fees on credit facility	**32**	19	**86**	64
Interest expense on Term Loan and Senior Notes	**742**	1,452	**1,482**	2,887
Interest expense on lease liability	**10**	-	**22**	-
Amortization of transaction costs	**-**	120	**-**	237
Accretion expense on Senior Notes	**-**	93	**-**	183
Accretion expense on decommissioning liability	**169**	197	**345**	406
Total finance expense	**953**	1,881	**1,935**	3,777

10. DECOMMISSIONING LIABILITY

The following table summarizes the changes in decommissioning liabilities for the six months ended June 30, 2019 and year ended December 31, 2018:

	2019	2018
Balance, beginning of period	**35,555**	38,478
Property dispositions	**-**	(2,149)
Accretion expense	**345**	803
Liabilities incurred	**-**	192
Decommissioning costs incurred	**(2,689)**	(3,756)
Revisions in estimated cash flows	**2,997**	1,870
Revisions due to change in discount rates	**2,824**	117
Balance, end of period	**39,032**	35,555
Current	**2,232**	1,782
Non-current	**36,800**	33,773
	39,032	35,555

The Company's decommissioning liabilities result from its ownership in oil and natural gas assets including well sites, facilities and gathering systems. The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $55,567 (December 31, 2018 - $55,390). These cash flows have been discounted using a risk-free interest rate of 1.73 percent (December 31, 2018 – 2.15 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2018 – 1 to 50 years). As at June 30, 2019 and December 31, 2018, no funds have been set aside to settle these liabilities.

11. SHARE CAPITAL

Cequence has an unlimited number of common voting shares and common non-voting shares with no par value authorized.

(All figures expressed in thousands except per share amounts unless otherwise noted)

	Six months ended June 30, 2019		Twelve months ended December 31, 2018	
Issued common voting shares	**Number (000's)**	**Stated Value ($)**	Number (000's)	Stated Value ($)
Outstanding, beginning of period	**24,553**	**642,123**	12,277	633,846
Flow-through common shares	**17,231**	**5,858**	12,276	8,593
Share issue costs	**-**	**(122)**	-	(316)
Outstanding, end of period	**41,784**	**647,859**	24,553	642,123
Warrants				
Outstanding, beginning of period	**1,841**	**737**	150	1,300
Granted	**-**	**-**	1,841	737
Expired	**-**	**-**	(150)	(1,300)
Cancelled	**(1,841)**	**(737)**	-	-
Outstanding, end of period	**-**	**-**	1,841	737

On June 27, 2019, Cequence completed a private placement of common shares. Cequence issued a total of 17,230,769 flow-through common shares (the "Common Shares") at a subscription price of $0.65 per Common Share for gross proceeds of $11,200. The implied premium on the flow-through shares of $0.31 per share or $5,342 was recorded as a flow-through liability.

In accordance with the terms of the agreement and pursuant to certain provisions of the Income Tax Act (Canada), the Company is required to incur on a best efforts basis and renounce to the holders of the flow-through common shares, for income tax purposes, qualifying Canadian development expenditures of $11,200 prior to June 27, 2021. At June 30, 2019, the Company had incurred $nil of qualifying Canadian development expenditures.

12. SHARE-BASED PAYMENT PLANS

The Company has a stock option and Restricted Share Unit plan ("RSU"). For the three and six months ended June 30, 2019, Cequence recognized share-based payment expense on equity-settled stock options of $88 and $198 (2018 - $2 and $146) and RSUs of $4 and $29 (2018 – $73 and ($6)).

A summary of the Company's stock option plan during the six months ended June 30, 2019 and year ended December 31, 2018 is as follows:

Number of Options (000's)	**2019**	2018
Outstanding, beginning of period	**1,476**	661
Granted (1)	**185**	980
Cancelled/Forfeited	**(124)**	(112)
Expired	**-**	(53)
Outstanding, end of period	**1,537**	1,476

(1) The Company issued 185,000 stock options (2018 - 980,000) at a weighted average exercise price of $0.53 (2018 - $0.72) to employees, officers and directors.

A summary of the inputs used to value stock options is as follows:

	2019	2018
Risk-free interest rate	**1.51%**	2.27%
Expected life of options	**5 years**	5 years
Expected volatility	**79%**	77%

(All figures expressed in thousands except per share amounts unless otherwise noted)

Expected dividend rate	**0%**	0%
Expected forfeiture rate	**10%**	10%
Weighted average fair value	**$0.35**	$0.48

Expected volatility is determined based on the historical volatility of the Company's shares.

A summary of the status of the Company's RSU plan during the six months ended June 30, 2019 and year ended December 31, 2018 is as follows:

Number of RSUs (000's)	**2019**	2018
Outstanding, beginning of period	**444**	133
Granted	**102**	393
Settled	**(9)**	(63)
Cancelled/Forfeited	**(41)**	(19)
Outstanding, end of period	**496**	444

13. LOSS PER SHARE

Loss per share has been calculated based on the weighted average number of common shares outstanding. For the three and six months ended June 30, 2019 and 2018, the Company has excluded all dilutive instruments as their inclusion would be anti-dilutive. The following table reconciles the denominators used for the basic and diluted loss per share calculations:

	Three months ended June 30,		**Six months ended June 30,**	
	2019	2018	**2019**	2018
Basic weighted average shares	**25,121**	12,277	**24,839**	12,277
Effect of dilutive instruments	**-**	-	**-**	-
Diluted weighted average shares	**25,121**	12,277	**24,839**	12,277

14. COMMITMENTS

	2019	**2020**	**2021**	**2022**	**2023+**	**Total**
Office leases [1]	151	275	207	-	-	633
Pipeline transportation	3,492	6,953	6,953	6,117	26,016	49,531
Gas processing	2,094	4,166	4,154	4,154	30,471	45,039
Total	5,737	11,394	11,314	10,271	56,487	95,203

(1) Reflects minimum undiscounted lease payments. This is recorded as a lease liability on the Statements of Financial Position.

Cequence has a take or pay agreement with the operator of the Simonette facility. The volume commitment under the take or pay is 42 mmcf/d until April 30, 2030.

The Company has firm natural gas transportation on a major pipeline system for 35 mmcf/d for the period December 17, 2017 to March 30, 2026 and firm crude oil transportation on a major pipeline system for 600 bbls/d for the period June 1, 2019 to December 31, 2021.

The Company has a contract to ship 10,850 GJ/d of natural gas on the TransCanada mainline system from the Empress receipt point to the Dawn hub in Ontario. The term of the contract began on April 1, 2018, is 10 years in duration and has early termination rights that can be exercised following the initial five years of service. The toll for this service is $0.77 per GJ/d. As part of this commitment, the Company entered into a five-year contract to transport AECO gas to Empress at an annual cost of approximately $750.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

There have been no significant changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2018.

The Company's financial instruments, including derivative financial instruments, recognized in the consolidated interim statement of financial position consist of cash, accounts receivable, deposits, commodity contracts, demand credit facilities, Term Loan and accounts payable and accrued liabilities and lease liability.

The Company's cash, accounts receivable, deposits, demand credit facilities and accounts payable and accrued liabilities and lease liability approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's credit facility. The Term Loan bears interest at rates available to Cequence and accordingly the fair value approximates the carrying value.

The Company's fair value hierarchy for those assets and liabilities measured at fair value comprises cash measured at level 1 and commodity contracts measured at level 2 under the Company's fair value hierarchy as of June 30, 2019. The fair value of commodity contracts is determined by discounting the remaining contracted petroleum and natural gas volumes by the difference between the contracted price and published forward price curves as at the interim statement of financial position date.

The nature of these financial instruments and the Company's operations expose the Company to market risk, credit risk and liquidity risk. The Company manages its exposure to these risks by operating in a manner that minimizes these risks. Senior management employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss and comprehensive loss to the extent the Company has outstanding financial instruments. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Company enters into various derivative financial instrument agreements and physical contracts. The fair values of the derivative financial instruments are based on mark-to-market assessments and estimates of fair value and are recorded on the consolidated statement of financial position as either an asset or liability with the change in fair value recognized in net loss and comprehensive loss.

The following information presents all outstanding positions for commodity derivative financial instruments at June 30, 2019:

(All figures expressed in thousands except per share amounts unless otherwise noted)

Term	Product	Type	Volume	Price	Basis
July 1, 2019 to September 30, 2019	Gas	Swap	2,500 gj/day	$3.04	Dawn
July 1, 2019 to October 31, 2019	Gas	Swap	5,000 gj/day	$1.37	AECO
November 1, 2019 to March 31, 2020	Gas	Swap	5,000 gj/day	$2.11	AECO
July 1, 2019 to September 30, 2019	Oil	Swap	500 bbl/day	$85.63	WTI
October 1, 2019 to December 31, 2019	Oil	Swap	500 bbl/day	$85.44	WTI
January 1, 2020 to March 31, 2020	Oil	Swap	100 bbl/day	$84.10	WTI
April 1, 2020 to June 30, 2020	Oil	Swap	100 bbl/day	$82.13	WTI

For the three and six months ended June 30, 2019, realized gains from commodity derivative contracts recognized in net loss and comprehensive loss were $327 and $1,313 (2018 - $1,107 and $341 loss).

The fair value of the commodity contracts outstanding at June 30, 2019 was a current asset of $1,481 (December 31, 2018 – current asset of $3,580).

For the three and six months ended June 30, 2019, the Company recorded an unrealized gain (loss) of $691 and ($2,099) from derivative commodity contracts (2018 - $216 unrealized gain and ($1,431) unrealized loss).

As at June 30, 2019, a change in gas price of $0.50/gj and oil price of $1.00/bbl results in a change in the fair value of the commodity contracts of $803 and $110 (2018 - $nil and $55) respectively and a commensurate increase to net loss and comprehensive loss.

Foreign exchange risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices. As at June 30, 2019, the Company had no forward, foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies (2018 – nil).

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facility. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company has no interest rate swaps or financial contracts in place as at or during the three and six months ended June 30, 2019 (2018 - nil).

CREDIT RISK

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to its cash, accounts receivable and commodity contract assets.

The Company's cash and commodity contract assets are held with a large established financial institution. The majority of the Company's accounts receivable are due from marketers of the Company's petroleum and natural gas production which are typically collected on the 25th day of the month following the prior month's production and from joint venture partners in the oil and gas industry. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis.

As at June 30, 2019, the accounts receivable balance was $10,021 (December 31, 2018 - $10,324) of which $1,551 (December 31, 2018 - $1,248) was past due. The Company considers all amounts greater than 90 days past due. These past due accounts are considered to be collectible, except as provided in the allowance for doubtful accounts. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. The following table provides an aging analysis of the Company's accounts receivables:

(All figures expressed in thousands except per share amounts unless otherwise noted)

Current	30-60 days	60-90 days	90+days	Total
7,516	**537**	**417**	**1,551**	**10,021**

At June 30, 2019, the Company has an allowance for doubtful accounts of $770 (December 31, 2018 – $760).

As at June 30, 2019, the maximum exposure to credit risk was $16,133 (December 31, 2018 - $28,400) being the carrying value of the Company's cash, accounts receivable and commodity contract assets.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The nature of the oil and gas industry is capital intensive and the Company maintains and monitors a certain level of cash flow to finance operating and capital expenditures. Refer to note 17 for disclosure related to the management of capital.

The expected timing of cash flows relating to financial liabilities as at June 30, 2019 is as follows:

	< 1 Year	1 – 2	2 – 5	Thereafter
Term Loan	-	-	50,000	-
Accounts payable and accrued liabilities	24,441	-	-	-
Lease liability	249	261	69	-
	24,690	261	50,069	-

16. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Accounts receivable	**3,004**	(364)	**303**	2,486
Deposits and prepaid expenses	**(74)**	(376)	**(213)**	(564)
Accounts payable and accrued liabilities	**(5,878)**	(5,518)	**(11,295)**	(4,422)
Net change in non-cash working capital	**(2,948)**	(6,258)	**(11,205)**	(2,500)
Allocated to:				
Operating activities	**1,054**	2,489	**(1,589)**	1,857
Investing activities	**(4,002)**	(8,747)	**(9,616)**	(4,357)
	(2,948)	(6,258)	**(11,205)**	(2,500)

17. CAPITAL MANAGEMENT

Cequence's objectives are to maintain a flexible capital structure in order to meet its financial obligations, execute on strategic opportunities throughout the business cycle and respond to changes in economic conditions. The Company's capital comprises equity, demand credit facilities, Term Loan and working capital. Cequence manages the capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, Cequence may issue new common shares, issue new debt or replace existing debt, adjust capital expenditures and acquire or dispose of assets. The Company evaluates its capital structure based on net debt to cash flow from operating activities and the current credit available to Cequence compared to its budgeted capital expenditures.

At June 30, 2019, Cequence has a $50,000 Term Loan due on October 3, 2023 and a $7,000 Credit Facility that has a term date of June 16, 2020 and is undrawn at June 30, 2019. The Company has letters of credit outstanding of $1,590. The Company's Credit Facility is based on the lenders' review of the Company's oil and natural gas reserves with the next scheduled review expected to be completed in the three months ended December 31, 2019.

The Company continues to review its options to improve its financial leverage including alternative financing arrangements, property acquisitions or divestitures, corporate mergers and acquisitions, other recapitalization opportunities, further adjustments to the capital program, use of risk management contracts or the issuance of additional equity.