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 nine months ended September 30, 2019.

This MD&A should be read in conjunction with Cequence's September 30, 2019 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A for the financial year ended December 31, 2018, the notes contained therein to which the readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report.

This MD&A was prepared effective November 7, 2019 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on November 7, 2019.

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 September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Financial				
Total revenue(1)	**$11,018**	$17,680	**$40,620**	$46,737
Net income (loss) and comprehensive income (loss)	**(3,417)**	573	**(9,696)**	(5,897)
Per share – basic and diluted	**(0.08)**	0.04	**(0.32)**	(0.45)
Funds flow from operations(1)	**1,994**	5,589	**9,163**	11,016
Per share - basic and diluted	**0.05**	0.38	**0.30**	0.84
Capital expenditures, before acquisitions (dispositions)	**3,632**	1,119	**6,979**	10,403
Total assets	**270,058**	277,616	**270,058**	277,616
Net debt(1)	**64,653**	61,675	**64,653**	61,675
Production volumes				
Natural gas (Mcf/d)	**24,414**	29,376	**26,695**	30,924
Crude oil (bbls/d)	**534**	1,198	**731**	772
Natural gas liquids (bbls/d)	**195**	259	**188**	257
Condensate (bbls/d)	**439**	382	**410**	495
Total (boe/d)	**5,238**	6,734	**5,778**	6,679
Netback ($/boe)				
Price, including realized hedges	**$22.86**	$28.53	**$25.75**	$25.63
Operating netback(1)	**$7.83**	$14.28	**$9.81**	$10.87

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

BASIS OF PRESENTATION

All references to dollar amounts are to Canadian dollars, except where otherwise indicated. Natural gas volumes recorded in thousand cubic feet ("mcf") are converted to barrels of oil equivalent ("boe") using the ratio of six thousand cubic feet to one barrel of oil unless otherwise stated. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio for gas of 6 Mcf:1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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 $2.0 million for the three months ended September 30, 2019, $3.6 million lower than the same prior year period and $0.2 million higher than the second quarter 2019. The decrease in funds flow from operations(1) compared to the prior year period was due to lower realized prices for all products and lower natural gas, oil and natural gas liquids production.

Key highlights included:

- Production was 5,238 boe/d, 22% of which was comprised of crude oil and liquids in the third quarter 2019 compared to 6,734 boe/d, 27% of which was comprised of crude oil and liquids for the same period in 2018.
- Completed scheduled turnarounds at two facilities during the three months ended September 30, 2019 reducing third quarter production by approximately 365 boe/d.
- Shut in approximately 3,000 Mcf/d (500 boe/d) from June to September 1st, 2019 of non-core natural gas production in Northeastern British Columbia due to low prices.
- Capital expenditures of $3.6 million focused on Simonette natural gas lift optimization projects expecting to add approximately 500 boe/d in the fourth quarter 2019.

For the nine months ended September 30, 2019 funds flow from operations was $9.2 million, $1.9 million lower than the same prior year period. Production was 5,778 boe/d compared to 6,679 boe/d for the same prior year period. Lower funds flow from operations was due to production declines, shutting in wells and higher transportation expenses. Lower royalty, operating and financing expenses year over year partially offset the declines.

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

Benchmark pricing	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
AECO-C spot gas (CDN$/Mcf)	**$0.91**	$1.28	**$1.52**	$1.50
Ontario Dawn gas (CDN$/Mcf)	**2.80**	3.46	**3.27**	3.62
WTI crude oil (US$/bbl)	**56.45**	69.76	**57.06**	66.70
Edmonton City Gate oil (CDN$/bbl)	**68.21**	80.64	**69.41**	77.14
US$/CDN$ exchange rate	**0.76**	0.78	**0.75**	0.78

Volatile and weak natural gas prices remain below thresholds where investment in natural gas wells is economically beneficial. AECO prices averaged $0.91/Mcf for the three months ended September 30, 2019 compared to $1.28/Mcf for the same prior year period. The Western Canadian Sedimentary Basin ("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. Ontario Dawn natural gas prices have also declined as increased U.S. natural gas production has put downward pressure on natural gas prices in the Dawn and U.S. markets.

Entering the 2019 winter withdrawal season there is near term WCSB natural gas price optimism with natural gas storage in the WCSB at ten-year lows. In addition, the implementation of the Temporary Service Protocol ("TSP") by TC Energy allowing interruptible service to be used during pipeline maintenance periods 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.

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.

Oil prices were also volatile and lower in the third quarter 2019, compared with the same prior year period as increased U.S. supply and concerns of a slowing global economy limiting demand growth created 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 curtailments mandated by the Alberta government at the end of 2018 to reduce the excess storage imbalance and light oil differentials 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 September 30,			
	2019		2018	
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Sales of natural gas, crude oil and condensate	**$10,226**	**$21.22**	$18,207	$29.39
Realized gain (loss) on commodity contracts	**792**	**1.64**	(527)	(0.86)
Total revenue[1]	**11,018**	**22.86**	17,680	28.53
Royalties expense	**578**	**1.20**	1,453	2.35
	10,440	**21.66**	16,227	26.18
Operating expense	**4,404**	**9.14**	5,493	8.87
Transportation expense	**2,263**	**4.70**	1,876	3.03
Operating netback[1]	**3,773**	**7.83**	8,858	14.28
General and administrative expense	**1,156**	**2.40**	1,387	2.24
Finance expense	**858**	**1.78**	3,122	5.04
Cash netback[1]	**1,759**	**$3.65**	4,349	$7.00
Unrealized loss (gain) on commodity contracts	**588**		(425)	
Depletion and depreciation expense	**4,500**		5,019	
Share-based payment expense	**118**		46	
Other income	**(30)**		(864)	
Net income (loss) and comprehensive income	**$(3,417)**		$573	

Operating netback[1] was $7.83 per boe for the three months ended September 30, 2019 compared to $14.28 per boe for the same prior year period. The decrease was due to lower realized prices and lower crude oil and natural gas production partially offset by lower royalty and operating expenses.

	Nine months ended September 30,			
	2019		2018	
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Sales of natural gas, crude oil and condensate	**$38,515**	**$24.42**	$47,605	$26.11
Realized gain (loss) on commodity contracts	**2,105**	**1.33**	(868)	(0.48)
Total revenue[1]	**40,620**	**25.75**	46,737	25.63
Royalties expense	**2,164**	**1.37**	3,233	1.77
	38,456	**24.38**	43,504	23.86
Operating expense	**16,036**	**10.17**	18,640	10.22
Transportation expense	**6,950**	**4.41**	5,044	2.77
Operating netback[1]	**15,470**	**9.81**	19,820	10.87
General and administrative expense	**4,183**	**2.65**	4,124	2.26
Finance expense	**2,793**	**1.77**	6,899	3.78
Cash netback[1]	**8,494**	**$5.38**	8,797	$4.83
Unrealized loss on commodity contracts	**2,687**		1,006	
Depletion and depreciation expense	**15,315**		16,158	
Share-based payment expense	**345**		186	
Other income	**(157)**		(2,656)	
Net loss and comprehensive loss	**$(9,696)**		$(5,897)	

Operating netback[1] was $9.81 per boe for the nine months ended September 30, 2019 compared to $10.87 per boe for the same prior year period. The decrease was primarily due to higher transportation expenses as the Company entered into transportation agreements for crude oil and natural gas. 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 previously 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 September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Natural gas (Mcf/d)	**24,414**	29,376	**26,695**	30,924
Crude oil (bbls/d)	**534**	1,198	**731**	772
Natural gas liquids (bbls/d)	**195**	259	**188**	257
Condensate (bbls/d)	**439**	382	**410**	495
Total (boe/d)	**5,238**	6,734	**5,778**	6,679
Crude oil and liquids production (%)	**22%**	27%	**23%**	23%
Total production (boe)	**481,861**	619,554	**1,577,473**	1,823,322

Production for the three months ended September 30, 2019 averaged 5,238 boe/d compared to 6,734 boe/d for the same prior year period. The decrease was due to the natural decline of the 3.0 gross (2.0 net) Dunvegan horizontal oil wells that were completed in the first quarter 2018, turnarounds completed at two facilities in September 2019 and shutting in uneconomical non-core production in Northeastern British Columbia. These wells were brought back on production on September 1st, 2019. Crude oil and liquids production as a percentage of total production decreased to 22 percent in the three months ended September 30, 2019 from 27 percent for the same prior year period.

Production for the nine months ended September 30, 2019 averaged 5,778 boe/d compared to production of 6,679 boe/d for the same prior year period.

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands of dollars except prices)	**2019**	2018	**2019**	2018
Natural gas	**$4,276**	$5,953	**$17,815**	$19,997
Crude oil and condensate	**6,388**	10,690	**21,729**	23,998
Natural gas liquids	**354**	1,037	**1,076**	2,742
Total revenue[(1)]	**$11,018**	$17,680	**$40,620**	$46,737
Prices, including realized hedges				
Natural gas ($/Mcf)	**$1.90**	$2.20	**$2.44**	$2.37
Crude oil and condensate ($/bbl)	**71.35**	73.57	**69.76**	69.36
Natural gas liquids ($/bbl)	**19.67**	43.51	**20.96**	39.02
Price ($/boe)	**$22.86**	$28.53	**$25.75**	$25.63

Total revenue(1) was $11.0 million for the three months ended September 30, 2019 compared to $17.7 million for the same prior year period. The decrease was due to lower prices for all products and lower crude oil and natural gas production volumes.

Total revenue(1) was $40.6 million for the nine months ended September 30, 2019 compared to $46.7 million for the same prior year period due to lower production volumes for all products.

Effective April 1, 2018, the Company diversified away from the volatile 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 nine months ended September 30, 2019, Dawn prices averaged approximately $3.27/Mcf compared to AECO pricing of approximately $1.52/Mcf.

Commodity Price Management

(in thousands of dollars)	Three months ended September 30, **2019**	2018	Nine months ended September 30, **2019**	2018
Realized gain (loss) on commodity contracts	**$792**	$(527)	**$2,105**	$(868)
Unrealized gain (loss) on commodity contracts	**(588)**	425	**(2,687)**	(1,006)
Gain (loss) on commodity contracts	**$204**	$(102)	**$(582)**	$(1,874)

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.

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

Term	**Product**	**Type**	**Average Volume (GJ/d)**	**Average Price ($/GJ)**	**Basis**
October 1, 2019 to October 31, 2019	Gas	Swap	5,000	1.37	AECO
November 1, 2019 to March 31, 2020	Gas	Swap	5,000	2.11	AECO

Term	**Product**	**Type**	**Average Volume (bbl/d)**	**Average Price (CDN$/bbl)**	**Basis**
October 1, 2019 to December 31, 2019	Oil	Swap	500	85.44	WTI
January 1, 2020 to March 31, 2020	Oil	Swap	100	84.10	WTI
April 1, 2020 to June 30, 2020	Oil	Swap	100	82.13	WTI

Royalty Expense

(in thousands of dollars except percentages and $/boe)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Crown	**$383**	$1,229	**$1,525**	$2,272
Freehold / Overriding	**195**	224	**639**	961
Royalties expense	**$578**	$1,453	**$2,164**	$3,233
Royalties as a percentage of sales of natural gas, oil and condensate, before hedging	**6%**	8%	**6%**	7%
Per unit of production ($/boe)	**$1.20**	$2.35	**$1.37**	$1.77

Royalties as a percentage of sales and per boe are lower for the three and nine months ended September 30, 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 September 30, 2019	2018	Nine months ended September 30, 2019	2018
Operating expense	**$4,404**	$5,493	**$16,036**	$18,640
Per unit of production ($/boe)	**$9.14**	$8.87	**$10.17**	$10.22

Operating expenses were lower for the three months ended September 30, 2019 compared to same prior year period due to lower than expected facility equalizations from prior periods partially offset by turnaround costs for the Simonette and George facilities in 2019 of approximately $0.7 million.

Operating expenses for the nine months ended September 30, 2019 were $10.17 per boe compared to $10.22 per boe for the same prior year period. Lower water handling costs with the completion of a water disposal well in 2018 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 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 September 30, 2019	2018	Nine months ended September 30, 2019	2018
Transportation expense	**$2,263**	$1,876	**$6,950**	$5,044
Per unit of production ($/boe)	**$4.70**	$3.03	**$4.41**	$2.77

Transportation expense for the three months ended September 30, 2019 increased per boe compared to the same prior year period due to the company entering into a crude oil transportation agreement to secure service in 2019 and contracted service for gas transportation that was not fully utilized. Transportation costs incurred from the crude oil agreement are recognized as transportation expense where these costs were previously included as part of realized price on the crude oil sale.

Transportation expense for the nine months ended September 30, 2019 increased per boe compared to the same prior year period due to the Company entering into agreements to secure service for natural gas and oil transportation that are recognized as transportation expense where this was previously included as part of the realized price on the commodity 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")

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands of dollars except $/boe)	**2019**	2018	**2019**	2018
G&A expense	**$1,224**	$1,435	**$4,336**	$4,404
Administrative and capital recovery	**(68)**	(48)	**(153)**	(280)
G&A expense	**$1,156**	$1,387	**$4,183**	$4,124
Per unit of production ($/boe)	**$2.40**	$2.24	**$2.65**	$2.26

G&A expenses for the nine months ended September 30, 2019 include a $0.5 million prepayment of due diligence fees to the Term Loan debtholders 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 nine months ended September 30, 2019 compared to the prior year period. Other one-time items included in G&A for the nine 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 $0.2 million in the nine months ended September 30, 2019 no longer being recorded as a G&A expense. See "Change in Accounting Standard" for further explanation.

Finance Expense

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands of dollars except $/boe)	**2019**	2018	**2019**	2018
Finance expense	**$858**	$3,122	**$2,793**	$6,899
Per unit of production ($/boe)	**$1.78**	$5.04	**$1.77**	$3.78

Finance expenses for the three and nine months ended September 30, 2019 were lower compared to the same prior year periods 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 September 30, 2019	2018	Nine months ended September 30, 2019	2018
Depletion and depreciation expense	**$4,500**	$5,019	**$15,315**	$16,158
Per unit of production ($/boe)	**$9.34**	$8.10	**$9.71**	$8.86

Depletion and depreciation expense for the nine months ended September 30, 2019 was consistent with the same prior year period.

Share-Based Payment Expense

(in thousands of dollars)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Share-based payment expense	**$118**	$46	**$345**	$186

Other Income

(in thousands of dollars)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Gain on sale of property and equipment	**$1**	$806	**$39**	$2,445
Interest income	**12**	14	**80**	71
Other	**17**	44	**38**	140
Total other income	**$30**	$864	**$157**	$2,656

CAPITAL EXPENDITURES

(in thousands of dollars)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Land	**$159**	$179	**$602**	$526
Geological & geophysical and capitalized overhead	**538**	511	**881**	831
Drilling, completions and workovers	**283**	90	**2,212**	6,783
Equipment, facilities and tie-ins	**2,645**	339	**3,269**	2,263
Office furniture & equipment	**7**	-	**15**	-
Capital expenditures	**3,632**	1,119	**6,979**	10,403
Acquisitons	**1,518**	-	**1,518**	-
Dispositions [(i)]	**(1)**	(500)	**(39)**	(1,929)
Total capital expenditures	**$5,149**	$619	**$8,458**	$8,474

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

Capital expenditures for the nine months ended September 30, 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 in early 2019 and has invested in enhancing and optimizing existing well performance using gas lift solutions. The production volume increases from the gas lift investment is expected to be approximately 500 boe/d in the fourth quarter 2019.

During the three months ended September 30, 2019 the Company acquired a water disposal pipeline 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.

Cequence's 2019 capital budget is approximately $12.0 million comprised of expenditures to enhance and optimize existing well performance using gas lift solutions. The capital budget will be funded from funds flow from operations[1] and proceeds from the Private Placement completed on June 27, 2019.

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)	**September 30, 2019**	December 31, 2018
Balance, beginning of period	**$35,555**	$38,478
Liabilities acquired	**524**	-
Property dispositions	**-**	(2,149)
Accretion expense	**504**	803
Liabilities incurred	**-**	192
Decommissioning costs incurred	**(3,339)**	(3,756)
Revisions in estimated cash flows	**3,237**	1,870
Revisions due to change in discount rates	**3,975**	117
Balance, end of period	**$40,456**	$35,555

For the nine months ended September 30, 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 the remainder of 2019 to be approximately $0.5 million.

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are $56.0 million (December 31, 2018 - $55.4 million). These cash flows have been discounted using a risk-free interest rate of 1.57 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 September 30, 2019 compared to December 31, 2018 increased the liability by approximately $4.0 million. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2018 – 1 to 50 years).

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital comprises equity, a demand credit facility ("Credit Facility"), 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 manages its working capital needs through its hedging program, issuing common shares, adjusting capital expenditures, and executing asset dispositions. The Dunvegan oil development

and operating results achieved to-date in 2018 and 2019 and the Company's cost-saving initiatives are anticipated to continue to have a positive impact on funds flow from operations[1] and the working capital deficiency. The Company has $7.0 million available on the Credit Facility with no amounts drawn as at September 30, 2019 (excluding letters of credit of $1.6 million).

(in thousands of dollars except ratios)	**As at September 30, 2019**	As at September 30, 2018
Cash	**$3,268**	$13,423
Credit Facility	**-**	-
Term Loan - principal	**(50,000)**	(60,000)
Accounts payable and accrued liabilities	**(25,742)**	(26,806)
Share-based payment liability	**(68)**	(43)
Decommissioning liability – current	**(1,777)**	(1,542)
Accounts receivable	**9,026**	12,407
Deposits and prepaid expenses	**640**	886
Net debt[1]	**$(64,653)**	$(61,675)
Funds flow from operations[1] - trailing twelve months	**$11,234**	$12,599
Net debt[1] to funds flow from operations[1] trailing twelve months	**5.8:1**	4.9:1

At September 30, 2019, the Company's net debt to trailing twelve month funds flow from operations[1] of 5.8:1 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] limiting the ability to repay debt or expand 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 Company remains focused on developing the Dunvegan property, identifying and pursuing alternative financing arrangements, property dispositions, corporate mergers or other recapitalization opportunities to further reduce the net debt[1] to 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 September 30, 2019, $nil (September 30, 2018 - $nil) was drawn on the Credit Facility except for letters of credit outstanding of $1.6 million (September 30, 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 September 30, 2019 with a senior debt[1] to EBITDA[1] ratio of 0.1 times (September 30, 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:

	2019	2020	2021	2022	2023+	Total
Office leases	69	275	207	-	-	551
Pipeline transportation	1,746	6,953	6,953	6,117	26,016	47,785
Gas processing	1,047	4,166	4,154	4,154	30,471	43,992
Total	2,862	11,394	11,314	10,271	56,487	92,328

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 and the MD&A for the financial year ended December 31, 2018. 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 income (loss) and comprehensive income (loss) have been replaced by a depreciation charge for right-of-use assets and finance expense on lease liabilities. The total annual impact will be to reduce G&A by approximately $0.3 million and increase depletion, deprecation and finance expenses by approximately $0.3 million.

SHARE CAPITAL

As at November 7, 2019, there were 41,783,563 common shares, 1,485,750 share options and 455,667 restricted share units outstanding. Of the 1,485,750 share options, nil were “in-the-money” as at November 7, 2019.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual, interim or other reports are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Cequence reported on disclosure controls and procedures as part of its 2018 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2018, which is available on SEDAR at www.sedar.com and on Cequence's website at www.cequence-energy.com). There have been no significant changes to the Company's disclosure controls and procedures in the current period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

OUTLOOK

Cequence continues to monitor commodity price volatility and plans to spend within funds flow from operations[1] in executing its 2019 capital program and meeting its debt maintenance requirements.

Key guidance metrics for 2019 are as follows:

	Guidance year ended December 31, 2019	Year ended December 31, 2018
Average production, boe/d[i]	**5,800**	6,507
Funds flow from operations[1] ($ thousands)	**13,000**	13,087
Development expenditures ($ thousands)	**12,000**	23,800
Net wells	**1.0**	4.0
Operating and transportation expenses ($/boe)	**15.00**	13.15
Royalties (% revenue)	**7**	7
Crude – WTI (US$/bbl)	**56.75**	65.20
Natural gas – AECO (CDN$/GJ)	**1.68**	1.44

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

SUMMARY OF QUARTERLY INFORMATION

Generally, the quarterly changes in operating and financial measures since the fourth quarter 2017 have been negatively impacted by low commodity prices, in particular natural gas prices. AECO natural gas prices averaged $2.23/Mcf in 2017, $1.52/Mcf in 2018 and $1.52/Mcf for the nine months ended September 30, 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 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) is affected by fluctuations in non-cash charges, in particular, depletion, depreciation and impairment expense, accretion of decommissioning obligations, gains/losses on derivative financial instruments, share-based payments and other expense (income).

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 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4
FINANCIAL								
Total revenue[1]	**11,018**	12,966	16,637	12,184	17,680	14,613	14,443	13,585
Royalties expense	**578**	704	882	736	1,453	1,043	737	391
Transportation expense	**2,263**	2,337	2,350	2,116	1,876	1,728	1,440	1,023
Operating expense	**4,404**	5,501	6,131	5,440	5,493	6,758	6,389	7,972
Comprehensive income (loss)	**(3,417)**	(2,464)	(3,814)	(3,802)	573	(2,745)	(3,725)	(6,638)
Per share – basic & diluted[ii]	**(0.08)**	(0.10)	(0.16)	(0.16)	0.04	(0.22)	(0.30)	(0.54)
Funds flow from operations [1]	**1,994**	1,806	5,364	2,071	5,589	2,191	3,236	1,583
Per share – basic & diluted[ii]	**0.05**	0.07	0.22	0.08	0.38	0.18	0.26	0.13
Capital expenditures	**3,632**	1,163	2,184	13,397	1,119	1,830	7,454	5,593
Net acquisitions (dispositions)(i)	**1,517**	(39)	1	(934)	(500)	(1,433)	4	(4,277)
Net capital expenditures	**5,149**	1,124	2,185	12,463	619	397	7,458	1,316
OPERATIONAL								
Production volumes								
Natural gas (Mcf/d)	**24,414**	29,007	26,689	27,645	29,376	28,628	34,828	33,331
Oil (bbls/d)	**534**	747	916	736	1,198	864	245	283
NGLs (bbls/d)	**195**	186	183	227	259	240	274	257
Condensate (bbls/d)	**439**	374	417	427	382	459	647	617
Total (boe/d)	**5,238**	6,142	5,964	5,997	6,734	6,334	6,970	6,713
Average selling price, including realized hedges								
Natural gas ($/Mcf)	**1.90**	1.89	3.56	2.91	2.20	2.14	2.70	2.33
Crude oil and condensate ($/bbl)	**71.35**	74.97	64.14	37.74	73.57	68.79	62.59	66.73
NGLs ($/bbl)	**19.67**	19.89	23.46	35.37	43.51	34.91	38.30	38.55
Total ($/boe)	**22.86**	23.20	31.00	22.08	28.53	25.35	23.02	22.00
Operating netback, including realized hedges ($/boe)								
Price	**22.86**	23.20	31.00	22.08	28.53	25.35	23.02	22.00
Royalties	**(1.20)**	(1.26)	(1.64)	(1.33)	(2.35)	(1.81)	(1.18)	(0.63)
Transportation	**(4.70)**	(4.18)	(4.38)	(3.84)	(3.03)	(3.00)	(2.30)	(1.66)
Operating	**(9.14)**	(9.84)	(11.42)	(9.86)	(8.87)	(11.72)	(10.18)	(12.91)
Operating netback	**7.83**	7.92	13.56	7.05	14.28	8.82	9.36	6.80

(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.

FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. These statements relate to future events or the Company's future performance and are provided for the purpose of providing information about management's current expectations and plans relating to the future. Forward-looking statements or

information typically contain statements with words such as “anticipate”, “believe”, “continue”, “could”, “estimate” "expect", “forecast”, “forward”, “future”, “may”, “plan”, “predict”, “potential”, "propose", “schedule”, “target”, “thereafter”, “will”, “would” or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A may include, but are not limited to, statements with respect to: future capital investments and the repayment of the Company’s debt; the Company’s plans to continue to seek opportunities to divest non-core assets and other property dispositions, and to pursue alternative financing arrangements, mergers or other recapitalization opportunities; the Company’s future cash flows, planned capital expenditures and the source of funding thereof; the Company’s guidance under the heading “Outlook”; projections with respect to the Company’s production, including the effects of well optimization and enhancements on production; future performance expectations of the Dunvegan horizontal oil wells and there impact on funds flow from operations(1) and working capital; drilling, completion and planned production of the Dunvegan horizontal oil wells, 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 2019 and beyond; the effect of the Company’s risk management program, including the impact of derivative financial instruments; 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 income (loss) and comprehensive income (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 Q3	2019 Q2	2019 Q1	2018 Q4	Trailing twelve months
EBITDA	$2,646	$2,590	$6,170	$2,855	$14,261
Finance expense	858	953	982	975	3,768
Depletion and depreciation expenses	4,500	4,739	6,076	11,322	26,637
Share-based payment expenses	118	92	135	114	459
Income taxes	-	-	-	-	-
Unrealized (gain) loss on commodity contracts	588	(691)	2,790	(4,309)	(1,622)
(Gain) loss on sale of property and equipment	(1)	(39)	1	(1,445)	(1,484)
Net loss and comprehensive loss	$(3,417)	$(2,464)	$(3,814)	$(3,802)	$(13,497)

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 income (loss) and comprehensive income (loss) per share.

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

	Three months ended September 30,		Nine months ended September 30,	
(thousands of dollars)	**2019**	2018	**2019**	2018
Cash flow from operating activities	**$444**	$2,130	**$3,335**	$6,557
Decommissioning costs incurred	**650**	1,145	**3,339**	4,002
Net change in non-cash working capital	**900**	2,314	**2,489**	457
Funds flow from operations	**$1,994**	$5,589	**$9,163**	$11,016

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

Operating netback is a measure used in the oil and gas industry to analyze margin and cash flow. Operating netback equals 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 income (loss) and comprehensive income (loss).

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

(thousands of dollars)	**As at September 30, 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 income (loss) and comprehensive income (loss).