

**PLEASE READ THIS MATERIAL CAREFULLY AS YOU ARE REQUIRED TO MAKE A DECISION PRIOR TO 4:00 P.M. (CALGARY TIME) ON SEPTEMBER 10, 2018.**

*This rights offering circular is prepared by management. No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this circular. Any representation to the contrary is an offence.*

*This is the circular we referred to in the July 27, 2018 Rights Offering Notice, which you should have already received. Your rights certificate and relevant forms were enclosed with the Rights Offering Notice. This circular should be read in conjunction with the Rights Offering Notice and our continuous disclosure prior to making an investment decision.*

*The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), or the securities laws of any state of the “United States” (as defined in Regulation S under the U.S. Securities Act). This rights offering circular does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States, and the securities offered herein may not be offered or sold in, or exercised in, the United States or to U.S. persons unless registered under the U.S. Securities Act and applicable state securities laws, or pursuant to an exemption from such registration requirements. “United States” and “U.S. persons” are as defined in Regulation S under the U.S. Securities Act.*

**Rights Offering Circular**

**July 27, 2018**



**CEQUENCE ENERGY LTD.**

**OFFERING OF RIGHTS TO SUBSCRIBE FOR UP TO 245,527,883 FLOW-THROUGH SHARES**

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**Price: \$0.035 per Flow-Through Share**

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**SUMMARY OF THE RIGHTS OFFERING**

**Why are you reading this circular?**

We are issuing to the holders of our outstanding common shares of record at the close of business on August 9, 2018 (the “**Record Date**”) and who are resident in a province or territory of Canada (“**Eligible Jurisdictions**”), rights (“**Rights**”) to subscribe for flow-through common shares (“**Flow-Through Shares**”) of Cequence Energy Ltd. (“**Cequence**” or the “**Corporation**”) on the terms described in this circular (the “**Rights Offering**”). The purpose of this circular is to provide you with detailed information about your rights and obligations in respect of this Rights Offering. This circular should be read in conjunction with the rights offering notice which you should have already received by mail.

### **What is being offered?**

Each holder of the Corporation's common shares on the Record Date who is resident in an Eligible Jurisdiction will receive one Right for each one common share held.

### **What does one Right entitle you to receive?**

Each Right entitles you to subscribe for one Flow-Through Share upon payment of the Subscription Price (as defined below) (the "**Basic Subscription Privilege**"). No fractional common shares will be issued.

If you exercise your Basic Subscription Privilege in full, you will also be entitled to subscribe *pro rata* for Flow-Through Shares (the "**Additional Flow-Through Shares**") not otherwise purchased, if any, pursuant to the Basic Subscription Privilege (the "**Additional Subscription Privilege**").

### **What is the subscription price?**

The subscription price is \$0.035 per Flow-Through Share (the "**Subscription Price**"). The Subscription Price is in Canadian dollars.

### **When does the offer expire?**

The offer expires at 4:00 p.m. (Calgary time) on September 10, 2018 (the "**Expiry Time**").

### **What are the significant attributes of the Rights issued under the Rights Offering and the Flow-Through Shares to be issued upon the exercise of Rights?**

Each Right entitles you to subscribe for one Flow-Through Share at the Subscription Price. Each Flow-Through Share is a common share. Cequence is authorized to issue an unlimited number of common shares, of which, as at the date hereof, 245,527,883 common shares are issued and outstanding.

Holders of common shares are entitled to dividends if, as and when declared by our directors, to one vote per share at meetings of our shareholders and to receive the remaining property of the Corporation upon dissolution in equal rank with the holders of the Corporation's common shares.

### **What are the terms of the Flow-Through Shares?**

Under the terms of the Subscription and Renunciation Agreement attached hereto as Schedule "A", the Subscriber will be entitled to renunciation from Cequence under the *Income Tax Act* (Canada) of "Canadian development expenses" ("**CDE**") on a best efforts basis prior to December 31, 2018 but in any event or prior to December 31, 2019 in an amount equal to the subscription price for such Flow-Through Shares. **Renunciation of CDE on Flow-Through Shares acquired by a holder that is a tax deferred plan (such as an RRSP) will not benefit the deferred plan or the beneficiary of such plan and renunciations to a holder that is a non-resident of Canada will be of limited use. Any such holder should seek their own tax advice prior to exercising their right to subscribe for Flow-Through Shares.** See the Subscription and Renunciation Agreement attached hereto for more information and refer to the section titled "Certain Canadian Federal Income Tax Considerations" in this circular.

### **What are the minimum and maximum number or amount of Flow-Through Shares that may be issued under the Rights Offering?**

There is no minimum offering.

A maximum of 245,527,883 Flow-Through Shares will be issued under the Rights Offering.

**Where will the Rights and the Flow-Through Shares issuable upon exercise of the Rights be listed for trading?**

The Corporation's Common Shares are listed on the Toronto Stock Exchange (the "TSX") under the trading symbol "CQE".

The Rights will trade on the TSX under the trading symbol "CQE.RT" until 10:00 a.m. (Calgary time) on September 10, 2018.

References in this circular to we, our, us and similar terms mean to Cequence. References in this circular to you, your and similar terms mean to holders of Cequence's common shares. Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

**FORWARD-LOOKING INFORMATION**

This circular contains forward-looking information. All statements, other than statements of historical fact, that address activities, events or developments that we believe, expect or anticipate will or may occur in the future are forward-looking information. This forward-looking information reflects our current expectations or beliefs based on information currently available to us. Forward-looking information in this circular includes, without limitation, statements with respect to: our expectations regarding the successful completion of the Rights Offering; the estimated costs of the Rights Offering and the net proceeds to be available upon completion; the listing of the Flow-Through Shares on the TSX; our expectations regarding insider participation in the Rights Offering; the impact of the Rights Offering on control of Cequence and the anticipated dilution to shareholders who do not participate in the Rights Offering; the use of proceeds from the Rights Offering; our expectations regarding the sufficiency of our working capital; the availability of funds from sources other than the Rights Offering; prevailing oil and gas prices in the markets in which the Corporation operates, the Corporation's anticipated operating results and funds flow from operations for the remainder of 2018; the effects of the Corporation's cost-saving initiatives; and our ability to continue as a going concern.

Forward-looking information is subject to a number of risks and uncertainties that may cause the Corporation's actual results to differ materially from those discussed in the forward-looking information and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, Cequence. Factors that could cause actual results or events to differ materially from current expectations include, among other things: general economic conditions, uncertainties relating to the availability and cost of funds, delays in obtaining or failure to obtain required approvals to complete the Rights Offering and the Standby Commitment, the uncertainty associated with estimating costs to completion of the Rights Offering, including those yet to be incurred, market risks in the business operated by us, and other risks related to our business, the Rights Offering and Standby Commitment.

Forward-looking information is made based on various assumptions and on management's beliefs, estimates and opinions on the date the statements are made. In particular, management has made assumptions regarding the necessary regulatory approvals being obtained for the completion of the Rights Offering and the satisfaction of any conditions for the completion of the Standby Commitment.

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, Cequence disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although we believe that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and, accordingly, undue reliance should not be put on such information due to its inherent uncertainty.

## NOTICE TO SHAREHOLDERS IN THE UNITED STATES

NEITHER THIS RIGHTS OFFERING NOR THE FLOW-THROUGH SHARES ISSUABLE IN CONNECTION WITH THIS RIGHTS OFFERING HAVE BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE “SEC”) OR THE SECURITIES REGULATORY AUTHORITIES IN ANY STATE OF THE UNITED STATES, NOR HAS THE SEC OR THE SECURITIES REGULATORY AUTHORITIES IN ANY STATE OF THE UNITED STATES PASSED UPON THE FAIRNESS OR MERITS OF THIS RIGHTS OFFERING OR UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS RIGHTS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

The Rights and Flow-Through Shares issuable upon exercise of the Rights have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the “U.S. Securities Act”) or applicable state securities laws. The Rights and the Flow-Through Shares issuable upon the exercise of the Rights may not be offered or re-offered or sold or re-sold within the United States except pursuant to an exemption from the registration requirements of the U.S. Securities Act. Any shareholder of the Corporation that is a U.S. resident cannot participate in the Rights Offering (and exercises of Rights by Ineligible Holders, including holders resident in the U.S., will not be accepted) unless such shareholder executes such documentation as Cequence may require to demonstrate compliance with applicable securities laws. See “*How to Exercise the Rights – Who is Eligible to Receive the Rights*” below.

### USE OF AVAILABLE FUNDS

#### What will our available funds be upon closing of the Rights Offering?

Cequence estimates it will have the following available funds upon closing of the Rights Offering based on the scenarios as described below:

		Assuming Standby Commitment only <sup>(1)</sup>	Assuming 15% of the Offering	Assuming 50% of the Offering	Assuming 75% of the Offering	Assuming 100% of the Offering
A	Amount to be raised by this offering	\$5,000,000 <sup>(2)</sup>	\$5,000,000 <sup>(3)</sup>	\$5,000,000 <sup>(4)</sup>	\$6,445,107	\$8,593,476
B	Selling commissions and fees	\$0	\$0	\$0	\$0	\$0
C	Estimated offering costs (e.g., legal, accounting, audit)	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000
D	Available funds: D = A - (B + C)	\$4,875,000	\$4,875,000	\$4,875,000	\$6,320,107	\$8,468,476
E	Additional sources of funding available <sup>(5)</sup>	\$5,500,000	\$5,500,000	\$5,500,000	\$5,500,000	\$5,500,000
F	Working capital deficiency <sup>(6)(7)</sup>	(\$12,280,000)	(\$12,280,000)	(\$12,280,000)	(\$12,280,000)	(\$12,280,000)
<b>G</b>	<b>Total: G = (D + E) - F</b>	(\$1,905,000) <sup>(8)</sup>	(\$1,905,000) <sup>(8)</sup>	(\$1,905,000) <sup>(8)</sup>	(\$459,893) <sup>(8)</sup>	\$1,688,476 <sup>(8)</sup>

(1) See “*Standby Commitment*”.

(2) If only the Standby Commitment is exercised, the Standby Purchasers will purchase an aggregate of 142,857,142 Flow-Through Shares pursuant to their Basic Subscription Privileges and Standby Commitments.

(3) If only 15% of the Rights Offering is taken up the amount raised under the Basic Subscription Privilege will total \$1,289,021. However, in such case the Standby Purchasers will acquire an aggregate of 106,027,971 Flow-Through Shares pursuant to their Standby Commitment for the aggregate price of \$3,710,979, resulting in a total amount raised of \$5,000,000. See “*Standby Commitment*” below.

(4) If only 50% of the Rights Offering is taken up the amount raised under the Basic Subscription Privilege will total \$4,296,738. However, in such case the Standby Purchasers will acquire an aggregate of 20,093,200 Flow-Through Shares pursuant to their Standby Commitment for the aggregate price of \$703,262, resulting in a total amount raised of \$5,000,000. See “*Standby Commitment*” below.

- (5) Represents Cequence's undrawn amounts under the extendible revolving term credit facility of \$7 million less estimated letters of credit of \$1.5 million. The Corporation has received a commitment from its lender to extend the maturity date of its Credit Facility (as defined below) to May 2019 with a borrowing base of \$7 million (previously \$9 million), conditional upon (among other things) the closing of the Rights Offering and the CPPIB Loan (as defined in "How long will the available funds last?", below).
- (6) Represents Cequence's estimated working capital deficiency as at June 30, 2018.
- (7) Does not include the \$60 million of five year senior notes which are being refinanced into the CPPIB Loan (as defined and further described in "How long will the available funds last?", below).
- (8) Represents the total of the funds available to the Corporation following the Rights Offering, less the Corporation's estimated working capital deficiency as at June 30, 2018. However, all of the net proceeds raised by the Rights Offering (Row D) will be used to incur CDE, as further described in "How we will use the available funds?", below and therefore the working capital deficiency will not be reduced.

Currently the Corporation has a working capital deficiency, as cash flow from operations is not sufficient to meet short-term liabilities. The Corporation's working capital deficiency comprises cash, accounts receivable, deposits and prepaid expenses, accounts payable and accrued liabilities, share-based payment liability and provisions. The Corporation's working capital deficiency will not decrease as a result of the Rights Offering because all of the proceeds raised by the Rights Offering will be used to incur CDE, as detailed further below. However, the Corporation has and will continue to manage 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 in 2018, recent increases to oil pricing, and Cequence's cost saving initiatives are anticipated to continue to have a positive impact on funds flow from operations and the working capital deficiency.

#### How will we use the available funds?

Cequence will use all of the net proceeds raised by the Rights Offering (including proceeds received in connection with the Standby Commitment) to drill 2.0 gross oil wells (2.0 net) in the Dunvegan formation at Simonette.

Cequence estimates that each of these Dunvegan wells will cost approximately \$4.25 million to complete, for an aggregate cost of \$8.5 million. The following table sets out the portion of this aggregate cost that will be covered by the net proceeds of the Rights Offering under different scenarios of participation in the Rights Offering:

Description of intended use of available funds <sup>(1)</sup>	Assuming Standby Commitment only <sup>(2)</sup>	Assuming 15% of the Offering	Assuming 50% of the Offering	Assuming 75% of the Offering	Assuming 100% of the Offering
Drill 2.0 gross oil wells (2.0 net) in the Dunvegan formation at Simonette	\$4,875,000	\$4,875,000	\$4,875,000	\$6,320,107	\$8,468,476
<b>Total use of available funds</b>	\$4,875,000	\$4,875,000	\$4,875,000	\$6,320,107	\$8,468,476

(1) See Row D of the table under "Use of Available Funds – What will our available funds be upon closing of the Rights Offering?" for the determination of available funds.

(2) See "Standby Commitment" below.

If less than 100% of the Rights Offering is subscribed for, the proceeds raised by the Rights Offering will be less than the aggregate cost of the two wells. However, in such case the Corporation intends to use alternative sources of funding to complete both wells in order to incur the CDE on amounts raised that would only partially fund the drilling of a well. These alternative sources of funding may include one or more of cash flow from operations, proceeds from asset dispositions, the reduction or delay of other capital expenditures, and/or funds available under the Corporation's Credit Facility (as defined below).

Cequence intends to spend the available funds as stated. However, there may be circumstances where a reallocation of the available funds may be necessary. The available funds will be used by Cequence in furtherance of its business and consistent with its business objectives.

Notwithstanding the use of available funds described above, Cequence will incur, in the time required, aggregate CDE in an amount equal to the gross proceeds of the Rights Offering as required under the Subscription and Renunciation Agreements.

### **How long will the available funds last?**

Cequence estimates that the funds raised in the Rights Offering, assuming a 100% participation in the Rights Offering or the entire take up of the Standby Commitment, will provide sufficient working capital to last four months and complete the drilling of 2.0 gross oil wells (2.0 net) in the Dunvegan formation at Simonette during the second half of 2018.

The Corporation does not expect to require any additional working capital for the remainder of the year. Cequence has entered into a loan agreement with CPPIB Credit Investments Inc. to refinance the Corporation's \$60 million of five year senior notes (the "**Senior Notes**") into a secured term loan with a reduced interest rate of 5% and maturity date of October 3, 2022 (the "**CPPIB Loan**"). In addition, the Corporation has undrawn amounts under its extendible revolving term credit facility (the "**Credit Facility**") of \$7 million (less estimated letters of credit of \$1.5 million), and has received a commitment from the Credit Facility lender to extend the Credit Facility to May 31, 2019 with a borrowing base of \$7 million (the "**Credit Facility Extension**"). The CPPIB Loan and the Credit Facility Extension are both conditional upon, among other things, the completion of the Rights Offering. Together, the Credit Facility Extension and the CPPIB Loan, combined with forecasted funds flow from operations of \$17 million for the year ended December 31, 2018, are expected to be sufficient to meet the Corporation's working capital requirements through the remainder of the year.

## **INSIDER PARTICIPATION**

### **Will insiders be participating?**

Yes. Both Standby Purchasers are directors of the Corporation and will participate through their respective Basic Subscription Privilege, and through their Additional Subscription Privilege and the Standby Commitment. Insiders and employees who are Eligible Holders or Approved Eligible Holders of Cequence may also participate in the Rights Offering. The intentions of insiders other than the Standby Purchasers have not been communicated to us.

### **Who are the holders of 10% or more of our common shares before and after the Rights Offering?**

To the knowledge of the Corporation, after reasonable inquiry, no person or company beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the issued and outstanding common shares of the Corporation before the Rights Offering.

It is not possible for the Corporation to state with certainty at this time how many common shares each of the Standby Purchasers may acquire via the Rights Offering and own after the completion of the Rights Offering. See "*Standby Commitment*".

## **DILUTION**

### **If I do not exercise my Rights, by how much will my security holdings be diluted?**

Assuming issuance of the maximum number of common shares under the Rights Offering, if you do not exercise your Rights your shareholdings will be diluted by 50%.

## STANDBY COMMITMENT

### Who is the Standby Purchaser and what are the fees?

We have entered into two standby purchase agreements (collectively, the “**Standby Purchase Agreements**”). One Standby Purchase Agreement is with Don Archibald and the second Standby Purchase Agreement is with Howard Crone. The terms of each Standby Purchase Agreement are identical. Each of Messrs. Archibald and Crone (the “**Standby Purchasers**”) are current directors of Cequence and Mr. Crone is also the Interim Chief Financial Officer of Cequence.

Pursuant to the Standby Purchase Agreements, each Standby Purchaser will subscribe for all common shares offered under the Rights Offering that are not otherwise purchased under his respective Basic Subscription Privilege and the Additional Subscription Privilege (the “**Standby Commitment**”), provided that the aggregate amount of each Standby Purchaser’s Basic Subscription Privilege, Additional Subscription Privilege and Standby Commitment shall not exceed \$2,500,000 unless the Standby Purchaser elects to acquire additional Rights in the open market and exercise such Rights in accordance with their Basic Subscription Privilege and Additional Subscription Privilege, in which case the Standby Purchaser may acquire Flow-Through Shares worth more than \$2,500,000. In aggregate, the Standby Purchase Agreements provide Cequence with a guarantee that at least \$5,000,000 will be raised under the Rights Offering. There is no fee payable by Cequence to the Standby Purchasers for providing the Standby Commitments.

Either Cequence or the Standby Purchaser may terminate the applicable Standby Purchase Agreement if certain mutual conditions precedent are not satisfied on the closing date. The Standby Purchaser may terminate the Standby Purchase Agreement, without any liability on its part, if the conditions in favour of the Standby Purchaser have not been satisfied on the closing date. Cequence may terminate and cancel its obligations under the Standby Purchase Agreement if the conditions in favour of Cequence have not been satisfied on the closing date.

Cequence is responsible for all expenses related to the Rights Offering, including for greater certainty, all expenses of the Standby Purchasers, whether or not the Rights Offering is completed.

Each of the Standby Purchasers is a current holder of common shares of Cequence and each is an Eligible Holder (see “*How to Exercise the Rights – Who is eligible to receive the Rights?*” below for the definition of an Eligible Holder) entitled to a Basic Subscription Privilege of 9,242,628, in the case of Mr. Archibald, and 12,519,379, in the case of Mr. Crone.

### Have we confirmed that the Standby Purchasers have the financial ability to carry out the Standby Commitment?

Yes. Upon reasonable inquiry Cequence has confirmed that the Standby Purchasers have the financial ability to carry out the Standby Commitment.

### What are the security holdings of the Standby Purchaser before and after the offering?

Name	Holdings before the offering	Holdings after the offering if the Standby Purchasers take up the entire Standby Commitment <sup>(1)(2)</sup>
Donald Archibald	9,242,628 (3.8%)	80,671,199 (20.8%)
Howard Crone	12,519,379 (5.1%)	83,947,950 (21.6%)

- (1) Represents the Standby Purchasers' holdings after giving effect to the Rights Offering, if the Standby Purchasers take up the entire Standby Commitment and no other holders of Rights exercise their Rights to subscribe for Flow-Through Shares.
- (2) Does not include any additional Rights that may be acquired by the Standby Purchasers in the open market.

### **MANAGING OR SOLICITING DEALER**

#### **Has a managing or soliciting dealer been appointed for the Rights Offering, and if so, what are its fees?**

No managing or soliciting dealer has been appointed, and Cequence will not pay any fees to brokers or anyone else for soliciting the exercise of Rights.

### **HOW TO EXERCISE THE RIGHTS**

Subscriptions for Flow-Through Shares made in connection with this Rights Offering either directly or through a Participant will be irrevocable.

#### **Who is eligible to receive the Rights?**

The Rights are offered only to shareholders resident in Eligible Jurisdictions ("**Eligible Holders**"). Shareholders will be presumed to be resident in the place of their registered address, unless the contrary is shown to our satisfaction. This Rights Offering circular is not to be construed as an offering of the Rights, or the Flow-Through Shares issuable upon exercise of the Rights, for sale in any jurisdiction outside the Eligible Jurisdictions, including the United States (an "**Ineligible Jurisdiction**"), or to shareholders who are residents of any jurisdiction other than the Eligible Jurisdictions ("**Ineligible Holders**"), or a solicitation therein of an offer to buy any securities therein or thereto. This rights offering circular will not be delivered to any Ineligible Holder resident in the United States, and Rights may not be exercised by or on behalf of an Ineligible Holders, unless such Ineligible Holder satisfies us that it is an Approved Eligible Holder, as provided below. Instead, Ineligible Holders will be sent a letter advising them that their Rights will be held by Computershare Investor Services Inc. (the "**Subscription Agent**"), who will hold such Rights as agent for the benefit of all such Ineligible Holders.

An Ineligible Holder that (1) is outside the Eligible Jurisdictions; and (2) satisfies us that such offering to and subscription by such holder or transferee is lawful and in compliance with all applicable securities and other laws (each an "**Approved Eligible Holder**") may have its Rights Certificates issued and forwarded by the Subscription Agent upon direction from us. The Subscription Agent will hold the Rights until August 31, 2018 (10 days prior to the Expiry Time), in order to give the beneficial holders an opportunity to claim the Rights Certificate by satisfying us that they are an Approved Eligible Holder. Following such date, the Subscription Agent for the account of Ineligible Holders will, prior to the Expiry Time, attempt to sell the Rights allocable to such Ineligible Holders and evidenced by Rights Certificates in the possession of the Subscription Agent on such date or dates and at such price or prices as the Subscription Agent shall determine in its sole discretion.

No charge will be made for the sale of Rights by the Subscription Agent except for a proportionate share of any brokerage commissions incurred by the Subscription Agent and the costs of or incurred by the Subscription Agent in connection with the sale of the Rights. Registered Ineligible Holders will not be entitled to instruct the Subscription Agent in respect of the price or the time at which the Rights are to be sold. The Subscription Agent will endeavour to effect sales of Rights on the open market and any proceeds received by the Subscription Agent with respect to the sale of Rights net of brokerage fees and costs incurred and, if applicable, the Canadian tax required to be withheld, will be divided on a *pro rata* basis among such registered Ineligible Holders and delivered by mailing cheques in Canadian funds for all registered Ineligible Holders of the Subscription Agent therefor as soon as practicable to such registered Ineligible Holders at their addresses recorded on the Corporation's books. Amounts of less than \$10.00 will not be remitted. The Subscription Agent will act in its capacity as agent of the registered Ineligible Holders on a best efforts basis only and we and the Subscription Agent do not accept responsibility for the price obtained on the sale of, or the inability to sell, the Rights on behalf of any



registered Ineligible Holder. Neither we nor the Subscription Agent will be subject to any liability for the failure to sell any Rights of registered Ineligible Holders or as a result of the sale of any Rights at a particular price or on a particular day. There is a risk that the proceeds received from the sale of Rights will not exceed the costs of or incurred by the Subscription Agent in connection with the sale of such Rights and, if applicable, the Canadian tax required to be withheld. In such event, no proceeds will be remitted.

Holders of Rights should be aware that the acquisition and disposition of Rights or Flow-Through Shares may have tax consequences in Canada as well as the jurisdiction where they reside, which are not described herein. Accordingly, holders should consult their own tax advisors about the specific tax consequences to them of acquiring, holding and disposing of Rights or Flow-Through Shares having regard to their particular circumstances.

### **How does a security holder that is a registered holder participate in the Rights Offering?**

If you are a registered holder of the Corporation's common shares, a certificate (the "**Rights Certificate**") representing the total number of transferable Rights to which you are entitled as at the Record Date has been mailed to you with a copy of the Rights Offering Notice. To exercise the Rights represented by the Rights Certificate, you must complete and deliver the Rights Certificate in accordance with the instructions set out below. Rights not exercised at or prior to the Expiry Time will be void and of no value. The method of delivery is at the discretion and risk of the holder of the Rights Certificate and delivery to the Subscription Agent will only be effective when actually received by the Subscription Agent. Rights Certificates and payments received after the Expiry Time will not be accepted.

In order to exercise your Rights you must:

1. **Complete and sign Form 1 on the Rights Certificate.** The maximum number of Rights that you may exercise under the Basic Subscription Privilege is shown in the box on the upper right hand corner of the face of the Rights Certificate. If you complete the Form 1 so as to exercise some but not all of the Rights evidenced by the Rights Certificate, you will be deemed to have waived the unexercised balance of such Rights, unless you otherwise specifically advise the Subscription Agent at the time the Rights Certificate is surrendered to the Subscription Agent.
2. **Additional Subscription Privilege.** Complete and sign Form 2 on the Rights Certificate only if you also wish to participate in the Additional Subscription Privilege (see "*What is the Additional Subscription Privilege and how can you exercise this privilege?*" below).
3. **Enclose payment in Canadian funds by certified cheque, bank draft or money order payable to the order of Computershare Investor Services Inc.** To exercise the Rights you must pay \$0.035 per Flow-Through Share. In addition to the amount payable for any Flow-Through Shares you wish to purchase under the Basic Subscription Privilege, you must also pay the amount required for any common shares subscribed for under the Additional Subscription Privilege.
4. **Delivery.** Deliver or mail the completed Rights Certificate and payment in the enclosed return envelope addressed to the Subscription Agent so that it is received by the Subscription Office of the Subscription Agent set forth below before the Expiry Time. If you are mailing your documents, registered mail is recommended. Please allow sufficient time to avoid late delivery.
5. **Subscription and Renunciation Agreement.** Holders of Rights who subscribe for Flow-Through Shares must complete and sign the subscription and renunciation agreement attached herewith as Schedule "A" (the "**Subscription and Renunciation Agreement**"). Completed Subscription and Renunciation Agreements must then be returned directly to Cequence by email at [rightsoffering@cequence-energy.com](mailto:rightsoffering@cequence-energy.com) or by fax at (403) 229-0603. Once accepted by the Corporation, the Subscription and Renunciation Agreement will become a legally binding

agreement between the Subscriber for Flow-Through Shares and the Corporation. As stated in the Subscription and Renunciation Agreement, the Corporation will incur CDE on or before December 31, 2019 in an amount equal to the aggregate subscription price of the Flow-Through Shares subscribed for thereunder. The Corporation will renounce, on a best efforts basis on or before December 31, 2018 but in any event effective on or before December 31, 2019, CDE in favour of the Subscribers of Flow-Through Shares entitling them to the related tax deductions.

The signature of the Rights Certificate holder must correspond in every particular with the name that appears on the face of the Rights Certificate.

Signatures by a trustee, executor, administrator, guardian, attorney, officer of a company or any person acting in a fiduciary or representative capacity should be accompanied by evidence of authority satisfactory to the Subscription Agent. We will determine all questions as to the validity, form, eligibility (including time of receipt) and acceptance of any subscription in our sole discretion. Subscriptions are irrevocable. We reserve the right to reject any subscription if it is not in proper form or if the acceptance thereof or the issuance of common shares pursuant thereto could be unlawful. We also reserve the right to waive any defect in respect of any particular subscription. Neither we nor the Subscription Agent is under any duty to give any notice of any defect or irregularity in any subscription, nor will we be liable for the failure to give any such notice.

The Corporation will send or cause to be sent to such Subscribers of Flow-Through Shares within the prescribed time the forms required under the *Income Tax Act* (Canada) relating to the issuance of the Flow-Through Shares and to the renunciation of CDE in order to allow them to complete their income tax returns.

#### **How does a security holder that is not a registered holder participate in the Rights Offering?**

You are a beneficial Eligible Holder if (i) you hold your common shares through a securities broker or dealer, bank or trust company or other participant (each, a “**Participant**”) in the book-based system administered by CDS Clearing and Depository Services Inc. (“**CDS**”) and (ii) you are resident in an Eligible Jurisdiction. The total number of Rights to which all beneficial Eligible Holders as at the Record Date are entitled will be issued to CDS and will be deposited with CDS following the Record Date. We expect that each beneficial Eligible Holder will receive a confirmation of the number of Rights issued to it from its Participant in accordance with the practices and procedures of that Participant. CDS will be responsible for establishing and maintaining book-entry accounts for Participants holding Rights.

Neither we nor the Subscription Agent will have any liability for (i) the records maintained by CDS or Participants relating to the Rights or the book-entry accounts maintained by them, (ii) maintaining, supervising or reviewing any records relating to such Rights, or (iii) any advice or representations made or given by CDS or Participants with respect to the rules and regulations of CDS or any action to be taken by CDS or Participants.

If you are a beneficial Eligible Holder:

1. to exercise your Rights held through a Participant, you must instruct such Participant to exercise all or a specified number of such Rights, and forward to such Participant the Subscription Price for each Flow-Through Share that you wish to subscribe for;
2. you may subscribe for Additional Flow-Through Shares pursuant to the Additional Subscription Privilege by instructing such Participant to exercise the Additional Subscription Privilege in respect of the number of Additional Flow-Through Shares you wish to subscribe for, and forwarding to such Participant the Subscription Price for such Additional Flow-Through Shares requested. Any excess funds will be returned to the relevant Participant for the account of the beneficial holder, without interest or deduction (see “*What is the Additional Subscription Privilege and how can you exercise this privilege?*” below); and

3. you must instruct the Participant through which you hold your common shares to complete the Subscription and Renunciation Agreement attached herewith as Schedule "A". **If a holder of Rights subscribes for Flow-Through Shares through a Participant, it is imperative for such Participant to provide Cequence with the completed Subscription and Renunciation Agreement, including the name, address and social insurance number or business number, as applicable, of the beneficial holder on behalf of whom it is acting. CDS Participants may send the completed Subscription and Renunciation Agreements directly to Cequence by email at [rightsoffering@cequence-energy.com](mailto:rightsoffering@cequence-energy.com) or by fax at (403) 229-0603. If a Participant fails to provide such information, the Corporation will be unable to send to the beneficial holders the required tax forms with respect to the renunciation of CDE and such beneficial holders will be prevented from claiming the related tax deductions. In such event, neither the Corporation nor the Subscription Agent will be subject to any liability for the failure to send the required tax forms to such beneficial holders.**

CDS Participants may not issue Rights to Ineligible Holders.

### **What is the Additional Subscription Privilege and how can you exercise this privilege?**

#### *Registered holders of Rights*

If you exercise all of your Rights under the Basic Subscription Privilege, you may subscribe for additional Flow-Through Shares that have not been subscribed and paid for pursuant to the Basic Subscription Privilege pursuant to the Additional Subscription Privilege.

If you wish to exercise the Additional Subscription Privilege, you must first exercise your Basic Subscription Privilege in full by completing Form 1 on the Rights Certificate for the maximum number of Flow-Through Shares that you may subscribe for and also complete Form 2 on the Rights Certificate, specifying the number of Additional Flow-Through Shares desired. Send the purchase price for the Additional Flow-Through Shares under the Additional Subscription Privilege with your Rights Certificate to the Subscription Agent. The purchase price is payable in Canadian funds by certified cheque, bank draft or money order payable to the order of Computershare Investor Services Inc. These funds will be placed in a segregated account pending allocation of the Additional Flow-Through Shares, with any excess funds being returned by mail without interest or deduction. Interest, if any, earned on such funds will be for our benefit.

If the aggregate number of Additional Flow-Through Shares subscribed for by those who exercise their Additional Subscription Privilege is less than the number of available Additional Flow-Through Shares, each such holder of Rights will be allotted the number of Additional Flow-Through Shares subscribed for under the Additional Subscription Privilege.

If the aggregate number of Additional Flow-Through Shares subscribed for by those who exercise their Additional Subscription Privilege exceeds the number of available Additional Flow-Through Shares, each such holder of Rights will be entitled to receive the number of Additional Flow-Through Shares equal to the lesser of:

1. the number of Additional Flow-Through Shares subscribed for by the holder under the Additional Subscription Privilege; and
2. the product (disregarding fractions) obtained by multiplying the aggregate number of Additional Flow-Through Shares available through unexercised Rights by a fraction, the numerator of which is the number of Rights previously exercised by the holder and the denominator of which is the aggregate number of Rights previously exercised by all holders of Rights who have subscribed for Additional Flow-Through Shares under the Additional Subscription Privilege.

As soon as practicable after the Expiry Time, the Subscription Agent will mail to each holder of Rights who completed Form 2 on the Rights Certificate, a certificate for the Additional Flow-Through Shares which that holder has purchased and shall return to the holder any excess funds paid for the subscription of Additional Flow-Through Shares by such holder under the Additional Subscription Privilege, without interest or deduction, in the same currency as the funds received by the Subscription Agent.

#### *Beneficial holders of Rights*

If you are a beneficial holder of Rights through a Participant in CDS and you wish to exercise your Additional Subscription Privilege, you must deliver your payment and instructions to the Participant sufficiently in advance of the Expiry Time to allow the Participant to properly exercise the Additional Subscription Privilege on your behalf.

#### **How does a Rights holder sell or transfer Rights?**

##### *Registered holders of Rights*

The Rights will trade on the TSX under the trading symbol "CQE.RT" until 10:00 a.m. (Calgary time) on September 10, 2018. If you do not wish to exercise your Rights, you may sell or transfer them directly or through your stockbroker or investment dealer at your expense, subject to any applicable resale restrictions (see "*How to exercise the Rights – Are there restrictions on the resale of securities?*" below). You may elect to exercise a part only of your Rights and dispose of the remainder, or dispose of all your Rights. Any commission or other fee payable in connection with the exercise or any trade of Rights (other than the fee for services to be performed by the Subscription Agent as described herein) is the responsibility of the holder of such Rights. Depending on the number of Rights a holder may wish to sell, the commission payable in connection with a sale of Rights could exceed the proceeds received from such sale.

If you wish to transfer your Rights, complete Form 3 (the "**Transfer Form**") on the Rights Certificate, have the signature guaranteed by an "eligible institution" to the satisfaction of the Subscription Agent and deliver the Rights Certificate to the transferee. For this purpose, eligible institution means a Canadian Schedule 1 chartered bank, a major trust company in Canada, a member of the Securities Transfer Agents Medallion Program ("**STAMP**"), or a member of the Stock Exchange Medallion Program ("**SEMP**"). Members of these programs are usually members of a recognized stock exchange in Canada or members of the Investment Industry Regulatory Organization of Canada.

It is not necessary for a transferee to obtain a new Rights Certificate to exercise the Rights or the Additional Subscription Privilege, but the signature of the transferee on Forms 1 and 2 must correspond in every particular with the name of the transferee shown on the Transfer Form. If the Transfer Form is properly completed, Cequence and the Subscription Agent will treat the transferee (or the bearer if no transferee is specified) as the absolute owner of the Rights Certificate for all purposes and will not be affected by notice to the contrary. A Rights Certificate so completed should be delivered to the appropriate person in ample time for the transferee to use it before the expiration of the Rights.

##### *Beneficial holders of Rights*

If you hold common shares of Cequence through a Participant, you must arrange for the exercise, transfer or purchase of Rights through that Participant.

#### **When can you trade the Flow-Through Shares issuable upon the exercise of your Rights?**

The Flow-Through Shares issuable upon the exercise of your Rights will be listed on the TSX under the trading symbol "CQE" and will be available for trading as soon as practicable after closing of the Rights Offering.

**Are there restrictions on the resale of securities?**

Rights and the Flow-Through Shares issuable upon exercise of such Rights distributed to shareholders in the Eligible Jurisdictions may be resold without hold period restrictions under the applicable securities laws of the Eligible Jurisdictions provided that: (i) the sale is not by a “control person” of the Corporation; (ii) no unusual effort is made to prepare the market or create a demand for the securities being resold; (iii) no extraordinary commission or consideration is paid to a person or company in respect of the resale; and (iv) if the selling security holder is an insider or officer of Cequence, the selling security holder has no reasonable grounds to believe that Cequence is in default of securities legislation. There may be further restrictions on common shares acquired by Approved Eligible Holders in Ineligible Jurisdictions, including the United States, subject to the laws of that respective jurisdiction.

The Rights and Flow-Through Shares issuable upon exercise thereof may not be offered, sold, pledged or transferred, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. Person except pursuant to an exemption from the registration requirements of the U.S. Securities Act.

**Will we issue fractional common shares upon exercise of the Rights?**

No.

**APPOINTMENT OF DEPOSITARY**

**Who is the depositary?**

Computershare Investor Services Inc. (the “**Subscription Agent**”) is the depositary for the Rights Offering. You may contact the Subscription Agent: by mail at Computershare Investor Services Inc., P.O. Box 7021, 31 Adelaide St E., Toronto, Ontario M5C 3H2, Attention: Corporate Actions; or by hand, by courier or by registered mail at Computershare Investor Services Inc., 8th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, Attention: Corporate Actions; or toll-free by telephone at 1-800-564-6253 (North America). The Subscription Agent has been appointed to receive subscriptions and payments from holders of Rights and to perform the services relating to the exercise and transfer of the Rights.

**What happens if we do not receive funds from the Standby Purchasers?**

The Standby Purchase Agreements contain certain conditions precedent that, if not satisfied by the closing date for the Rights Offering, allow either or both of Cequence and the Standby Purchasers to terminate the Standby Purchase Agreements. If Cequence does not receive the funds from one or both Standby Purchasers pursuant to such termination, Rights exercised pursuant to the Basic Subscription Privilege will be honoured and any Flow-Through Shares issuable pursuant to such Rights, along with any additional Flow-Through Shares subscribed for under the Additional Subscription Privilege, will be issued by Cequence in accordance with the terms of the Rights Offering, but the gross proceeds raised by the Rights Offering may be less than \$5,000,000.

**MATERIAL FACTS AND MATERIAL CHANGES**

**There is no material fact or material change about Cequence that has not been generally disclosed.**

**RISK FACTORS**

An investment in the Rights or Flow-Through Shares issuable upon exercise of the Rights is subject to certain risks, including those described below, as well as those risks related to our business and operations that are described in our Annual Information Form dated March 29, 2018, Management’s Discussion and Analysis for the year ended December 31, 2017, and our other continuous disclosure

documents. You can access our continuous disclosure documents filed with Canadian securities regulators under our issuer profile at [www.sedar.com](http://www.sedar.com).

## **Risks relating to the Rights Offering**

### *Dilution*

If you do not exercise all of your Rights pursuant to the Basic Subscription Privilege, your current percentage ownership in Cequence will be diluted by the issuance of Flow-Through Shares upon the exercise of Rights by other holders of Rights.

### *Use of Proceeds*

We currently intend to allocate the proceeds received from the Rights Offering as described under “*Use of Available Funds*”; however, management will have discretion in the actual application of the proceeds and may elect to allocate proceeds differently than those described if it believes that it would be in the best interests of our company to do so as circumstances change. The failure of management to apply these funds effectively could have a material adverse effect on Cequence.

### *Standby Commitment Not Guaranteed*

The Standby Purchase Agreements contain certain conditions precedent that, if not satisfied by the closing date for the Rights Offering, allow either or both of Cequence and the Standby Purchasers to terminate the Standby Purchase Agreements. If we do not receive the funds from one or both Standby Purchasers pursuant to such termination, the gross proceeds raised by the Rights Offering may be less than the \$5,000,000 minimum amount we expect to raise under the Rights Offering, and consequently we may have to find alternative sources of funding on reasonably acceptable terms to complete both wells in order to incur the CDE on amounts raised that would only partially fund the drilling of a well. If this occurs, then depending on the sufficiency of such alternative funding sources we may not be able to expend all or a portion of the CDE, with the result that we may not be able to renounce the agreed amounts to the holders of Flow-Through Shares as set out in “*Certain Canadian Federal Income Tax Calculations*” below.

### *Increased Control Block*

If the Standby Purchasers exercise the Standby Commitment in full and if no other holders of Rights exercise their Rights to acquire Flow-Through Shares, up to 42% of our outstanding common shares will be held by two insider shareholders (20.8% in the case of Don Archibald, and 21.6% in the case of Howard Crone) which may affect the trading volume and liquidity of our common shares. This does not include any additional Rights that may be acquired by the Standby Purchasers in the open market which may further increase the control block percentages above.

### *Trading Market for Rights*

Although the Rights will be listed on the TSX, there is no assurance that an active or any trading market in the Rights will develop or that Rights can be sold on the TSX at any time.

### *Exercises of Rights Irrevocable*

You may not revoke or change the exercise of your Rights after you send in your subscription form and payment. The trading price of the Flow-Through Shares could decline below the Subscription Price for the Flow-Through Shares, resulting in a loss of some or all of your subscription payment.

### *Subscription Price Not Necessarily Indication of Value*

You should not consider the Subscription Price to be an indication of Cequence's value, and the Flow-Through Shares may trade at prices above or below the Subscription Price.

### *Responsibilities of Holders of Rights*

If you fail to follow the subscription procedures and meet the subscription deadline your subscription may be rejected. None of Cequence, the Subscription Agent or any Participant undertakes to contact you concerning, or will attempt to correct, an incomplete or incorrect payment or subscription form. Whether a subscription properly follows subscription procedures is solely within our discretion.

### *Applicability of Tax Renunciations*

Notwithstanding that the Rights and Flow-Through Shares are qualified investments for tax deferred plans as described under "Certain Canadian Federal Income Tax Considerations" the renunciations of CDE on the Flow-Through Shares will not benefit a tax deferred plan or the holder of such tax deferred plan. Further, while for Canadian tax purposes non-residents of Canada may acquire Flow-Through Shares, the benefit of the renunciations of CDE on the Flow-Through Shares may be of limited benefit to a non-resident of Canada. Any such holders should consult their own advisors regarding their particular circumstances.

## **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) and the regulations thereunder (the "**Tax Act**") generally applicable to persons who acquire Rights pursuant to this Rights Offering and Flow-Through Shares issued on the exercise of such Rights and who, for purposes of the Tax Act and at all relevant times, deal at arm's length with and are not affiliated with the Corporation and hold their Rights, and will hold their Flow-Through Shares as capital property (a "**Holder**"). Generally, Rights and Flow-Through Shares will be capital property to a Holder provided the Holder does not hold such Rights and shares in the course of carrying on a business or as part of an adventure or concern in the nature of trade. The irrevocable election permitted by subsection 39(4) of the Tax Act, the effect of which may be to deem to be capital property "Canadian securities", as defined in the Tax Act, does not apply to Rights or Flow-Through Shares.

This summary is not applicable to a Holder: (i) that is a "principal business corporation" (as defined in the Tax Act); (ii) that is a "financial institution" or a "specified financial institution" (each as defined in the Tax Act); (iii) an interest in which is a "tax shelter investment" (as defined in the Tax Act); (iv) that reports its "Canadian tax results" (as defined in the Tax Act) in a currency other than Canadian currency; (v) that enters into, or will enter into, a "derivative forward agreement" (as defined in the Tax Act) with respect to any of their Rights or Flow-Through Shares; or (vi) whose business includes trading or dealing in rights, licenses or privileges to explore for, drill or take minerals, oils, natural gas or other related hydrocarbons. Such Holders should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act and an understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") published in writing and publicly available prior to the date hereof. This summary also takes into account all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**") and assumes that all such Tax Proposals will be enacted in the form proposed. No assurance can be given that the Tax Proposals will be enacted as proposed or at all. This summary does not otherwise take into account or anticipate any changes in law or in the administrative policies or assessing practices of the CRA, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations.

**This summary is of a general nature only, is not exhaustive of all Canadian federal income tax considerations and is not intended to be, nor should it be construed as, legal or tax advice to any particular Holder. Holders are urged to consult their own tax advisors concerning the tax consequences having regard to their own particular circumstances. This summary assumes that the Flow-Through Shares will constitute “flow through shares” for the purposes of the Tax Act. Holders who wish to have their Flow-Through Shares constitute “flow-through shares” for the purposes the Tax Act, and to be entitled to the income tax benefits in respect of such securities, must properly complete, execute and deliver the Subscription and Renunciation Agreement in accordance with the terms of this Rights Offering.**

### **Flow-Through Shares**

This summary assumes that the Corporation will make all filings in respect of the issue of Flow-Through Shares and the renunciation of “Canadian Development Expense” as defined in the Tax Act (“**CDE**”) in the manner and within the time required by the Tax Act and the relevant Subscription and Renunciation Agreements and that all renunciations will be validly made. This summary further assumes that the Corporation will incur sufficient CDE to enable it to renounce the agreed amounts to the Holders of Flow-Through Shares as set out below. This summary is based upon the assumption that the Corporation will be a “principal-business corporation” for purposes of subsection 66(15) of the Tax Act at all material times and that the Flow-Through Shares, when issued, will be “flow-through shares” for the purposes of the Tax Act and will not be “prescribed shares” within the meaning of section 6202.1 of the Tax Act. If any of these assumptions are incorrect, the Corporation may be unable to renounce some or all of the CDE which it has agreed to renounce under the Subscription and Renunciation Agreements.

### **Canadian Development Expense**

Any CDE that is incurred by the Corporation and renounced by it to a Holder of Flow-Through Shares in accordance with the terms of a Subscription and Renunciation Agreement and pursuant to the rules in the Tax Act will, at the effective date of such renunciation, be considered to be CDE incurred by the Holder.

If CDE has been renounced to a Holder but it is subsequently determined that such CDE was not properly renounced or the Corporation has failed to incur the CDE within the prescribed time, amounts previously renounced to a Holder would be reduced. However, the Holder would not be charged interest or penalties on any unpaid income tax arising as a result of such reduction for the period, provided any unpaid tax liability is settled on or prior to April 30 of the relevant taxation year.

Under the Tax Act, the Corporation will be precluded from renouncing any amount of CDE that represents “Canadian exploration and development overhead expenses” as defined for this purpose in the Tax Act. In addition, the amount of CDE that the Corporation may renounce must be net of the amount of any form of “assistance” as defined in subsection 66(15) of the Tax Act the Corporation receives, is entitled to receive, or can reasonably be expected to receive, at any time, in respect of the development activities to which the CDE relates.

The CDE renounced to a Holder will be added to such Holder’s cumulative CDE (“**CCDE**”). A Holder may deduct in computing income from all sources for a taxation year 30% of the CCDE at the end of the taxation year. To the extent that a Holder does not deduct the balance of the Holder’s CCDE account at the end of a taxation year, the balance will be carried forward and the Holder will be entitled to claim deductions in respect thereof in subsequent taxation years, subject to the rules regarding an acquisition of control of a corporate Holder. If at the end of a taxation year, the reductions in calculating a Holder’s CCDE account exceed the additions thereto, the negative balance must be included in computing the Holder’s income for the year and the account will thereupon have a nil balance. A Holder who disposes of Flow-Through Shares will retain the entitlement to receive renunciations of CDE from the Corporation as described above as well as the ability to deduct any CDE previously deemed to have been incurred by the Holder, and a subsequent purchaser of such Flow-Through Shares will not be entitled to any renunciation of CDE.



## **Holding and Disposing of Rights**

### Receipt of Rights

A Holder who receives Rights pursuant to this Rights Offering will not be required to include the value of such Rights in computing the Holder's income for purposes of the Tax Act.

### Exercise of Rights for Flow-Through Shares

The exercise of Rights for Flow-Through Shares will be deemed to not be a disposition of property and no capital gain or capital loss will result.

### Expiry, Sale or Other Disposition of Rights

A Holder who disposes of, or is deemed to have disposed of Rights (other than by exercise of the Rights) will realize a capital gain (or a capital loss) equal to the amount, if any, by which the proceeds of disposition exceed (or are less than) the aggregate adjusted cost base ("**ACB**") to the Holder of Rights and any reasonable costs of the disposition. Rights received by a Holder pursuant to this Rights Offering will have a cost of nil for purposes of the Tax Act. The Holder's ACB of Rights at any particular time will be determined by averaging such cost with the ACB to the Holder of Rights acquired by the Holder other than pursuant to this Rights Offering that are owned by the Holder at the particular time and that are held as capital property. The taxation of capital gains and losses is discussed below under the heading "*Taxation of Capital Gains and Capital Losses*".

## **Holding and Disposing of Flow-Through Shares**

### Adjusted Cost Base of Flow-Through Shares

The cost of a Flow-Through Share acquired pursuant to the exercise of a Right will initially be deemed to be nil under the Tax Act. The Holder's ACB of Flow-Through Shares acquired pursuant to this Rights Offering will be determined by averaging the cost of such Flow-Through Shares with the ACB of any other Common Shares owned by the Holder at the particular time.

### Paid Up Capital of Flow-Through Shares

Under the Tax Act, the Corporation will be required for tax purposes to reduce the paid-up capital of its Common Shares by an amount equal to 50% of the CDE to be renounced in respect of the Flow-Through Shares. As paid-up capital represents an amount that the Corporation may potentially return to its shareholders without being characterized as a dividend, the reduction in paid-up capital could result in increased tax payable if there were ever to be a return of capital to shareholders.

### Disposition of Flow-Through Shares

A disposition or deemed disposition of a Flow-Through Share by a Holder will generally result in the Holder realizing a capital gain (or a capital loss) equal to the amount, if any, by which the proceeds of disposition exceed (or are less than) the aggregate ACB to the Holder of the Flow-Through Shares immediately before the disposition or deemed disposition and any reasonable costs of disposition. Any such capital gain (or capital loss) will be subject to the treatment described below under the heading "*Taxation of Capital Gains and Capital Losses*".

### Dividends on Flow-Through Shares

A Holder will be required to include in computing its income for a taxation year any dividends received (or deemed to be received) on the Flow-Through Shares. In the case of a Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and

dividend tax credit applicable to any dividends designated by the Corporation as eligible dividends in accordance with the provisions of the Tax Act. A dividend received (or deemed to be received) by a Holder that is a corporation will generally be deductible in computing the corporation's taxable income. In certain circumstances, the Tax Act will treat a taxable dividend received by a Holder that is a corporation as proceeds of disposition or a capital gain. Holders that are corporations are urged to consult their own tax advisors having regard to their particular circumstances.

A Holder that is a "private corporation" or a "subject corporation", as defined in the Tax Act, will generally be liable to pay a refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Flow-Through Shares to the extent such dividends are deductible in computing such private corporation's taxable income for the taxation year.

### **Taxation of Capital Gains and Capital Losses**

Generally, a Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a "**taxable capital gain**") realized in the year. Subject to and in accordance with the provisions of the Tax Act, a Holder is required to deduct one-half of the amount of any capital loss (an "**allowable capital loss**") realized in a taxation year from taxable capital gains realized by the Holder in the year. Allowable capital losses in excess of taxable capital gains for the year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years.

Capital gains realized by individuals and certain trusts may give rise to a liability for alternative minimum tax under the Tax Act.

A Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax on certain investment income, including amounts in respect of taxable capital gains

### **Cumulative Net Investment Loss**

One-half of the amount of CDE renounced to a Holder will be added to the Holder's cumulative net investment loss ("**CNIL**") account, as defined in the Tax Act. A Holder's CNIL account may impact a Holder's ability to access the lifetime capital gains exemption available on the disposition of certain property.

### **Alternative Minimum Tax**

Pursuant to the alternative minimum tax rules in the Tax Act, the tax otherwise payable under Part I of the Tax Act by an individual (other than certain trusts) will not be less than the minimum amount computed by reference to the individual's "adjusted taxable income" for the year. For these purposes, the minimum amount generally means the "appropriate percentage" (currently 15%) of adjusted taxable income in excess of \$40,000. In calculating the adjusted taxable income for this purpose, certain deductions and credits otherwise available are disallowed and certain amounts otherwise not taxable are included in income. These disallowed items include deductions for CDE to the extent the deductions exceed the individual's resource income before deduction of those amounts, and deductions for carrying charges which relate to an investment in flow-through shares to the extent that such deductions exceed the individual's resource income after deductions for resource expenses, including CDE. Also included in adjusted taxable income are 80% of capital gains. Whether and to what extent a particular individual will be subject to alternative minimum tax will depend upon the amount of the individual's income, the sources from which it is derived and the nature and amount of any deductions that are claimed. Any additional tax payable for a year resulting from the application of the minimum tax provisions is recoverable to the extent that the tax otherwise determined exceeds the minimum amount for any of the following seven (7) taxation years.

### **Eligibility for Investment**

The Rights and Flow-Through Shares would, if issued on the date hereof, be qualified investments as of the date hereof under the Tax Act for trusts governed by registered retirement savings plans (“**RRSPs**”), registered retirement income funds (“**RRIFs**”), registered education savings plans (“**RESPs**”), registered disability savings plans (“**RDSPs**”), deferred profit sharing plans (“**DPSPs**”) and tax-free savings accounts (“**TFSA**s”), all within the meaning of the Tax Act.

Notwithstanding that the Rights and Flow-Through Shares may be a qualified investment for a trust governed by a TFSA, RRSP, RRIF, RDSP, or RESP, the holder of a TFSA or RDSP, the annuitant under a RRSP or RRIF or the subscriber of an RESP that holds Rights and Flow-Through Shares will be subject to a penalty tax if such Rights or Flow-Through Shares are a “prohibited investment” for purposes of the Tax Act for the TFSA, RDSP, RRSP, RRIF or RESP, as the case may be. Rights and Flow-Through Shares will generally be a “prohibited investment” if the holder of the TFSA or RDSP, the annuitant under the RRSP or RRIF or the subscriber of the RESP, as the case may be, (i) does not deal at arm’s length with Cequence for the purposes of the Tax Act; or (ii) has a “significant interest” (within the meaning of the Tax Act) in Cequence. Further, notwithstanding that the Flow-Through Shares may be a qualified investment for a trust governed by a TFSA, RRSP, RRIF, RDSP, DPSP or RESP, the renunciations of CDE on the Flow-Through Shares to such trust will not generally benefit the trust or holder or annuitant of such trust. Prospective purchasers should consult their own tax advisors regarding their particular circumstances.

#### **ADDITIONAL INFORMATION**

##### **Where can you find more information about Cequence?**

You can access our continuous disclosure documents filed with Canadian securities regulators under our issuer profile at [www.sedar.com](http://www.sedar.com).

You can also access information about us at our website at [www.cequence-energy.com](http://www.cequence-energy.com).

## SCHEDULE "A"

### FORM OF SUBSCRIPTION AND RENUNCIATION AGREEMENT

To: Cequence Energy Ltd. (the "Corporation")

**PLEASE RETURN COMPLETED AGREEMENTS TO THE CORPORATION AT:**

**Email: [rightsoffering@cequence-energy.com](mailto:rightsoffering@cequence-energy.com)**

**or**

**Fax: (403) 229-0603**

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#### 1. Definitions

All capitalized terms used in this Subscription and Renunciation Agreement without definition have the meanings ascribed thereto in the rights offering circular of the Corporation dated July 27, 2018 (the "**Offering Circular**"). For the purposes of this Subscription and Renunciation Agreement, the following additional terms have the following meanings:

"**CDE**" means an expense described in the definition of "Canadian development expense" in subsection 66.2(5) of the Tax Act, other than amounts which are: (i) assistance described in paragraph 66(12.62)(a) of the Tax Act; (ii) prescribed to be Canadian exploration and development overhead expenses for the purposes of paragraph 66(12.62)(b) of the Tax Act; or (iii) specified expenses that are described in paragraph (e) of the definition of "Canadian development expense" in subsection 66.2(5) of the Tax Act or that are described in paragraph (f) of that definition because of the reference in the latter paragraph to paragraph (e);

"**Commitment Amount**" means the Subscription Price multiplied by the aggregate number of Flow-Through Shares subscribed and paid for pursuant to the Rights Offering;

"**Expenditure Period**" means the period commencing from the Expiry Time and ending on the earlier of: (i) the date on which the Commitment Amount has been fully expended in accordance with the terms of the Subscription and Renunciation Agreement; and (ii) December 31, 2019 (in each case, such date being referred to as the "**Termination Date**");

"**Subscribers**" means the persons who, as principals, exercise Rights to acquire Flow-Through Shares which are accepted by the Corporation, and "Subscriber" has a corresponding meaning;

"**Subscription and Renunciation Agreement**" means the agreement to be executed by the Corporation, as agent for and on behalf of the Subscriber pursuant to the Rights Certificate and accepted by the Corporation at or prior to the Expiry Time setting out, among other things, the contractual relationship between the Corporation and the Subscribers, which agreement shall be in the form appended to the Offering Circular;

"**Individual Commitment Amount**" means, in respect of each Subscriber, the Subscription Price multiplied by the number of Flow-Through Shares subscribed and paid for by such Subscriber pursuant to the Subscription and Renunciation Agreement;

"**Qualifying Expenditures**" means expenditures that are CDE on the date they are incurred to the extent permitted to be renounced to the Subscribers under the Subscription and Renunciation Agreement; and

"**Tax Act**" means the Income Tax Act (Canada) and the regulations promulgated thereunder, each as amended from time to time.

## **2. Subscription**

This Subscription and Renunciation Agreement is being entered into in connection with the rights offering made by the Corporation to its shareholders pursuant to its Offering Circular. The undersigned Subscriber hereby irrevocably subscribes for and agrees to purchase, on and subject to the terms and conditions set forth herein and in the Offering Circular, such number of Flow-Through Shares of the Corporation as is specified in Form 1 or, as the case may be, Forms 1 and 2, of the Rights Certificate completed and signed by the Subscriber, at a price per Flow-Through Share equal to the Subscription Price.

Payment of the Subscription Price for each of the Flow-Through Shares subscribed for hereunder is being delivered by the Subscriber to the Subscription Agent by certified cheque, bank draft or money order along with the Subscriber's duly completed Rights Certificate.

The Subscriber acknowledges that his, her or its subscription for Flow-Through Shares is subject to the acceptance thereof by the Corporation and to other conditions described in the Offering Circular.

## **3. Representations and Warranties of Subscriber**

The Subscriber represents and warrants to the Corporation that:

- (a) this Subscription and Renunciation Agreement has been duly executed and delivered by the Subscriber and, upon acceptance thereof by the Corporation, will constitute a valid and binding agreement of the Subscriber enforceable against the Subscriber in accordance with its terms;
- (b) if the Subscriber is not an individual, it undertakes not to renounce to any other person under the Tax Act CDE which the Corporation has agreed to incur pursuant to this Subscription and Renunciation Agreement; and
- (c) the Subscriber has received and reviewed a copy of the Offering Circular.

## **4. Representations and Warranties of Corporation**

The Corporation represents and warrants to the Subscriber, and acknowledges that the Subscriber is relying thereon in entering into this Subscription and Renunciation Agreement and in connection with the performance of its duties hereunder, that:

- (a) it is not selling the Flow-Through Shares knowing that any material fact relating to the Corporation has not been generally disclosed;
- (b) no consents, approvals, authorizations or orders are required under the laws of any jurisdiction or of any court or governmental agency or body or any stock exchange applicable to the Corporation to ensure that the Flow-Through Shares, when issued, will constitute "flow through shares" to the Subscriber within the meaning of subsection 66(15) of the Tax Act;
- (c) in respect of all amounts of Qualifying Expenditures which are required to be renounced by the Corporation in favour of the Subscriber, the Corporation would, but for the renunciation, be entitled to claim a deduction in respect of such Qualifying Expenditures in computing its income for the purposes of Part I of the Tax Act if it had sufficient income;
- (d) the Corporation is a "principal-business corporation" as defined in subsection 66(15) of the Tax Act;
- (e) except as a result of any agreement to which the Corporation is not a party and of which it has no knowledge, upon issuance, the Flow-Through Shares will be "flow through shares" as defined in subsection 66(15) of the Tax Act and will not constitute "prescribed shares" for the purpose of section 6202.1 of the Tax Act;
- (f) the Corporation has no reason to believe that it will be unable to incur during the Expenditure Period and renounce to the Subscriber Qualifying Expenditures equal to the Individual Commitment Amount

effective on or before December 31, 2019;

- (g) the Corporation has no reason to expect any reduction of Qualifying Expenditures by virtue of subsection 66(12.73) of the Tax Act; and
- (h) except for other Subscription and Renunciation Agreements executed by the Corporation in connection with the Rights Offering, the Corporation is not a party to any other flow-through share agreements pursuant to which it covenanted to incur and renounce expenses.

## 5. Covenants of the Corporation

The Corporation covenants to and in favour of the Subscriber, that:

- (a) provided the address and social insurance number (or business number, as applicable) of the Subscriber has been made available to the Corporation, the Corporation will deliver or cause to be delivered to the Subscriber at the Subscriber's address set forth in the Subscriber's Rights Certificate, in the time prescribed by subsection 66(12.7), a Form T101 Supplementary setting forth the aggregate amounts of Qualifying Expenditures renounced to the Subscriber pursuant to this Subscription and Renunciation Agreement for filing with the Subscriber's tax return;
- (b) the Corporation will not be subject to the provisions of subsection 66(12.67) of the Tax Act in a manner which impairs its ability to renounce Qualifying Expenditures to the Subscriber in an amount equal to the Commitment Amount;
- (c) in the event that the Minister of National Revenue determines that the Corporation cannot renounce to the Subscriber Qualifying Expenditures equal to the Individual Commitment Amount, the Corporation shall renounce such lesser amount as is permitted by the Minister of National Revenue without any prejudice to any other rights the Subscriber may have under this Subscription and Renunciation Agreement;
- (d) if the Corporation receives, or becomes entitled to receive, any government assistance which is described in the definition of "excluded obligation" in subsection 6202.1(5) of the Tax Act and the receipt of or entitlement to receive such government assistance has or will have the effect of reducing the amount of CDE validly renounced to the Subscriber hereunder to less than the Individual Commitment Amount, the Corporation will incur additional CDE so that it may renounce Qualifying Expenditures in an amount not less than the Individual Commitment Amount;
- (e) the Corporation will maintain its status as a "principal-business corporation" (as defined in the Tax Act) at all times relevant to the incurring and renouncing of Qualifying Expenditures pursuant to the terms of the Subscription and Renunciation Agreement; and
- (f) provided the address and social insurance number (or business number, as applicable) of the Subscriber has been made available to the Corporation, the Corporation will file (or cause to be filed) all forms required under the Tax Act necessary to effectively renounce Qualifying Expenditures equal to the Individual Commitment Amount of the Subscriber on a best efforts basis on or before December 31, 2018 but in any event effective on or before December 31, 2019, in respect of the Subscription and Renunciation Agreement, and to provide the Subscriber with a copy of all such forms on a timely basis.

## 6. Indemnity

Provided the address and social insurance number (or business number, as applicable) of the Subscriber has been made available to the Corporation, if the Corporation does not incur and renounce to the Subscriber Qualifying Expenditures equal to the Individual Commitment Amount incurred during the Expenditure Period, the Corporation shall indemnify and hold harmless the Subscriber and each of the partners thereof if the Subscriber is a partnership or a limited partnership (for the purposes of this paragraph, each an "**Indemnified Person**") as to, and pay to the Indemnified Person on or before the twentieth Business Day following the Termination Date, an amount equal to the amount of any tax (as referenced in paragraph (c) of the definition

of an “excluded obligation” in subsection 6202.1(5) of the Tax Act) payable under the Tax Act (and under any corresponding provincial legislation) by any Indemnified Person as a consequence of such failure.

In the event that the amount renounced by the Corporation to the Subscriber is reduced pursuant to subsection 66(12.73) of the Tax Act (or under any corresponding provisions of provincial legislation) and provided the address and social insurance number (or business number, as applicable) of the Subscriber has been made available to the Corporation, the Corporation shall indemnify and hold harmless each Indemnified Person as to, and pay to the Indemnified Person, an amount equal to the amount of any tax (as referenced in paragraph (c) of the definition of an “excluded obligation” in subsection 6202.1(5) of the Tax Act) payable under the Tax Act (and under any corresponding provincial legislation) by the Indemnified Person as a consequence of such reduction provided that nothing in this paragraph shall derogate from any rights or remedies the Subscriber may have at common law with respect to liabilities other than those payable under the Tax Act and any corresponding provincial legislation. To the extent that any person entitled to be indemnified hereunder is not a party to this Agreement, the Subscriber shall obtain and hold the rights and benefits of this agreement in trust for, and on behalf of, such person and such person shall be entitled to enforce the provisions of this section notwithstanding that such person is not a party to this agreement. This section shall survive the closing of the Rights Offering.

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Signature of Subscriber (or  
Authorized Signatory)

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Name of Subscriber (please print)

Subscriber address:

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Phone number:

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Subscriber SIN/Business Number:

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Number of rights exercised:

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***Information about the Subscriber's broker (if applicable)***

Participant ID Number:

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Contact name and phone number:

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