

HIGHLIGHTS

(000's except per share and per unit amounts)	Three months ended December 31,			Twelve months ended December 31,		
	2015	2014	% Change	2015	2014	% Change
FINANCIAL						
Production revenue ⁽¹⁾	16,112	25,566	(37)	80,891	136,893	(41)
Comprehensive income (loss)	(146,585)	(4,422)	3,215	(250,072)	79,368	(415)
Per share – basic	(0.69)	(0.02)	3,350	(1.19)	0.38	(413)
Per share - diluted	(0.69)	(0.02)	3,350	(1.19)	0.37	(422)
Funds flow from operations ⁽²⁾	4,874	13,745	(65)	25,578	70,650	(64)
Per share, basic	0.02	0.07	(71)	0.12	0.33	(64)
Per share, diluted	0.02	0.06	(67)	0.12	0.33	(64)
Capital expenditures, before acquisitions (dispositions)	15,175	56,472	(73)	62,261	180,215	(65)
Capital expenditures, including acquisitions (dispositions)	16,351	54,091	(70)	18,560	29,433	(37)
Net debt and working capital deficiency ⁽³⁾	(64,452)	(71,354)	(10)	(64,452)	(71,354)	(10)
Weighted average shares outstanding - basic	211,028	211,028	–	211,028	210,990	–
Weighted average shares outstanding - diluted	211,028	212,069	–	211,028	214,092	(1)
OPERATING						
Production volumes						
Natural gas (Mcf/d)	41,794	49,265	(15)	47,589	55,826	(15)
Crude oil (bbls/d)	225	97	132	160	118	36
Natural gas liquids (bbls/d)	300	541	(45)	475	583	(19)
Condensate (bbls/d)	723	872	(17)	918	927	(1)
Total (boe/d)	8,213	9,720	(16)	9,485	10,932	(13)
Sales prices						
Natural gas, including realized hedges (\$/Mcf)	2.89	3.92	(26)	3.27	4.54	(28)
Crude oil (\$/bbl)	49.72	73.15	(32)	49.63	89.76	(45)
Natural gas liquids (\$/bbl)	16.45	29.67	(45)	17.04	41.10	(59)
Condensate (\$/bbl)	53.12	70.59	(25)	54.50	94.04	(42)
Total (\$/boe)	21.32	28.59	(25)	23.37	34.31	(32)
Netback (\$/boe)						
Price, including realized hedges	21.32	28.59	(25)	23.37	34.31	(32)
Royalties	0.67	(1.25)	(154)	(0.84)	(3.51)	(76)
Transportation	(1.77)	(1.48)	20	(1.83)	(1.48)	24
Operating costs	(9.30)	(6.67)	39	(9.17)	(7.63)	20
Operating netback	10.92	19.19	(43)	11.53	21.69	(47)
General and administrative	(2.65)	(2.27)	17	(2.30)	(2.21)	4
Interest ⁽⁴⁾	(2.15)	(1.87)	15	(1.96)	(1.87)	5
Cash netback	6.12	15.05	(59)	7.27	17.61	(59)

⁽¹⁾ Production revenue is presented gross of royalties and includes realized gains (loss) on commodity contracts.

⁽²⁾ Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital.

⁽³⁾ Net debt and working capital (deficiency) is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities, principal value of senior notes and excluding share based payment liability and provisions.

⁽⁴⁾ Represents finance costs less amortization on transaction costs and accretion expense on senior notes and provisions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial and operating results of Cequence Energy Ltd. ("Cequence" or the "Company") should be read in conjunction with the Company's audited consolidated financial statements (the "annual financial statements") and related notes for the years ended December 31, 2015 and 2014.

Additional information relating to the Company, including its MD&A for the prior year and the annual information form is available on SEDAR at www.sedar.com.

This MD&A is dated March 29, 2016.

Basis of Presentation

The Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. The term barrel of oil equivalent (boe) 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.

For fiscal 2015, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 19:1 ("Value Ratio"). The Value Ratio is obtained using the 2015 WTI average price of \$48.68 (US\$/Bbl) for crude oil and the 2015 NYMEX average price of \$2.63 (US\$/MMbtu) for natural gas. This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

Unless otherwise stated and other than per unit items, all figures are presented in thousands.

Non-GAAP Measurements

Within the MD&A references are made to terms commonly used in the oil and gas industry, including operating netback, cash netback, net debt and working capital (deficiency) and funds flow from operations.

Operating and cash netback is not defined by IFRS in Canada and is referred to as a non-GAAP measure. Operating netback equals total revenue less royalties, operating costs and transportation costs. Cash netback equals the operating netback less general and administrative expenses and interest expense. Management utilizes these measures to analyze operating performance.

Net debt and working capital (deficiency) is a non-GAAP term that is calculated as cash and net working capital less commodity contract assets and liabilities, demand credit facilities, principal value of senior notes and excluding share based payment liability and provisions. Cequence uses net debt and working capital deficiency as it provides an estimate of the Company's assets and obligations expected to be settled in cash.

Funds flow from operations is a non-GAAP term that represents cash flow from operating activities before adjustments for decommissioning liabilities expenditures and net changes in non-cash working capital. The Company evaluates its performance based on earnings and funds flow from operations. The Company considers funds flow from operations 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. The Company's calculation of funds flow from operations may not be comparable to that reported by other companies. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of comprehensive income (loss) per share.

Non-GAAP financial measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

Description of the Business

Cequence is engaged in the exploration for and the development of oil and natural gas reserves. Cequence's primary focus is the development of its Simonette asset in the Alberta Deep Basin. The Company also has assets in Northeast British Columbia and the Peace River Arch of Alberta. The common shares of Cequence trade on the Toronto Stock Exchange under the symbol CQE.

In 2015, both crude oil and natural gas prices decreased significantly from the prior year resulting in a decrease in the Company's funds flow from operations by 64 percent from 2014. To manage its business, the Company reduced its 2015 capital expenditures to \$62,261 compared to \$180,215 in 2014. Low commodity prices have persisted in 2016 and the Company expects to take a cautionary approach to capital spending in 2016. A preliminary capital spending program of \$8,500 has been set for the first half of the year. The Company is prepared to initiate a drilling program when the commodity price environment improves.

The Company completed dispositions in 2015 for total proceeds of \$44,763 (2014 – \$153,047) including the sale of 50 percent of its compression and gathering facilities and pipelines at Simonette for proceeds of \$41,827, subject to closing adjustments. Proceeds of the disposition were used to reduce indebtedness and to fund the addition of a shallow cut refrigeration upgrade at the Company's Simonette natural gas processing facility. The plant upgrade was completed in Q1 2016 and includes the addition of a refrigeration system and is expected to provide Cequence with greater long term flexibility for marketing natural gas and liquids from its Simonette property.

The Company's net debt at December 31, 2015 is \$64,452 and is comprised of \$60,000 of senior notes, cash of \$13,246 and a working capital deficiency of \$17,698. The Company's senior notes carry a five year term and are due in October 2018. The senior credit facility remains undrawn at December 31, 2015 providing \$60,000 in liquidity based on December 31, 2015 debt balances.

Financial and Operating Results

PRODUCTION

	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Natural gas (Mcf/d)	41,794	49,265	47,589	55,826
Crude oil (bbls/d)	225	97	160	118
Natural gas liquids (bbls/d)	300	541	475	583
Condensate (bbls/d)	723	872	918	927
Total (boe/d)	8,213	9,720	9,485	10,932
Total production (boe)	755,634	894,254	3,461,850	3,990,149

Production for the three and twelve months ended December 31 2015 averaged 8,213 boe/d and 9,485 boe/d, respectively, compared to production of 9,720 boe/d and 10,932 boe/d in 2014. Throughout 2015, the Company's production was restricted due to third party pipeline constraints and voluntary shut-ins to avoid high price differentials and to accommodate Company's gas plant construction. For the three and twelve months ended December 31, 2015, the Company had approximately 2,300 boe/d and 2,600 boe/d of production curtailed.

In 2015, third party maintenance on major pipeline systems in Alberta created bottlenecks and caused producers to seek different markets for their natural gas production. Demand for interruptible transportation service on the Alliance pipeline increased causing higher price differentials. The Company continued to flow its contracted firm volumes on Alliance in 2015 but managed its production levels to reduce its exposure to high price differentials on interruptible service. As a result, the Company had voluntary shut in production of approximately 1,475 boe/d in 2015 and 475 boe/d in the fourth quarter of 2015.

In the fourth quarter, Cequence shut in its Simonette field for 14 days to accommodate the construction of the Company's plant upgrade at Simonette. The shut-in negatively impacted fourth quarter production by 1,100 boe/d.

REVENUE AND PRICING

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Revenue				
Natural gas	8,325	17,581	47,376	101,264
Realized gain (loss) on natural gas hedges	2,771	196	9,395	(8,786)
Total natural gas	11,096	17,777	56,771	92,478
Crude oil	1,028	651	2,901	3,860
Natural gas liquids	454	1,476	2,952	8,751
Condensate	3,534	5,662	18,267	31,804
Total production revenue, gross of royalties	16,112	25,566	80,891	136,893
Average prices				
Natural gas (\$/Mcf)	2.16	3.88	2.73	4.97
Realized natural gas hedge (\$/Mcf)	0.73	0.04	0.54	(0.43)
Natural gas including hedge (\$/Mcf)	2.89	3.92	3.27	4.54
Crude oil (\$/bbl)	49.72	73.15	49.63	89.76
Natural gas liquids (\$/bbl)	16.45	29.67	17.04	41.10
Condensate (\$/bbl)	53.12	70.59	54.50	94.04
Average sales price before hedge (\$/boe)	17.65	28.37	20.65	36.51
Average sales price including hedge (\$/boe)	21.32	28.59	23.37	34.31
Benchmark pricing				
AECO-C spot (CDN\$/Mcf)	2.48	3.63	2.71	4.50
WTI crude oil (US\$/bbl)	42.02	73.21	48.68	93.03
Edmonton par price (CDN\$/bbl)	52.88	75.22	57.62	94.11
US\$/CDN\$ exchange rate	0.75	0.88	0.78	0.91

Total production revenue, gross of royalties, was \$16,112 in the fourth quarter of 2015 compared to \$25,566 in 2014. The decrease in revenue is attributable to the 25 percent decrease in realized sales prices and 16 percent decrease in production. For the twelve months ended December 31, 2015, production revenue, gross of royalties, decreased 41 percent to \$80,891 from \$136,893 in the comparable period of 2014. The decrease in revenue is attributable to the 32 percent decrease in realized sales prices and 13 percent decrease in production.

Natural gas prices remained low throughout 2015 as North American production has been sustained at record high levels while seasonal demand has been lower than expected due to a warm North American winter. Canadian benchmark natural gas prices averaged \$2.48 per mcf and \$2.71 per mcf for the three and twelve months ended December 31, 2015, respectively, down 32 percent and 40 percent from the same time period in 2014. Realized natural gas prices before hedging for the three and twelve months ended December 31, 2015 were \$2.16 per mcf and \$2.73 per mcf compared to \$3.88 per mcf and \$4.97 per mcf in the comparable periods of 2014.

The Company's average natural gas price realization in the fourth quarter of 2015 was a 13 percent discount to AECO compared to a premium of 7 percent in 2014. A significant percentage of the Company's natural gas is transported on the Alliance pipeline which underwent a significant re-contracting in the fourth quarter which coincided with the expiration of the Company's gas marketing contracts and agreements to process natural gas at the Aux Sable facility. During the transition period to its new contracts that commenced in December 2015, Cequence sold a significant amount of its November natural gas production under short term contracts at a significant discount to AECO.

The Simonette gas plant expansion with sales connection to Transcanada NGTL pipeline is expected to be fully operational in April at which time the Company will have egress option on both the Alliance and NGTL pipeline systems. Cequence believes that this flexibility will result in better long term pricing and market access.

Crude oil prices have also declined significantly in 2015. Oil prices for the fourth quarter of 2015 and twelve months ended December 31, 2015 were \$49.72 per barrel and \$49.63 per barrel, respectively, down 32 percent and 45 percent from the same time period in 2014. Condensate prices generally trend with oil prices and for the three and twelve months ended December 31, 2015 were \$53.12 per barrel and \$54.50 per barrel, respectively, down 25 percent and 42 percent from the same time period in 2014.

Natural gas liquids prices for the three and twelve months ended December 31, 2015 were \$16.45 per barrel and \$17.04 per barrel, respectively, down 45 percent and 59 percent from the same time period in 2014. Benchmark natural gas liquids prices continued to decrease throughout 2015.

COMMODITY PRICE MANAGEMENT

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Realized gain (loss) on commodity contracts	2,771	196	9,395	(8,786)
Unrealized gain (loss) on commodity contracts	396	10,605	(4,541)	11,140
Total	3,167	10,801	4,854	2,354

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 hedged approximately 50 percent of expected 2016 base natural gas production (net of royalties) at an average price of \$2.72/GJ or \$2.91/mcf.

The fair value of the commodity contracts outstanding at December 31, 2015 was a current asset of \$3,644 (December 31, 2014 - current asset of \$7,994 and a non-current asset of \$190). Cequence has the following natural gas and crude oil hedges as at the date of this MD&A:

Term	Product	Type	Average Volume (GJ/d)	Average Price (\$/GJ)	Average Price (\$/mcf) ⁽¹⁾	Basis
January 1, 2016 to March 31, 2016	Gas	Swap	25,000	\$2.88	\$3.08	AECO
April 1, 2016 to September 30, 2016	Gas	Swap	20,000	\$2.64	\$2.83	AECO
October 1, 2016 to December 31, 2016	Gas	Swap	18,342	\$2.67	\$2.86	AECO
January 1, 2017 to March 31, 2017	Gas	Swap	2,500	\$2.49	\$2.67	AECO

⁽¹⁾ The conversion from GJ to Mcf is based on estimated average natural gas heat content of 37.8 MJ/m³

Term	Product	Type	Average Volume (bbl/d)	Average Price (\$/bbl)	Basis
January 1, 2016 to December 31, 2016	Oil	Swap	400	\$65.35	WTI

OPERATING NETBACK

(\$/boe)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Production revenue ⁽¹⁾	21.32	28.59	23.37	34.31
Royalty expense	0.67	(1.25)	(0.84)	(3.51)
Transportation expense	(1.77)	(1.48)	(1.83)	(1.48)
Operating costs	(9.30)	(6.67)	(9.17)	(7.63)
Operating netback, \$/boe	10.92	19.19	11.53	21.69
Operating netback, excluding realized hedges, \$/boe	7.25	18.97	8.81	23.89

⁽¹⁾ Production revenue is presented gross of royalties and includes realized gain (loss) on commodity contracts.

Cequence's netback for the three months ended December 31, 2015 decreased 43 percent to \$10.92 per boe from \$19.19 per boe in 2014. For the twelve months ended December 31, 2015, the netback decreased to \$11.53 per boe from \$21.69 per boe in the comparative period in 2014. The decrease in 2015 operating netbacks is mainly due to decreased production revenue and increased operating costs that were only partially offset by lower royalty expenses.

ROYALTY EXPENSE

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Crown	(893)	271	324	8,177
Freehold / Overriding	386	848	2,576	5,848
Total royalties	(507)	1,119	2,900	14,025
Royalties as a percentage of revenue, before hedging	0%	4%	4%	10%
Per unit of production	(0.67)	1.25	0.84	3.51

Royalty expense for the twelve months ended December 31, 2015 was \$2,900 or 4 percent of revenue compared to \$14,025 or 10 percent of revenue in 2014. Royalty expense for the three months ended December 31, 2015 was (\$507) or 0 percent of revenue compared to \$1,119 or 4 percent of revenue in 2014.

The average crown royalty rate decreased partly due to lower commodity prices in 2015. Crown royalties operate on a sliding scale and royalty rates decrease when commodity prices decrease. In addition, the effective crown royalty rate decreased in 2015 as royalty credits for gas cost allowance, capital cost allowance and custom processing fees increased from 2014 including additional credits received from prior period's royalty calculations. As a result, royalties as a percentage of revenue are lower than the Company's expected royalty rate of approximately six to eight percent of production revenue.

On January 29, 2016, the Alberta government announced a revised royalty framework that will come into effect on January 1, 2017. Details of the framework were not released and the anticipated impact on the Company financial results cannot be determined at this time.

OPERATING COSTS

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Operating costs	7,030	5,961	31,746	30,429
Per unit of production (\$/boe)	9.30	6.67	9.17	7.63

Operating costs for the three and twelve months ended December 31, 2015 were \$9.30 per boe and \$9.17 per boe, respectively, compared to \$6.67 per boe and \$7.63 in 2014. Operating costs have increased due to increased water handling and storage costs, higher chemical expenses and additional midstream fees. Historically, the Company has used a significant amount of its produced water in the field for completion operations. As the Company reduced its well completion program significantly in 2015, water handling, treating and storage increased from the prior year. The midstream transaction completed in June 2015 resulted in increased capital fees and reduced 3rd party processing recoveries for the fourth quarter and year ended December 31, 2015 of \$0.92 per boe and \$0.44 per boe, respectively. In addition, production curtailments in the quarter have contributed to higher per barrel costs as the Company's fixed costs are allocated to fewer volumes. Total operating costs for the year ended December 31, 2015, was slightly lower than corporate guidance of \$9.50 per boe.

TRANSPORTATION EXPENSE

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Transportation	1,339	1,324	6,323	5,895
Per unit of production (\$/boe)	1.77	1.48	1.83	1.48

Transportation expense for the three and twelve months ended December 31, 2015 was \$1.77 per boe and \$1.83 per boe, respectively, compared to \$1.48 per boe for the comparative periods in 2014. The increase over prior periods is largely due to increased liquids transportation costs. Total transportation for the year ended December 31, 2015, was slightly higher than corporate guidance of \$1.70 per boe.

GENERAL AND ADMINISTRATIVE EXPENSES

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Gross G&A expenses	2,203	2,659	8,823	10,548
Administrative and capital recovery	(199)	(627)	(864)	(1,718)
Total G&A expenses	2,004	2,032	7,959	8,830
Per unit of production (\$/boe)	2.65	2.27	2.30	2.21

Gross G&A expenses decreased by 17 percent and 16 percent in the fourth quarter of 2015 and twelve months ended December 31, 2015, respectively, compared to the prior year. The Company has undertaken measures to reduce all variable G&A expenses in the current low commodity price environment including personnel and consulting costs which have decreased by 20 percent in 2015. The decrease in gross G&A expenses has been partially offset by lower administrative and capital recoveries resulting from a reduced capital program.

Despite lower total G&A expenses, annual G&A expense per boe increased in 2015 as a result of lower production volumes. The Company's G&A expenses per boe for the year ended December 31, 2015 were slightly lower than expectations of approximately \$2.35 per boe.

FINANCE COSTS

	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Interest expense on credit facilities	155	189	966	1,658
Interest expense on senior notes	1,466	1,486	5,820	5,820
Amortization of transaction costs	95	87	360	324
Accretion expense on senior notes	74	65	277	251
Accretion expense on provisions	217	217	853	847
Total finance costs	2,007	2,044	8,276	8,900
Per unit of production (\$/boe)	2.66	2.29	2.39	2.23
Interest per unit of production (\$/boe)	2.15	1.87	1.96	1.87

Finance costs for the three and twelve months ended December 31, 2015 were \$2,007 and \$8,276 compared to \$2,044 and \$8,900 for the comparative period in 2014. The decrease is directly attributable to lower interest expense on the Company's credit facility which was undrawn for most of 2015.

OTHER INCOME

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Gain on sale of property and equipment	(258)	(44)	(5,537)	(99,814)
Interest income	(183)	(347)	(357)	(646)
Other	(69)	(25)	(234)	(89)
Total other income	(510)	(416)	(6,128)	(100,549)

During the twelve months ended December 31, 2015, the Company completed sales of certain oil and gas properties, including the disposition of a 50 percent interest of existing Simonette facilities and related infrastructure, for total cash consideration of \$44,763 (2014 - \$153,047), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of \$5,537 compared to a gain of \$99,814 in 2014 which was mainly attributable to the sale of the Ansell assets.

DEPLETION, DEPRECIATION AND IMPAIRMENT

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Depletion and depreciation expense	7,556	11,178	39,191	48,577
Impairment loss	144,000	18,482	230,400	18,482
Total depletion, depreciation and impairment	151,556	29,660	269,591	67,059
Per unit of production (\$/boe)	200.57	33.17	77.87	16.81
Per unit of production, excluding impairment (\$/boe)	10.00	12.50	11.32	12.17

Depletion and depreciation expense for the three and twelve months ended December 31, 2015, was \$7,556 (\$10.00 per boe) and \$39,191 (\$11.32 per boe), respectively. Depletion and depreciation rates decreased from prior year due to the impairment charges in 2015.

On December 31, 2015, Cequence recorded a \$144,000 impairment charge related to its Deep Basin and Peace River Arch CGUs. The impairments were a result of a lower outlook for future crude oil and natural gas prices compared to September 30, 2015. Commodity prices further deteriorated in the fourth quarter, in particular natural gas prices used in the first three years of the Company's third party reservoir engineers price forecast decreased by 20 percent, 10 percent and 7 percent, respectively. The impact of lower forecasted benchmark commodity prices was only partially offset by an increase in proved plus probable reserves of 7 percent and the positive impact of lower future development capital.

On September 30, 2015, Cequence recorded impairment of \$86,400 related to its Deep Basin, Peace River Arch and Northeast British Columbia CGUs. The impairments were a result of a lower outlook for crude oil and natural gas prices.

In 2014, the Company recorded an impairment of \$18,482 in the Northeast British Columbia and Peace River Arch CGUs due mainly to the result of declining commodity prices and lower reserve estimates.

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

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Northeast British Columbia	–	10,396	10,000	10,396
Peace River Arch	2,000	8,086	7,500	8,086
Deep Basin	142,000	–	212,900	–
Total	144,000	18,482	230,400	18,482

SHARE BASED PAYMENTS

Stock Options

The Company has 11,395 stock options outstanding with an average exercise price of \$2.08. The options have a five year life and vest evenly over a three year period on the anniversary date of their grant. For the twelve months ended December 31, 2015, Cequence recorded \$1,107 (2014 – \$2,180) in share based payment expense related to stock options with a corresponding increase to contributed surplus.

Restricted Share Units

The Company issues RSUs as part of its long term incentive program. The program is designed to offer cash compensation based on the underlying value of the RSU unit. RSUs are granted to directors, officers and employees of the Company and vest annually in equal amounts over a three year period. For the twelve months ended December 31, 2015, Cequence recognized \$100 (2014 – \$350) in share based payment expense related to RSUs with a corresponding increase to share based payment liability.

Number (000's)	RSUs		Stock Options	
	2015	2014	2015	2014
Outstanding, beginning of year	814	561	18,252	18,617
Granted	1,235	473	1,085	650
Forfeited	(17)	(33)	(12)	(905)
Settled	(325)	(187)	–	–
Expired	–	–	(7,930)	(110)
Outstanding, end of year	1,707	814	11,395	18,252

CAPITAL EXPENDITURES

\$(000's)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Land	254	339	1,267	1,183
Geological & geophysical and capitalized overhead	271	430	1,218	2,092
Drilling, completions and workovers	12,844	45,229	26,380	126,920
Equipment, facilities and tie-ins	1,803	10,378	33,336	49,784
Office furniture & equipment	3	96	60	236
Capital expenditures	15,175	56,472	62,261	180,215
Property acquisitions ⁽¹⁾	–	(142)	1,062	2,265
Property dispositions ⁽¹⁾	1,176	(2,239)	(44,763)	(153,047)
Total capital expenditures	16,351	54,091	18,560	29,433

⁽¹⁾ Represent the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

For the twelve months ended December 31, 2015, capital expenditures, excluding acquisitions and dispositions, decreased to \$62,261 from \$180,215 in 2014. Consistent with 2014, the Company's 2015 capital expenditures were focused on its Simonette property. Drilling and completion activity was reduced to \$26,380 in 2015 from \$126,960 in 2014 as Cequence drilled fewer wells in response to lower commodity prices.

Equipment, facility and tie-in expenditures of \$33,336 were directed towards facility expansion and gas plant construction at Simonette. On June 17, 2015, Cequence sold a 50% interest in its existing Simonette facilities and related infrastructure, including the facilities constructed in 2015. Total cash consideration was approximately \$41,827, including estimated purchase price adjustments and resulted in a gain recognized in comprehensive income (loss) of \$5,083. Cequence will continue to fund its 50 percent working interest in the gas plant expansion which is expected to be completed in the first quarter of 2016.

During the twelve months ended December 31, 2015, the Company completed additional sales of certain non-producing oil and gas properties for total cash consideration of \$2,936 (2014 - \$153,047), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of \$454 (2014 - \$99,814 gain).

Cequence budgeted net capital expenditures of \$22 million for the year ended December 31, 2015 compared to actual expenditures of \$18 million. Drilling activity was curtailed in the fourth quarter as commodity prices continued to decline.

INCOME TAXES

As at December 31, 2015, the Company has tax pools and available losses of \$616,084 (2014 - \$611,387). The ongoing period of low commodity prices has created uncertainty regarding the Company's future capital spending, forecasted cash flows and the realization of the Company's deferred tax assets. As a result, a deferred tax asset has not been recognized resulting in deferred income tax expense of \$4,548 in 2015. In 2014, the Company recognized deferred income tax expense of \$31,546 for the twelve months ended as the Company had higher pre-tax income mainly due to \$99,814 in gains from the sale of property and equipment.

At December 31, 2015, Cequence has the following tax pools:

Classification	Amount \$(000's)	Annual Deductibility
Canadian exploration expense	166,734	100%
Non-capital losses	248,608	100%
Undepreciated capital cost	67,814	Primarily 25%, declining balance
Canadian oil and gas property expense	11,321	10%, declining balance
Canadian development expense	93,042	30%, declining balance
Other	28,565	Various
	616,084	

The Company's non-capital losses expire in 2025 and thereafter. Based on the Company's expected cash flow and available tax pools, Cequence does not expect to be taxable for the next three years.

PROVISIONS – DECOMMISSIONING LIABILITIES

Decommissioning liabilities represent the estimated future cost of abandoning and reclaiming the company's oil and natural gas wells and related facilities. Total decommissioning liabilities at December 31, 2015 were \$40,708 compared to \$37,263 at December 31, 2014. Decommissioning obligations are adjusted periodically for revisions to the future liability costs and the estimated timing of costs to be incurred in future years. The Company estimates that it will incur \$826 of decommissioning obligations in 2016. The following table summarizes the changes in decommissioning liabilities for the respective periods:

	December 31, 2015	December 31, 2014
Balance, beginning of year	37,263	26,643
Property dispositions	(3,283)	(2,414)
Accretion expense	853	840
Liabilities incurred	1,819	3,147
Abandonment costs incurred	(720)	(1,382)
Revisions in estimated cash flows	3,195	4,881
Revisions due to change in discount rates	1,581	5,548
Balance, end of year	40,708	37,263

The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are \$69,020 (December 31, 2014 - \$67,840). These cash flows have been discounted using a risk-free interest rate of 2.16 percent (December 31, 2014 – 2.33 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2014 – 1 to 50 years).

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital comprises shareholders' equity, demand credit facilities, senior notes and working capital. Cequence manages the capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets.

\$(000's)	As at	As at
	December 31, 2015	December 31, 2014
Cash	13,246	27,679
Demand credit facilities	–	–
Senior notes – principal	(60,000)	(60,000)
Accounts payable and accrued liabilities	(41,688)	(65,882)
Accounts receivable	22,321	24,781
Deposits and prepaid expenses – current	1,669	2,068
Net debt and working capital (deficiency)	(64,452)	(71,354)
Funds from operations	25,578	70,650
Net debt to funds from operations	2.5:1	1:1
EBITDA trailing 12 months	32,365	78,128
Net debt to EBITDA	2.0:1	0.9:1

Cequence's objective is to maintain a flexible capital structure in order to meet its financial obligations and to execute its business plan throughout the commodity cycle. The oil and gas business involves a number of factors, including the timing of capital expenditures and volatile commodity prices that may cause the Company's debt to funds flow ratio to fluctuate on a quarterly basis. At December 31, 2015 the Company's debt to funds flow is higher than the Company's long term stated target of 2:1 due to the prolonged period of low commodity prices. Cequence expects its debt to funds flow ratio to exceed 2:1 if commodity prices remain at current levels.

Historically, the Company has managed its debt levels through its hedging program, issuing common shares, adjusting capital expenditures, and executing asset dispositions. In 2015, the Company reduced capital expenditures by 65 percent from the prior year and executed a midstream agreement to assist in the funding and construction of a gas plant expansion. The Company currently does not expect to spend discretionary development capital in the first half of 2016 and capital expenditures of approximately \$8,500 and are expected to focus on the completion of the gas plant, final well tie-ins from wells completed in 2015 and well abandonments. A significant increase in capital expenditures is not planned until commodity prices improve.

At December 31, 2015, the Company has net debt of \$64,452 comprised of \$60,000 of senior notes and a \$4,452 working capital deficiency. In addition, the Company has a senior credit facility of \$60,000 that is undrawn at December 31, 2015. The Company believes the structure of the Company's debt is important as the senior notes provide longer term debt that is not subject to periodic reserve based redetermination.

SENIOR CREDIT FACILITY

At December 31, 2015, Cequence had a \$60,000 (December 31, 2014 - \$135,000) extendible revolving term credit facility available from a syndicate of Canadian chartered banks. The credit facility is secured by a first floating charge debenture, general assignment of bookdebts and Cequence's oil and natural gas properties and equipment. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility. In the fourth quarter of 2015, the Company reduced its credit facility to \$60,000 from \$135,000 to reduce the overall costs of the facility. The Company anticipates that the revised facility provides sufficient liquidity to fund its ongoing operations. The senior bank facility was undrawn at December 31, 2015. The senior credit facility is reviewed on a semi-annual basis with the next review scheduled for May 2016.

As at December 31, 2015, the Company is not drawn under the credit facility (December 31, 2014 - \$nil). The company has letters of credit outstanding of \$3,207 (December 31, 2014 - \$nil). The Company has covenants that require Consolidated Debt and Senior Debt to twelve month trailing earnings before interest, taxes and depletion and depreciation to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. The Company was in compliance with the lender's covenants at December 31, 2015 with ratios of 0 and 1.95 times, respectively. If current commodity prices persist, Cequence may exceed these ratios in 2016 as future cash flows are negatively impacted by low crude oil and natural gas prices. At December 31, 2015 the Company had not borrowed under the facility. Based on the small amount of expected borrowing relative to the size of the approved facility, the Company currently expects to obtain covenant relief at its upcoming bank review which may result in higher lending fees. Other possible remedies include the sale of assets, further adjustments to the capital program, monetization of commodity contracts or the issuance of equity.

SENIOR NOTES

In October 2013, Cequence closed an investment with CPPIB Credit Investments Inc., ("CII"), a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"), for an initial investment by CII of \$60 million in unsecured five year senior notes with a further \$60 million of notes available at a future date, subject to the approval of both CII and Cequence on terms to be confirmed at the time of issuance. In addition, Cequence granted CII 3.0 million warrants to purchase common shares. The senior notes diversify the Company's capital structure by providing longer term debt that is not reserve-based or subject to periodic redetermination. The initial investment of \$60 million of senior notes were issued at par and carry a 9% coupon rate per annum. A standby charge of 0.7% is applied to the further \$60 million of notes available at a future date.

The senior notes contain incurrence covenants that use a Debt to Cashflow test of 2.5 times to limit the incurrence of additional debt, the creation of liens in connection with indebtedness, dividends and other distributions, asset sales and other matters, and customary events of default. At December 31, 2015 the Company's Debt to Cashflow ratio was 2.4 times. If current commodity prices persist, the Company expects to have a Debt to Cashflow ratio in excess of 2.5 times in 2016. The Company does not currently anticipate initiating an action that would be restricted by the incurrence covenants.

The Company can be in default under the senior notes if the Company defaults any other indebtedness with an outstanding principal greater than \$10,000, unless the default has been waived or remedied. The Company's senior credit facility is currently undrawn and the Company anticipates that upon obtaining suitable covenant relief, it will be able manage its cash flow and net capital expenditures in 2016 to avoid potential default.

CONTRACTUAL OBLIGATIONS

Cequence has assumed various contractual obligations and commitments in the normal course of operations and financing activities.

	2016	2017	2018	2019	2020+	Total
Office leases	656	17	-	-	-	673
Pipeline transportation	-	-	1,954	2,593	16,199	20,746
Gas processing	3,681	3,794	3,794	3,794	39,220	54,283
Capital	3,058	-	-	-	-	3,058
Total	7,395	3,811	5,748	6,387	55,419	78,760

On June 17, 2015, in conjunction with the Simonette disposition Cequence entered into a 15 year take or pay agreement for natural gas processing with the operator of the Simonette facility. The minimum volume commitment under the take or pay for the period from 2015 to January 2016 is 40 mmcf/d and increases to 42 mmcf/d in February 2016 upon the estimated completion of the refrigeration functional unit expansion. In addition, Cequence committed to approximately \$3,058 of capital expenditures for the Simonette facility for the refrigeration functional unit expansion which is expected to be completed during the first quarter of 2016.

The Company has firm transportation on a major pipeline system for 35 mmcf/d commencing April 1, 2018 to March 30, 2026.

OUTSTANDING SHARE DATA

Details of share capital and share awards outstanding are as follows:

	December 31, 2015	December 31, 2014
Common shares	211,028	211,028
Stock options	11,395	18,252
Restricted share units	1,707	814
Warrants	3,000	3,000

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

As of the date of this MD&A, Cequence had the following securities outstanding: 211,027,883 common voting shares, 3,000,000 warrants to purchase common shares, 11,370,000 stock options and 1,657,323 RSUs.

SELECTED FINANCIAL INFORMATION

A reconciliation of cash flow from operating activities to funds flow from operations and other selected financial information is as follows:

\$(000's)	Three months ended December 31,		Twelve months ended December 31,		
	2015	2014	2015	2014	2013
Cash flow from operating activities	3,266	10,499	31,884	68,132	43,823
Decommissioning liabilities expenditures	376	426	720	1,382	619
Net change in non-cash working capital	1,232	2,820	(7,026)	1,136	6,870
Funds flow from operations	4,874	13,745	25,578	70,650	51,312
Per share, basic (\$)	0.02	0.07	0.12	0.33	0.25
Per share, diluted (\$)	0.02	0.06	0.12	0.33	0.25
Production revenue	16,112	25,566	80,891	136,893	105,617
Comprehensive income (loss)	(146,585)	(4,422)	(250,072)	79,368	(2,613)
Per share – basic (\$)	(0.69)	(0.02)	(1.19)	0.38	(0.01)
Per share – diluted (\$)	(0.69)	(0.02)	(1.19)	0.37	(0.01)
Total assets	409,559	678,831	409,559	678,831	597,674
Demand credit facilities	–	–	–	–	22,763
Senior notes – principal	60,000	60,000	60,000	60,000	60,000

Funds flow from operations was \$4,874 for the three months ended December 31, 2015 compared to \$13,745 in 2014. The decrease in funds flow is due to a decrease in commodity prices and production volumes from the comparable period. Annual funds flow from operations decreased by 64 percent from 2014 due a 32 percent decrease in commodity prices and lower production volumes.

Cequence recorded a comprehensive loss of \$146,585 for the three months ended December 31, 2015 compared to loss of \$4,422 in 2014. The increase is mainly due to the recording of \$144,000 of impairment expense in the fourth quarter of 2015.

Cequence recorded a comprehensive loss of \$250,072 for the twelve months ended December 31, 2015 compared to income of \$79,368 in 2014. The decrease is mainly due to impairments recorded in 2015, decreased revenues due to lower commodity prices and production volumes, and the \$91,847 gain recorded on the Ansell disposition in 2014.

Quarterly Information

FINANCIAL

(\$ thousands except per share data)	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Production revenue ⁽¹⁾	16,112	19,383	21,802	23,594	25,566	29,013	41,219	41,095
Royalties expense	(507)	368	1,016	2,023	1,119	3,882	4,706	4,318
Transportation expense	1,339	1,323	1,757	1,903	1,324	1,284	1,700	1,587
Operating costs	7,031	8,951	7,954	7,811	5,961	6,826	9,911	7,731
Comprehensive income (loss)	(146,585)	(99,070)	246	(4,662)	(4,422)	74,402	8,876	512
Per share – basic & diluted	(0.69)	(0.47)	0.00	(0.02)	(0.02)	0.35	0.04	0.00
Funds flow from operations ⁽²⁾	4,874	5,139	7,283	8,283	13,745	13,588	20,235	23,082
Per share – basic	0.02	0.02	0.03	0.04	0.07	0.06	0.10	0.11
Per share – diluted	0.02	0.02	0.03	0.04	0.06	0.06	0.09	0.11
Capital expenditures, net	15,175	4,656	19,848	22,582	56,472	49,239	15,957	58,547
Net acquisitions (dispositions) ⁽³⁾	1,176	1,136	(43,078)	(2,935)	(2,381)	(142,034)	(3,138)	(3,229)
Total capital expenditures	16,351	5,792	(23,230)	19,647	54,091	(92,795)	12,819	55,318

⁽¹⁾ Production revenue is presented gross of royalties and includes realized gain (loss) on commodity contracts.

⁽²⁾ Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning liabilities expenditures, proceeds from the sale of commodity contracts and net changes in non-cash working capital.

⁽³⁾ Represents the cash proceeds from the sale of assets and cash paid for the acquisition of assets, as applicable.

OPERATIONAL

	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Production volumes								
Natural gas (Mcf/d)	41,794	43,987	48,665	56,105	49,265	49,515	64,810	59,898
Oil (bbls/d)	225	199	100	115	97	118	100	157
NGLs (bbls/d)	300	485	562	554	541	523	753	517
Condensate (bbls/d)	723	807	953	1,197	872	801	1,080	956
Total (boe/d)	8,213	8,822	9,726	11,217	9,720	9,694	12,735	11,613
Average selling price								
Natural gas (\$/Mcf)	2.89	3.46	3.35	3.33	3.92	4.19	4.60	5.28
Oil (\$/bbl)	49.72	47.01	61.06	44.03	73.15	90.77	97.59	94.47
NGLs (\$/bbl)	16.45	16.80	17.49	17.10	29.67	38.34	42.28	54.44
Condensate (\$/bbl)	53.12	50.83	63.41	50.72	70.59	96.02	104.76	101.95
Total (\$/boe)	21.32	23.88	24.63	23.37	28.59	32.53	35.57	39.32
Operating netback, including realized hedges (\$/boe)								
Price	21.32	23.88	24.63	23.37	28.59	32.53	35.57	39.32
Royalties	0.67	(0.45)	(1.15)	(2.00)	(1.25)	(4.35)	(4.06)	(4.13)
Transportation	(1.77)	(1.63)	(1.99)	(1.88)	(1.48)	(1.44)	(1.47)	(1.52)
Operating costs	(9.30)	(11.03)	(8.99)	(7.74)	(6.67)	(7.65)	(8.55)	(7.40)
Operating netback	10.92	10.77	12.50	11.75	19.19	19.09	21.49	26.27

Funds flow from operations is impacted from quarter to quarter primarily due to changes in productions volumes, realized average selling prices, royalties, operating expenses, transportation costs and G&A expense. The Company's production volumes are 85 percent natural gas and fluctuations in natural gas prices have the greatest impact on the Company's revenue and funds flow from operations.

The decrease in production revenue and funds flow in the second half of 2014 and 2015 is directly attributable to curtailed production volumes in 2015, the Ansell disposition in July 2014, and declining benchmark natural gas prices. Canadian AECO natural gas prices averaged \$2.71 per mcf in 2015, a decrease of 40% from \$4.50 per mcf in 2014.

The Company's quarterly 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). During 2015, the Company recorded impairment expense of \$230,400, including \$144,000 in the fourth quarter, compared to \$18,482 in the comparable period of 2014. Impairments recognized were mainly the result of declining benchmark natural gas prices. These impairments cause significant reductions and increased volatility in the Company's net comprehensive income (loss).

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

Disclosure Controls and Internal Controls over Financial Reporting

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that 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 periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Committee of Sponsoring Organizations ("COSO") framework provides the basis for management's design of internal controls over financial reporting. Management and the Board work to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and it should not be expected that the disclosure and internal control procedures will prevent all errors or fraud.

As at December 31, 2015, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting ("ICFR") that disclosure controls and procedures and ICFR are effective.

Future Accounting Policies

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", a new standard that specifies recognition requirements for revenue as well as requiring entities to provide the users of financial statements with more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue-related interpretations. The Company will adopt the standard for reporting periods beginning January 1, 2018. The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

Since November 2009, the IASB has been in the process of completing a three phase project to replace IAS 39, "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments", which includes requirements for hedge accounting, accounting for financial assets and liabilities and impairment of financial instruments. As of February 2014, the mandatory effective date of IFRS 9 has been tentatively set to January 1, 2018. The Company is assessing the effect of this future pronouncement on its financial statements.

In January 2016, the IASB issued IFRS 16 "Leases". For lessees applying IFRS 16, a single recognition and measurements model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

Application of Critical Accounting Estimates

The significant accounting policies used by Cequence are disclosed in note 2 to the Financial Statements. 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. The following discussion identifies the critical accounting policies and practices of the Company and helps to assess the likelihood of materially different results being reported.

Reserves

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

Depletion

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

Development and Production Costs

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

Development and production assets are grouped into CGUs for impairment testing. CGUs are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its CGUs. Based on this assessment, Cequence's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting

date to assess whether any changes are required in light of new facts and circumstances. When significant parts of an item of property and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Impairment

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

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

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

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

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

Decommissioning Liabilities

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

Share Based Payments

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

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

Senior Notes

The Corporation uses estimates to allocate the proceeds from senior notes issuances between debt and the equity components, as appropriate.

Income Taxes

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

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

Commodity Contracts

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

Other Estimates

Management estimates of revenues, royalties and operating costs as at a specific reporting date but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

Financial Instruments and Risk Management

The Company's financial instruments, including derivative financial instruments, recognized in the consolidated balance sheet consist of cash, accounts receivable, commodity contracts, demand credit facilities, senior notes and accounts payable and accrued liabilities.

The Company's cash, accounts receivable, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt. The senior notes bear interest at rates available to Cequence and accordingly the fair value approximates the carrying value excluding deferred financing costs.

The Company is engaged in the exploration, development, production and acquisition of crude oil and natural gas. This business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates along with the credit risk of the Company's industry partners. Operational risks include reservoir performance uncertainties, the reliance on operators of the Company's non-operated properties, competition, environmental and safety issues, and a complex and changing regulatory environment.

The primary risks and how the Company mitigates them are as follows:

COMMODITY PRICE AND EXCHANGE RATE VOLATILITY

Revenues and consequently cash flows fluctuate with commodity prices and the U.S. / Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur 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 enters into commodity price contracts to actively manage the risks associated with price volatility and thereby protect the Company's cash flows used to fund its capital program. Comprehensive loss for the year ended December 31, 2015 includes \$9,395 of realized gain (2014 – \$8,786 loss) and \$4,541 (2014 - \$11,140 gain) of unrealized loss on these transactions.

Cequence is also exposed to fluctuations in the exchange rate between the Canadian and U.S. dollar. Most commodity prices are based on U.S. dollar benchmarks that results in the Company's realized prices being influenced mainly by the U.S. / Canadian currency exchange rates. As at December 31, 2015, the Company has a no forward contracts, foreign exchange contracts or other significant items denominated in foreign currencies.

INTEREST RATE RISK

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facilities. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company has no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2015.

As at December 31, 2015 a 1 percent change in interest rates on the Company's outstanding debt, with all other variables constant, would result in a change in comprehensive income of \$nil (\$nil after tax) (2014 - \$nil (\$nil after tax)).

CREDIT RISK

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

The Company's cash is held with a large established financial institution. The majority of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from marketers of the Company's petroleum and natural gas production. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis. At December 31, 2015, the Company has an allowance for doubtful accounts of \$682 (2014 – \$944).

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The nature of the oil and gas industry is capital intensive and the Company maintains and monitors a certain level of cash flow to finance operating and capital expenditures. The Company believes it currently has sufficient credit facilities to satisfy its financial obligations as they come due.

The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic environment.

The expected timing of cash flows relating to financial liabilities as at December 31, 2015 is as follows:

	<1 Year	1 – 2 Years	2 – 5 Years	Thereafter
Senior notes – principal	–	–	60,000	–
Accounts payable and accrued liabilities	41,688	–	–	–
	41,688	–	60,000	–

ACCESS TO CAPITAL RISK

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues have declined as a result of decreased commodity pricing, capital expenditures have been reduced. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

In October 2015, Cequence announced that its Board of Directors had initiated a strategic alternatives review with a view to enhancing shareholder value. A definitive schedule to complete the review has not been set and there are no guarantees that the review of strategic alternatives will result in a transaction, or if a transaction is undertaken, as to its terms or timing.

ENVIRONMENTAL RISK

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Such legislation may be changed to impose higher standards and potentially more costly obligations on Cequence. Furthermore, management believes the federal and provincial political parties appear to favor new programs for environmental laws and regulation, particularly in relation to the reduction of emissions, and there is no assurance that any such programs, laws or regulations, if proposed and enacted, will not contain emission reduction targets which Cequence cannot meet, and financial penalties or charges could be incurred as a result of the failure to meet such targets. In particular there is uncertainty regarding the Federal Government's future regulation of air emissions.

The provincial government of Alberta released its Climate Leadership Plan which will impact all consumers and businesses that contribute to carbon emissions in Alberta. This plan includes imposing carbon pricing that is applied across all sectors, starting at \$20 per tonne on January 1, 2017 and moving to \$30 per tonne on January 1, 2018, the phase-out of coal-fired power generation by 2030, a cap on oil sands emissions production of 100 megatonnes, and a 45 per cent reduction in methane emissions by the oil and gas sector by 2025. The Company expects the Climate Leadership Plan to increase the cost of operating its properties located in Alberta and is currently evaluating the expected impact of this plan on its results of operations.

REGULATORY RISK

There can be no assurance that government royalties, income tax laws, environmental laws and regulatory requirements relating to the oil and gas industry will not be changed in a manner which adversely affects the Company or its shareholders. Although the Company has no control over these regulatory risks, it continuously monitors changes in these areas by participating in industry organizations and conferences, exchanging information with third party experts and employing qualified individuals to assess the impact of such changes on the Company's financial and operating results.

EXPLORATION, DEVELOPMENT AND PRODUCTION RISKS

The long term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the addition of new reserves, the Company's reserves will decline over time as existing reserves are exploited. A future increase in the Company's reserves will depend not only on its ability to explore and develop any properties but also on its ability to select and acquire suitable producing properties or prospects.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological or mechanical conditions.

Production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. To the extent the Company is not the operator of its oil and gas properties, the Company is dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, pipelines, production facilities, other property and the environment or in personal injury. The Company employs prudent risk management practices and maintains suitable liability insurance but may become liable for damages arising from such events against which it cannot insure, elects not to insure or because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce the cash flow of the Company.

Risk Assessment

The acquisition, exploration and development of oil and natural gas properties and the production, transportation and marketing of oil and natural gas involves many risks, which may influence the ultimate success of the Company. While the management of Cequence realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks. These risk include, but are not limited to:

- Volatility in market prices and demand for oil, NGLs and natural gas and hedging activities related thereto;
- Variance of the Company's actual capital costs, operating costs and economic returns from those anticipated;
- The ability to find, develop or acquire additional reserves and the availability of the capital or financing necessary to do so on satisfactory terms;
- Risks related to the exploration, development and production of oil and natural gas reserves and resources;
- Negative public perception of oil sands development, oil and natural gas development and transportation, hydraulic fracturing and fossil fuels;
- Actions by governmental authorities, including changes in government regulation, royalties and taxation;
- The availability, cost or shortage of rigs, equipment, raw materials, supplies or qualified personnel;
- Dependence upon compressors, gathering lines, pipelines and other facilities, certain of which the Company does not control;
- The ability to satisfy obligations under the Company's firm commitment transportation arrangements;
- The possibility that the Company's drilling activities may encounter sour gas;

- Execution of the Company's business plan;
- The concentration of the Company's assets in the Simonette area;
- First Nations claims;
- Limited intellectual property protection for operating practices and dependence on employees and contractors;
- Environmental, health and safety requirements;
- Extensive competition in the Company's industry;
- Third party credit risk;
- Dependence upon a limited number of customers;
- Variations in foreign exchange rates and interest rates;
- Litigation; and
- General economic, business and industry conditions.

For additional information regarding the risks that the Company is exposed to, see the disclosure provided under the heading "Risk Factors" in the AIF, which is available on the SEDAR website at www.sedar.com

Forward-Looking Statements

Certain statements contained within this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", and similar expressions. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: projections with respect to natural gas production; the projection of future royalty, operating, transportation and G&A expenses; the projected impact of land access and regulatory issues; projections relating to the volatility of crude oil and natural gas prices in 2016 and beyond; the Company's projected capital investment levels for 2016 and the source of funding therefore; the effect of the Company's risk management program, including the impact of derivative financial instruments; the impact of the climate change initiatives on operating costs; the impact of Western Canada pipeline constraints. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous 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. These assumptions, risks and uncertainties include, among other things: volatility of and assumptions regarding oil and natural gas prices; assumptions based upon Cequence's current guidance; fluctuations in currency and interest rates; product supply and demand; market competition; risks inherent in the Company's marketing operations, including credit risks; 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 replace and expand oil and gas reserves; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital; the timing and cost of well and pipeline constructions; the Company's ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the

interpretations of such laws or regulations; risks associated with existing and potential future lawsuits and regulatory actions made against the Company; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Cequence. 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.

The forward looking statements contained herein concerning production, sales prices, operating expenses and capital spending are based on Cequence’s 2016 capital program. The material assumptions supporting the 2016 capital program are provided in the table above under the heading “Outlook Information”.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows 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 should not be used for purposes other than for which it is disclosed herein.

Although Cequence believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements 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, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying financial statements and all information in the MD&A have been prepared by management and approved by the Board of Directors of Cequence Energy. The financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the MD&A with that in the financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable, transactions are properly authorized and assets are safeguarded from loss or unauthorized use. The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the financial statements and the auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The financial statements have been audited independently by Deloitte LLP on behalf of the Company in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the financial statements.

"signed"

Todd Brown
Chief Executive Officer
March 29, 2016

"signed"

Dave Gillis
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cequence Energy Ltd.

We have audited the accompanying consolidated financial statements of Cequence Energy Ltd., which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cequence Energy Ltd. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "Deloitte LLP"

Chartered Professional Accountants, Chartered Accountants

March 29, 2016

Calgary, Alberta

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of Canadian dollars)

	December 31, 2015	December 31, 2014
	\$	\$
ASSETS		
CURRENT		
Cash	13,246	27,679
Accounts receivable (Note 7)	22,321	24,781
Deposits and prepaid expenses	1,669	2,068
Commodity contracts (Note 19)	3,644	7,994
	40,880	62,522
Property and equipment (Note 4)	368,679	610,860
Deposits and prepaid expenses	–	711
Commodity contracts (Note 19)	–	190
Deferred income taxes (Note 14)	–	4,548
	409,559	678,831
LIABILITIES		
CURRENT		
Demand credit facilities (Note 5)	–	–
Accounts payable and accrued liabilities (Note 8)	41,688	65,882
Share based payment liability (Note 16)	169	177
Provisions (Note 13)	826	187
	42,683	66,246
Senior notes (Note 6)	57,849	57,212
Provisions (Note 13)	39,882	37,263
	140,414	160,721
COMMITMENTS (Note 18)		
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	624,619	624,619
Warrants (Note 15)	1,300	1,300
Contributed surplus	29,377	28,270
Deficit	(386,151)	(136,079)
	269,145	518,110
	409,559	678,831

APPROVED BY THE BOARD

[signed] "Donald Archibald"
Donald Archibald, Director

[signed] "Brian Felesky"
Brian Felesky, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Expressed in thousands of Canadian dollars except per share amounts)

	Year ended December 31,	
	2015	2014
	\$	\$
REVENUE		
Production revenue (Note 9)	68,596	131,654
Gain on derivative financial instruments (Note 19)	4,854	2,354
	73,450	134,008
EXPENSES		
Depletion and depreciation (Note 4)	39,191	48,577
Impairment (Note 4)	230,400	18,482
General and administrative (Note 12)	7,959	8,830
Finance costs (Note 11)	8,276	8,900
Operating costs	31,746	30,429
Share based payment (Note 16)	1,207	2,530
Transportation	6,323	5,895
Other income (Note 10)	(6,128)	(100,549)
	318,974	23,094
INCOME (LOSS) BEFORE INCOME TAXES	(245,524)	110,914
INCOME TAXES (Note 14)	4,548	31,546
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(250,072)	79,368
Income (loss) per share (Note 17)		
Basic	(\$1.19)	\$0.38
Diluted	(\$1.19)	\$0.37

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of Canadian dollars)

	Year ended December 31,	
	2015	2014
	\$	\$
SHARE CAPITAL		
Common Shares (Note 15)		
Balance, beginning of year	624,619	624,332
Shares issued on exercise of stock options	–	287
Balance, end of year	624,619	624,619
Warrants (Note 15)		
Balance, beginning of year	1,300	1,300
Balance, end of year	1,300	1,300
CONTRIBUTED SURPLUS		
Balance, beginning of year	28,270	26,185
Share based payment expense (Note 16)	1,107	2,180
Exercise of stock options	–	(95)
Balance, end of year	29,377	28,270
DEFICIT		
Balance, beginning of year	(136,079)	(215,447)
Comprehensive income (loss)	(250,072)	79,368
Balance, end of year	(386,151)	(136,079)
TOTAL EQUITY	269,145	518,110

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

	Year ended December 31,	
	2015	2014
	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income (loss)	(250,072)	79,368
Adjustments for non-cash items:		
Depletion and depreciation expense	39,191	48,577
Impairment expense	230,400	18,482
Finance costs related to provisions (Note 11)	853	847
Share based payment expense (Note 16)	1,207	2,530
Amortization of transaction costs on senior notes (Note 11)	360	324
Accretion on senior notes (Note 11)	277	251
Unrealized (gain) loss on derivative financial instruments (Note 19)	4,541	(11,140)
Costs related to onerous contracts	(190)	(321)
Gain on sale of property and equipment (Note 10)	(5,537)	(99,814)
Deferred income tax expense (Note 14)	4,548	31,546
Decommissioning liabilities expenditures (Note 13)	(720)	(1,382)
Net change in non-cash working capital (Note 20)	7,026	(1,136)
	31,884	68,132
INVESTING		
Property and equipment expenditures (Note 4)	(62,261)	(180,215)
Property acquisitions	(1,062)	(2,265)
Proceeds from sale of property and equipment (Note 4)	44,763	153,047
Net change in non-cash working capital (Note 20)	(27,522)	11,777
	(46,082)	(17,656)
FINANCING		
Proceeds from demand credit facilities (Note 5)	–	30,391
Repayment of demand credit facilities	–	(53,154)
Cash settlement of share based payments (Note 16)	(107)	(284)
Issue of common shares (Note 15)	–	192
Net change in non-cash working capital (Note 20)	(128)	58
	(235)	(22,797)
NET INCREASE (DECREASE) IN CASH	(14,433)	27,679
CASH, BEGINNING OF YEAR	27,679	–
CASH, END OF YEAR	13,246	27,679
SUPPLEMENTARY INFORMATION		
Income taxes paid	–	–
Interest paid	6,606	7,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2015 and 2014

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

1. Nature and Description of the Company

Cequence Energy Ltd. (the "Company" or "Cequence") is incorporated under the laws of Alberta with common shares that are widely held and listed on the Toronto Stock Exchange. Cequence is engaged in the acquisition, exploration and production of petroleum and natural gas reserves in Western Canada. The registered office of the Company is located at Suite 3100, 525 - 8th Ave. SW, Calgary, Alberta, T2P 1G1.

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

2. Significant Accounting Policies

STATEMENT OF COMPLIANCE AND AUTHORIZATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 29, 2016.

BASIS OF PRESENTATION

The consolidated financial statements have been prepared using historical costs, except for financial instruments carried at fair value, on a going concern basis and have been presented in Canadian dollars, which is also the Company's functional currency. The accounting policies set out below have been applied consistently in all material respects.

BASIS OF CONSOLIDATION

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

BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are recognized in comprehensive income (loss) as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired and contingent liabilities for which a provision is provided is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized as a bargain purchase gain in comprehensive income (loss). Results of subsidiaries are included in the consolidated statement of comprehensive income (loss) from the closing date of acquisition.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the consolidated balance sheet at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument.

The Company has made the following classifications:

- Cash is classified as a financial asset recorded at fair value through profit or loss and is carried at fair value. Gains and losses from revaluation are recognized in comprehensive income (loss).
- Accounts receivable are classified as loans and receivables and are initially measured at fair value plus directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.
- Deposits if refundable in cash are classified as a financial asset recorded at fair value through profit or loss and are carried at fair value. Gains and losses from revaluation are recognized in comprehensive income (loss).
- Demand credit facilities, senior notes, accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value less directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.
- Derivative instruments, including embedded derivative instruments, that do not qualify as hedges, or are not designated as hedges for accounting purposes, including commodity contracts, are classified as fair value through profit or loss and are recorded and carried at fair value with changes in fair value recognized in comprehensive income (loss). Derivative instruments are used by the Company to manage economic exposure to market risks relating to commodity prices. Cequence's policy is to not utilize derivative financial instruments for speculative purposes.

Transaction costs related to financial instruments classified as fair value through profit or loss are expensed as incurred. All other transaction costs related to financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

The Company's senior notes are classified as debt with a portion of proceeds allocated to equity representing the residual value allocated to the warrants issued to the lender. The debt component associated with the senior notes accretes over time to the amount owing on maturity and such increases in the debt component are reflected as non-cash interest expense in comprehensive income (loss). The issue costs are amortized to comprehensive income (loss) using the effective interest rate method. The senior notes are carried net of transaction costs on the statement of financial position.

Contracts that are entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements (such as physical delivery commodity contracts) do not qualify as financial instruments and thus, are accounted for in accordance with other applicable standards and are not recorded as assets or liabilities.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in comprehensive income (loss).

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1: Values based on quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measure in its entirety.

Impairment of financial assets

Financial assets, other than those classified as fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized in comprehensive income (loss) is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized in comprehensive income (loss). Changes in the carrying amount of the allowance accounts are recognized in comprehensive income (loss).

PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs, geological and geophysical costs are recognized in comprehensive income (loss) as incurred.

Exploration and evaluation ("E&E") costs, including the costs of acquiring licenses, drilling exploratory wells and other directly attributable costs, are initially capitalized as E&E assets to the extent that they do not relate to a field with proven reserves attributed. The costs are accumulated in cost centers by field or exploration area pending determination of technical feasibility and commercial viability.

The Company enters into E&E farm-in arrangements to fund a portion of the partner's (farmor's) exploration and/or future development expenditures ("carried interests"), these expenditures are reflected in the consolidated financial statements when the exploration and development work progresses. For E&E farm-out arrangements where the farnee correspondingly undertakes to fund carried interests as part of the consideration no gain or loss is recognized by the Company.

E&E assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist and are capable of economic production. A review of each exploration field is carried out, at least annually, to ascertain whether proven reserves have been discovered that are capable of economic production. Upon determination of proven reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to development and production assets included in property and equipment.

Development and production costs

Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, net of any reversals.

Development and production assets are grouped into Cash Generating Units (“CGUs”) for impairment testing. CGUs are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its CGUs. Based on this assessment, Cequence’s CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

When significant parts of an item of property and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of the related property and equipment and are recognized net within “other expense (income)”.

Impairment

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

For any asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs. If the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is written down.

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

The recoverable amount of a development and production asset (or CGU) or other intangible asset (or CGU) is determined as the higher of its value in use and fair value less cost to sell. Value in use is determined by estimating future cash flows after taking into account the risks specific to the asset (or group of assets within a CGU) and discounting them to their present value using a pre-tax discount rate that reflects the current

market assessment of the time value of money. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by external valuation metrics or other available fair value indicators wherever possible.

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

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

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in comprehensive income (loss) as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized as operating costs as incurred.

Depletion and depreciation

The net carrying value of development and production assets plus future development costs on proved plus probable reserves is depleted using the unit of production method based on proved and probable reserves, gross of royalties, as determined by independent engineers, on an area by area basis. For the purpose of this calculation, production and reserves of petroleum and natural gas are converted to a common unit of measurement on the basis of their relative energy content, where six thousand cubic feet of natural gas equates to one barrel of oil. Costs are only depleted once production in a given area begins.

Sequence depletes separately, where applicable, any significant components within development and production assets, such as fields, processing facilities and pipelines, which are significant in relation to the total cost of a development and production asset and have a different useful life than such assets.

PROVISIONS

Provisions are recognized when the Company has a present obligation as a result of a past event that can be estimated with reasonable certainty and are measured at the amount that the Company would rationally pay to be relieved of the present obligation. To the extent that provisions are estimated using a present value technique, such amounts are determined by discounting the expected future cash flows at a risk-free pre-tax rate and adjusting the liability for the risks specific to the liability.

Decommissioning liabilities

The Company records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of restoration activities includes the removal of facilities, abandonment of wells and restoration of affected areas. Provision is made for the estimated cost of restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as changes to the discount rate. The increase in the provision due to the passage of time is recognized as finance cost whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the decommissioning liabilities.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

JOINTLY CONTROLLED ASSETS

A significant portion of the Company's oil and natural gas activities involve jointly controlled assets and any related liabilities incurred. The consolidated financial statements include the Company's share of these jointly controlled assets and liabilities and a proportionate share of the relevant revenues and related costs, classified according to their nature.

SHARE BASED PAYMENTS

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

The Company issues Restricted Share Units ("RSU") under the RSU Plan to directors, officers and other service providers. RSUs are accounted as cash-settled share based payments and are originally measured at the grant date fair value and subsequently remeasured each period end until the vesting date when the RSUs are settled in cash. Share based payment expense on the RSUs is charged to net earnings or loss in the period they vest with a corresponding adjustment to share based payment liability. The Company incorporates an estimated forfeiture rate for RSUs that will not vest, and subsequently adjusts for actual forfeitures as they occur.

REVENUE

Revenue from the sale of petroleum and natural gas is recognized when the risks and rewards of ownership of the product are transferred to the customer, based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded. Revenue is measured net of related royalties.

Revenue from interest income is recognized as it accrues, using the effective interest method.

FLOW-THROUGH SHARES

The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of issuance of the flow-through shares is initially recognized as a liability on the consolidated balance sheet. When the expenditures are renounced and incurred, the liability is drawn down, a deferred income tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation, and the difference is recognized as income tax expense.

EARNINGS PER SHARE

Basic per share amounts are computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options, RSUs and warrants were exercised. The dilutive effect of stock options, RSUs and warrants is calculated with the assumption that proceeds received from the exercise of options, RSUs and warrants for which the exercise price is less than the market price plus the unamortized portion of share based payments are used to repurchase common shares at the average market price for the period.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statement of comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which such deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor the accounting income.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in comprehensive income (loss), except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are described in the following notes:

Note 4: Property and equipment

Note 13: Provisions

Note 16: Share based payment plans

Note 18: Commitments

Note 19: Financial instruments and risk management

Estimates of recoverable quantities of proved and probable reserves include assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for decommissioning liabilities and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserve estimates are prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and are reviewed by third party reservoir engineers.

The amounts recorded for depletion and depreciation of property and equipment, the provision for decommissioning liabilities, and the valuation of property and equipment are based on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices, future costs and the remaining lives and period of future benefit of the related assets.

The Company makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations, which are based on estimates of reserves. Based on this assessment, Cequence's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Costs associated with acquiring oil and natural gas licenses and exploratory drilling are accumulated as E&E assets pending determination of technical feasibility and commercial viability. Establishment of technical feasibility and commercial viability is subject to judgement which management has determined to be based on the allocation of commercial reserves to the exploration area. Upon determination of commercial reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to development and production assets included in property and equipment.

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of E&E assets and development and production costs acquired generally require the most judgement and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the purchase price allocation.

The amount recorded as decommissioning liabilities is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

The amounts recorded for deferred income tax assets and deferred tax expense (recovery) are based on estimates of the probability of the Company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices, and changes in legislation, tax rates and interpretations by taxation authorities.

The fair value of derivative contracts is estimated, wherever possible, based on quoted market prices, and if not available, on estimates from third-party brokers. Another significant assumption used by the Company in determining the fair value of derivatives is market data or assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. The actual settlement of derivatives could differ materially from the value recorded and could impact future results.

The above judgments, estimates and assumptions relate primarily to unsettled transactions and events as of the date of the consolidated financial statements. Actual results could differ from these estimates and the differences could be material.

3. Future Accounting Pronouncements

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", a new standard that specifies recognition requirements for revenue as well as requiring entities to provide the users of financial statements with more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue-related interpretations. The Company will adopt the standard for reporting periods beginning January 1, 2018. The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

Since November 2009, the IASB has been in the process of completing a three phase project to replace IAS 39, "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments", which includes requirements for hedge accounting, accounting for financial assets and liabilities and impairment of financial instruments. As of February 2014, the mandatory effective date of IFRS 9 has been tentatively set to January 1, 2018. The Company is assessing the effect of this future pronouncement on its financial statements.

In January 2016, the IASB issued IFRS 16 "Leases". For lessees applying IFRS 16, a single recognition and measurements model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". The Company is currently evaluating the impact of adoption of this standard and the effect on Cequence's consolidated financial statements has not yet been determined.

4. Property and Equipment

Cost:	
Balance at December 31, 2013	764,983
Additions	180,215
Decommissioning obligation additions and change in estimates	13,576
Acquisitions	2,265
Disposals	(77,201)
Balance at December 31, 2014	883,838
Additions	62,261
Decommissioning obligation additions and change in estimates	6,595
Acquisitions	1,062
Disposals	(47,211)
Balance at December 31, 2015	906,545
Depletion, depreciation and impairment:	
Balance at December 31, 2013	(227,472)
Depletion and depreciation	(48,577)
Impairment loss	(18,482)
Disposals	21,553
Balance at December 31, 2014	(272,978)
Depletion and depreciation	(39,191)
Impairment loss	(230,400)
Disposals	4,703
Balance at December 31, 2015	(537,866)
Carrying amounts:	
At December 31, 2014	610,860
At December 31, 2015	368,679

Costs subject to depletion include \$799,624 of estimated future capital costs (December 31, 2014 – \$849,135).

The Company's credit facilities are secured by a demand debenture with a first floating charge over all assets of the Company (see note 5).

SALE OF ASSETS

On June 17, 2015, Cequence sold a 50% interest in its existing Simonette facilities and related infrastructure for total cash consideration of approximately \$41,827, including estimated purchase price adjustments. The sale resulted in a gain recognized in comprehensive income (loss) of \$5,083.

During the year ended December 31, 2015, the Company completed additional sales of certain oil and gas properties for total cash consideration of \$2,936 (2014 - \$13,091), subject to final adjustments. The sales resulted in a gain recognized in comprehensive income (loss) of \$454 (2014 - \$7,967 gain).

On July 7, 2014, the Company closed the disposition of all of the Company's non-operated assets located in the Ansell area for total cash consideration of approximately \$139,956, prior to closing adjustments. The sale resulted in a gain recognized in comprehensive income (loss) of \$91,847.

IMPAIRMENT

The Company reviewed each CGU comprising its property and equipment at December 31, 2015 for indicators of impairment and determined that indicators were present in all CGUs, related to decreases to future commodity prices used to estimate the value in use and fair value less cost to sell of each of the Company's CGUs.

Impairment tests were carried out at December 31, 2015 and the recoverable amounts of each of the Company's CGUs at December 31, 2015 were estimated as their value in use, based on the pre-tax net present value of discounted future cash flows from oil and gas reserves as estimated by the Company's independent reserves evaluator. The Company also included the fair value of undeveloped land based on an internal evaluation. Consideration was also given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

The benchmark escalated prices on which the December 31, 2015 impairment tests are based are as follows:

	Natural Gas	Condensate	Crude Oil
	AECO Spot (CDN\$/mmbtu)	Edmonton Pentanes Plus (CDN\$/bbl)	Edmonton Par (CDN\$/bbl)
2016	2.76	60.79	55.86
2017	3.27	68.48	64.00
2018	3.45	73.17	68.39
2019	3.63	78.91	73.75
2020	3.81	84.30	78.79
2021	3.90	88.12	82.35
2022	4.10	94.41	88.24
2023	4.30	100.71	94.12
2024	4.50	103.24	96.48
2025	4.60	105.30	98.41
2026+	+2%/yr	+2%/yr	+2%/yr

⁽¹⁾ Source: GLJ Petroleum Consultants, January 1, 2016.

⁽²⁾ The forecast benchmark prices listed above are adjusted for quality differentials, heat content and distance to market in performing the Company's impairment tests.

Prices increase at a rate of approximately 2.0 percent per year for natural gas, condensate and crude oil after 2025. Adjustments were made to the benchmark prices, for purposes of the impairment tests, to reflect varied delivery points and quality differentials in the products delivered.

The Company used a pre-tax 15% discount rate for the December 31, 2015 (December 31, 2014 – 12%) impairment tests based on the approximate industry average peer group weighted average cost of capital as appropriate for each CGU and the current market assessment of the time value of money.

The estimated recoverable amounts used in the December 31, 2015 impairment tests were \$13,016 for the Northeast British Columbia CGU, \$7,203 for the Peace River Arch CGU and \$349,323 for the Deep Basin CGU.

Results of the Company's impairment tests for the year ended December 31, 2015 and 2014 are as follows:

	2015	2014
Northeast British Columbia	10,000	10,396
Peace River Arch	7,500	8,086
Deep Basin	212,900	–
Total	230,400	18,482

As at December 31, 2015, a one percent increase in the discount rate applied to the Company's future estimated cash flows would result in an additional impairment of \$25,900 (2014 - \$1,690), whereas a ten percent decrease in forward commodity prices would result in additional impairment of \$120,000 (2014 - \$8,121) recognized in comprehensive income (loss) for the year ended December 31, 2015.

5. Demand Credit Facilities

The Company has credit facilities totalling \$60,000 (December 31, 2014 - \$135,000) with a syndicate of Canadian chartered banks. Credit facility A is a \$50,000 (December 31, 2014 - \$125,000) extendible revolving term credit facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and Libor Loans. Credit facility B is a \$10,000 (December 31, 2014 - \$10,000) operating facility by way of prime loans, U.S. Base Rate Loans, Banker's Acceptances and letters of credit. Prime loans and U.S. Base Rate Loans on these facilities bear interest at the bank prime rate or U.S. Base Rate, respectively, plus 1.0 percent to 2.5 percent on a sliding scale, depending on the Company's debt to adjusted EBITDA ratio (ranging from being less than or equal to 1.0:1.0 to greater than 2.5:1.0). Banker's Acceptances, Libor Loans and letters of credit on these facilities bear interest at the Banker's Acceptance rate, Libor rate or letter of credit rate, as applicable, plus 2.0 percent to 3.5 percent based on the same sliding scale as above. The credit facilities may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. If the credit facilities do not continue to revolve, the facilities will convert to a 366-day non-revolving term loan facility.

Both credit facilities, and the amount available for draws under the facilities, are subject to periodic review by the bank and are secured by a general assignment of book debts and a \$250,000 demand debenture with a first floating charge over all assets of the Company. The Company is permitted to hedge up to 67 percent of its production under the lending agreement. As at December 31, 2015, the Company has drawn \$nil under the extendible revolving term credit facility and \$nil under the operating facility (December 31, 2014 - \$nil and \$nil for the revolving and operating facilities, respectively). The company has letters of credit outstanding of \$3,207 (December 31, 2014 - \$nil). The Company has covenants that require Consolidated Debt and Senior Debt to twelve month trailing earnings before interest, taxes and depletion and depreciation to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. Consolidated Debt is defined as the sum of the Company's period end balance of the credit facility and senior notes. Senior Debt is defined as the sum of Consolidated Debt less the period end balance of the senior notes. The Company was in compliance with the lender's covenants at December 31, 2015 and December 31, 2014. The effective annualized interest rate, including standby fees and commitment fees, for the year ended December 31, 2015 was nil percent as the credit facility was undrawn (2014 - 7.0 percent). The next scheduled review is to take place in May 2016.

6. Senior Notes

	December 31, 2015	December 31, 2014
Senior notes	56,503	56,503
Add transaction costs	1,346	709
Total senior notes	57,849	57,212

On October 3, 2013, Cequence issued \$60,000 of unsecured five year term notes ("senior notes") at par with a 9% coupon per annum for gross proceeds net of transaction costs of \$57,974. The senior notes are unsecured and are subordinate to Cequence's credit facilities. The senior notes were issued pursuant to a trust indenture with a Canadian trust company, which provides for an additional \$60,000 of unsecured senior notes at a future date, subject to approval of both the lender and the Company on terms to be confirmed at the time of issuance. A standby charge of 0.7% is applied to the further \$60,000 of senior notes available at a future date. The senior notes require quarterly interest payment of 2.25% of the outstanding balance of the senior notes and no principal payments are required prior to maturity on October 3, 2018. In addition, Cequence granted to the lender of the senior notes 3.0 million warrants at an exercise price of \$2.03 to purchase common shares.

The senior notes are subject to the same financial covenants as the Company credit facilities as well as other non-financial covenants and restrictive covenants, including restrictions over asset sales, restricted payments and the incurrence of additional indebtedness. The Company was in compliance with the senior notes covenants at December 31, 2015 and December 31, 2014.

At any time prior to the maturity of October 3, 2018, the Company has a prepayment option to redeem all or part of the principal amount plus accrued and unpaid interest on the senior notes in accordance with the provisions of the trust indenture. Prior to October 3, 2016 the Company can redeem all or part of the senior notes at 100% of the principal amount plus accrued and unpaid interest plus 75% of the present value of the remaining scheduled payments of interest from the redemption date until the maturity date. The Company can redeem all or part of the senior notes at 105% of the principal amount plus accrued and unpaid interest during the period October 3, 2016 to October 3, 2017 and at 100% of the principal amount plus accrued and unpaid interest during the period October 3, 2017 to October 3, 2018. The prepayment options within the senior notes are considered embedded derivatives. The value of these embedded derivatives at October 3, 2013 and December 31, 2013, 2014 and 2015 is negligible. Upon specified change of control events or upon certain sales of assets, the Company must offer to repurchase the senior notes.

The senior notes have been classified as debt, net of transaction costs with the residual value related to the warrants allocated to equity. The transaction costs will be amortized over the life of senior notes and the debt portion of the senior notes will be accreted up to the principal value of \$60,000 using an effective interest rate of 10.51%.

	December 31, 2015	December 31, 2014
Debt component		
Beginning balance	57,212	56,637
Amortization of transaction costs	360	324
Accretion	277	251
Total debt component	57,849	57,212
Equity component		
Warrant issuance, net of allocated transaction costs and deferred tax	1,300	1,300
Total equity component	1,300	1,300

7. Accounts Receivable

	December 31, 2015	December 31, 2014
Trade receivables	8,697	12,801
Allowance for doubtful accounts	(682)	(944)
Net trade receivables	8,015	11,857
Accrued revenue	9,795	12,061
Other receivables	4,511	863
Total accounts receivable	22,321	24,781

8. Accounts Payable and Accrued Liabilities

	December 31, 2015	December 31, 2014
Accounts payable	12,630	23,535
Accrued liabilities	29,058	42,347
Total accounts payable and accrued liabilities	41,688	65,882

9. Production Revenue

	Year ended December 31,	
	2015	2014
Sales of oil and natural gas	71,496	145,679
Royalties	(2,900)	(14,025)
Total production revenue	68,596	131,654

10. Other Income

	Year ended December 31,	
	2015	2014
Gain on sale of property and equipment (Note 4)	(5,537)	(99,814)
Interest income	(357)	(646)
Other	(234)	(89)
Total other income	(6,128)	(100,549)

11. Finance Costs

	Year ended December 31,	
	2015	2014
Interest expense on demand credit facilities (including stand-by fees and commitment fees of \$645 (2014 - \$608))	966	1,658
Interest expense on senior notes (including stand-by fees of \$418 (2014 - \$418))	5,820	5,820
Amortization of transaction costs	360	324
Accretion expense on senior notes	277	251
Accretion expense on provisions	853	847
Total finance costs	8,276	8,900

12. Compensation Costs and Key Management Personnel Expenses

Total wages, salaries, benefits and other personnel costs included in comprehensive income (loss) for the year ended December 31, 2015 were \$4,498 (2014 - \$5,452).

The aggregate expense of key management personnel, defined as the Company's chief executive officer, chief operating officer, chief financial officer and the Company's board of directors, was as follows:

	Year ended December 31,	
	2015	2014
Wages, salaries, benefits and other personnel costs	1,272	1,483
Share based payments ⁽ⁱ⁾	292	735
Total remuneration	1,564	2,218

⁽ⁱ⁾ Represents the total fair value of share based payment awards granted to officers and directors in the year of grant, as determined using a Black-Scholes option pricing model (see note 16).

13. Provisions

DECOMMISSIONING LIABILITIES

The following table summarizes the changes in decommissioning liabilities for the years ended December 31, 2015 and 2014:

	2015	2014
Balance, beginning of year	37,263	26,643
Property dispositions (Note 4)	(3,283)	(2,414)
Accretion expense	853	840
Liabilities incurred	1,819	3,147
Abandonment costs incurred	(720)	(1,382)
Revisions in estimated cash flows	3,195	4,881
Revisions due to change in discount rates	1,581	5,548
Balance, end of year	40,708	37,263
Current	826	–
Non-current	39,882	37,263
	40,708	37,263

The Company's decommissioning liabilities result from its ownership in oil and natural gas assets including well sites, facilities and gathering systems. The total estimated, undiscounted cash flows, inflated at 2 percent, required to settle the obligations are \$69,020 (December 31, 2014 - \$67,840). These cash flows have been discounted using a risk-free interest rate of 2.16 percent (December 31, 2014 - 2.33 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled in approximately 1 to 50 years (December 31, 2014 - 1 to 50 years). As at December 31, 2015, no funds have been set aside to settle these liabilities.

14. Income Taxes

The following table sets forth the components of the Company's deferred income tax asset:

	December 31, 2015	December 31, 2014
Excess of net book value of assets and liabilities over related tax pools	(76,256)	(48,527)
Non-capital loss carry-forwards	66,693	43,791
Scientific research and development expenses and investment tax credits	9,056	8,602
Other tax assets	507	682
Total net deferred income tax asset	–	4,548

At December 31, 2015, Cequence has total tax pools of \$616,084 (2014 - \$611,388) including non-capital loss carry-forwards, investment tax credit carry-forwards and Scientific Research and Experimental Development ("SRED") expenses available to reduce future years' income for tax purposes. Deferred income tax assets have been recognized to the extent that estimated future taxable profits are sufficient to realize the deferred income tax assets in the allowable timeframes. The ongoing period of low commodity prices has created uncertainty regarding the future realization of the Company's deferred tax assets. As a result, a deferred income tax asset of \$77,994 has not been recognized (2014 - \$4,650). The Scientific Research and Development expenses of approximately \$22,704 available for carry-forward do not expire (2014 - \$22,704). The non-capital loss carry-forwards expire in 10 to 20 years and the investment tax credit carry-forwards expire in 5 to 9 years.

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial tax rates of 26 percent (2014 – 25 percent) to income (loss) before income taxes as follows:

	Year ended December 31,	
	2015	2014
Expected income tax (recovery) expense	(63,836)	27,728
Effect of share based payments	314	632
Change in previously estimated tax pools	(188)	3,101
Change in effective tax rate applied	(2,559)	–
Change in unrecorded deferred income tax asset	70,537	–
Other	280	85
Deferred income tax expense	4,548	31,546
Current income tax	–	–
Income tax expense	4,548	31,546

Movements in deferred income tax balances are as follows:

	Balance, Dec. 31, 2014	Recognized in comprehensive loss	Recognized in liabilities	Recognized in equity	Balance, Dec. 31, 2015
Property and equipment and provisions	(46,232)	(28,808)	–	–	(75,040)
Unrealized (gain) loss on financial instruments	(2,046)	1,062	–	–	(984)
Senior notes	(249)	16	–	–	(233)
Non-capital losses	43,791	22,902	–	–	66,693
SRED expenses and investment tax credits	8,602	454	–	–	9,056
Other	682	(174)	–	–	508
Total	4,548	(4,548)	–	–	–

	Balance, Dec. 31, 2013	Recognized in comprehensive income	Recognized in liabilities	Recognized in equity	Balance, Dec. 31, 2014
Property and equipment and provisions	(8,962)	(37,270)	-	-	(46,232)
Unrealized (gain) loss on financial instruments	739	(2,785)	-	-	(2,046)
Senior notes	(189)	(60)	-	-	(249)
Non-capital losses	34,500	9,291	-	-	43,791
SRED expenses and investment tax credits	8,602	-	-	-	8,602
Other	1,404	(722)	-	-	682
Total	36,094	(31,546)	-	-	4,548

15. Share Capital

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

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number (000's)	Stated Value \$	Number (000's)	Stated Value \$
Issued common voting shares				
Balance, beginning of year	211,028	624,619	210,918	624,332
Common shares	–	–	110	287
Balance, end of year	211,028	624,619	211,028	624,619
Warrants				
Balance, beginning of year	3,000	1,300	3,000	1,300
Balance, end of year	3,000	1,300	3,000	1,300

16. Share Based Payment Plans

STOCK OPTIONS

The Company has a stock option plan for directors, officers, employees and consultants of the Company and its subsidiaries. The number of common shares granted with respect to options may not exceed a rolling maximum of 10 percent of the Company's outstanding common shares. Options typically vest over a three year period, expire five years from the date of grant and are settled by issuing shares of the Company.

During the year ended December 31, 2015, the Company issued 1,085 stock options at an exercise price of \$0.81 to employees, officers and directors. The options have a five year life and one third vest annually commencing one year following the grant date.

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

	2015	2014
Risk-free interest rate	1.0%	1.3% - 1.5%
Expected life of options	5 years	5 years
Expected volatility	55%	60%
Expected dividend rate	0%	0%
Expected forfeiture rate	10%	15%
Weighted average fair value	\$0.38	\$1.12

Expected volatility is determined by reference to the Company's industry peers as, due largely to changes in the size and structure of the Company in recent years, this was determined to be a more meaningful measure than the historical volatility of the Company's shares.

A summary of the status of the Company's stock option plan and changes during the years ended December 31, 2015 and 2014 is as follows:

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	(000's)	\$	(000's)	\$
Outstanding, beginning of year	18,252	2.11	18,617	2.15
Granted	1,085	0.81	650	2.15
Forfeited	(12)	1.93	(905)	2.88
Expired	(7,930)	1.98	–	–
Exercised	–	–	(110)	1.73
Outstanding, end of year	11,395	2.08	18,252	2.11

The following table summarizes information about stock options outstanding at December 31, 2015:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Weighted Average Exercise Price	Number of Options	Weighted Average Contractual Life Remaining	Number of Options	Weighted Average Exercise Price
\$	\$	(000's)	(years)	(000's)	\$
0.81 – 0.99	0.81	1,085	4.44	-	-
1.00 – 1.99	1.40	6,303	1.89	5,705	1.37
2.00 – 2.99	2.23	610	3.58	210	2.26
3.00 – 3.81	3.70	3,397	0.52	3,397	3.70
	2.08	11,395	1.81	9,312	2.24

During the years ended December 31, 2015, \$1,107 (2014 - \$2,180) in share based payment expense related to equity-settled stock options has been recognized in comprehensive income (loss).

RESTRICTED SHARE UNITS

The Company has a RSU plan for directors, officers, employees and consultants of the Company and its subsidiaries. An RSU is a conditional grant to receive a Cequence common share, or the cash equivalent, as determined by the Company, upon vesting of the RSUs and in accordance with the terms of the RSU plan and grant agreement. The value of one RSU is notionally equivalent to one Cequence common share. RSUs vest over a three year period and management plans to settle the RSUs in cash on the respective vesting date.

A summary of the status of the Company's RSU plan and changes for the years ended December 31, 2015 and 2014 is as follows:

Number of RSUs (000's)	2015	2014
Outstanding, beginning of year	814	561
Granted	1,235	473
Forfeited	(17)	(33)
Exercised	(325)	(187)
Outstanding, end of year	1,707	814

During the years ended December 31, 2015, the Company recognized \$100 (2014 - \$350) in share based payment expense related to the cash-settled RSUs in comprehensive income (loss).

17. Income (Loss) Per Share

Income (loss) per share has been calculated based on the weighted average number of common shares outstanding during the year. For the year ended December 31, 2015, the Company has excluded all dilutive instruments as their inclusion would be anti-dilutive (2014 – 4,031 stock options). The following table reconciles the denominators used for the basic and diluted income (loss) per share calculations:

	Year ended December 31,	
	2015	2014
Basic weighted average shares	211,028	210,990
Effect of dilutive instruments	-	3,102
Diluted weighted average shares	211,028	214,092

18. Commitments

	2016	2017	2018	2019	2020+	Total
Office leases	656	17	-	-	-	673
Pipeline transportation	-	-	1,954	2,593	16,199	20,746
Gas processing	3,681	3,794	3,794	3,794	39,220	54,283
Capital	3,058	-	-	-	-	3,058
Total	7,395	3,811	5,748	6,387	55,419	78,760

On June 17, 2015, in conjunction with the Simonette disposition Cequence entered into a 15 year take or pay agreement with the operator of the Simonette facility. The minimum volume commitment under the take or pay for the period from 2015 to January 2016 is 40 mmcf/d and increases to 42 mmcf/d in February 2016 upon the estimated completion of the refrigeration functional unit expansion. In addition, Cequence committed to approximately \$3,058 of capital expenditures for the Simonette facility refrigeration functional unit expansion which is expected to be completed during the first quarter of 2016.

The Company has firm transportation on a major pipeline system for 35 mmcf/d commencing April 1, 2018 to March 30, 2026.

During the year ended December 31, 2015, the Company recognized expense of \$1,428 (2014 – \$1,503) of expense related to office leases, included with general and administrative expense.

19. Financial Instruments and Risk Management

The Company's financial instruments, including derivative financial instruments, recognized in the consolidated balance sheets consist of cash, accounts receivable, deposits, commodity contracts, demand credit facilities, senior notes and accounts payable and accrued liabilities.

The Company's cash, accounts receivable, deposits, demand credit facilities and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt. The senior notes bear interest at rates available to Cequence and accordingly the fair value approximates the carrying value excluding deferred financing costs.

The Company's fair value hierarchy for those assets and liabilities measured at fair value comprises commodity contracts which are measured at level 2 under the Company's fair value hierarchy as of December 31, 2015. The fair value of commodity contracts is determined by discounting the remaining contracted petroleum and natural gas volumes by the difference between the contracted price and published forward price curves as at the balance sheet date.

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

Market risk

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

COMMODITY PRICE RISK

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

During the year ended December 31, 2015, the Company entered into several commodity derivative financial instrument contracts. The following information presents all outstanding positions for commodity derivative financial instruments at December 31, 2015:

Term	Product	Type	Volume	Price	Basis
January 1, 2016 to March 31, 2016	Gas	Swap	25,000 gj/day	\$2.88	AECO
April 1, 2016 to September 30, 2016	Gas	Swap	17,500 gj/day	\$2.67	AECO
October 1, 2016 to December 31, 2016	Gas	Swap	15,842 gj/day	\$2.70	AECO
January 1, 2016 to December 31, 2016	Oil	Swap	400 bbl/day	\$65.35	WTI

For the year ended December 31, 2015, realized gain from commodity derivative contracts recognized in comprehensive income (loss) were \$9,395 (2014 - \$8,786 loss).

The fair value of the commodity contracts outstanding at December 31, 2015 was a current asset of \$3,644 (December 31, 2014 – current asset \$7,994 and non-current asset of \$190).

For the year ended December 31, 2015, the Company recorded an unrealized loss of \$4,541 from derivative commodity contracts (2014 - \$11,140 unrealized gain).

As at December 31, 2015, an increase in gas price of \$0.50/gj and oil price of \$1.00/bbl results in a decrease in the fair value of the commodity contracts of \$3,468 (\$2,566 after tax) and \$146 (\$108 after tax) respectively and a commensurate increase to comprehensive loss.

FOREIGN EXCHANGE RISK

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices. As at December 31, 2015 the Company had no forward, foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies (2014 – nil).

INTEREST RATE RISK

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facilities. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company has no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2015 (2014 - nil).

As at December 31, 2014, a 1 percent change in interest rates on the Company's outstanding credit facilities, with all other variables constant, would result in a change in comprehensive income (loss) of \$nil (\$nil after tax) (2014 - \$nil (\$nil after tax)).

Credit risk

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

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

As at December 31, 2015, the accounts receivable balance was \$22,321 of which \$1,400 was past due. The Company considers all amounts greater than 90 days past due. These past due accounts are considered to be collectible, except as provided in the allowance for doubtful accounts. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. The following table provides an aging analysis of the Company's accounts receivables:

Current	30-60 days	60-90 days	90+days	Total
19,659	952	310	1,400	22,321

At December 31, 2015, the Company has an allowance for doubtful accounts of \$682 (2014 – \$944). As at December 31, 2015, 19.5 percent (2014 – 31.2) of the total receivables balance is due from marketers of the Company's oil and natural gas production. A reconciliation of the Company's allowance for doubtful accounts is as follows:

	Year ended December 31,	
	2015	2014
Balance, beginning of year	944	581
Amounts collected	(431)	(53)
Amounts written off to accounts receivable	16	(26)
Additional provision	153	442
Balance, end of year	682	944

As at December 31, 2015, the maximum exposure to credit risk was \$39,211 (2014 - \$60,644) being the carrying value of the Company's cash, accounts receivable and commodity contract assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The nature of the oil and gas industry is capital intensive and the Company maintains and monitors a certain level of cash flow to finance operating and capital expenditures. Refer to note 21 for disclosure related to the management of capital.

The expected timing of cash flows relating to financial liabilities as at December 31, 2015 is as follows:

	< 1 Year	1 – 2 Years	2 – 5 Years	Thereafter
Senior notes – principal	–	–	60,000	–
Accounts payable and accrued liabilities	41,688	–	–	–
	41,688	–	60,000	–

20. Changes in Non-Cash Working Capital

	Year ended December 31,	
	2015	2014
Accounts receivable	2,460	(4,947)
Deposits and prepaid expenses	1,110	1,456
Accounts payable and accrued liabilities	(24,194)	14,190
Net change in non-cash working capital	(20,624)	10,699
Allocated to:		
Operating activities	7,026	(1,136)
Investing activities	(27,522)	11,777
Financing activities	(128)	58
	(20,624)	10,699

21. Capital Management

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

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

It is the Company's objective to maintain a net debt to cash flow ratio of less than 2:1. As at December 31, 2015, the ratio was calculated as 2.5:1 (2014 – 1:1) based on the trailing four quarters. Debt to cashflow is higher than the Company's long term stated target of 2:1 due to the prolonged period of low commodity prices.

Net debt to cash flow provides a measure of the Company's ability to manage its debt levels under current operating conditions. The ratio is calculated as net debt, defined as credit facilities, the principal value of senior notes and working capital excluding commodity derivative assets or liabilities and other liabilities, divided by cash flow from operations before decommissioning liabilities expenditures and changes in non-cash working capital based on trailing four quarters.

At December 31, 2015, Cequence has \$60,000 in senior notes due in 2018 and a \$60,000 senior credit facility which is undrawn. During 2015, the Company managed its debt levels during the period of low commodity prices by entering into commodity price financial instruments, reducing capital expenditures and disposing of its 50% interest in its existing Simonette facilities and related infrastructure.

The Company's senior credit facility is based on the lenders' semi-annual review of the Company's oil and natural gas reserves. The Company has covenants that require Consolidated Debt and Senior Debt to twelve month trailing earnings before interest, taxes and depletion and depreciation to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. The Company was in compliance with the lender's covenants at December 31, 2015 with ratios of 0 and 1.95 times, respectively. If current commodity prices persist, Cequence may exceed these ratios in 2016 as future cash flows are negatively impacted by low crude oil and natural gas prices. At December 31, 2015 the Company had not borrowed under the facility and based on the expected borrowing amount relative to the size of the approved facility, the Company currently expects to obtain covenant relief at its upcoming bank review which may result in higher lending fees.

The senior notes contain incurrence covenants that use a Debt to Cashflow test of 2.5 times for four consecutive quarters to limit the incurrence of additional debt, the creation of liens in connection with indebtedness, dividends and other distributions, asset sales and other matters, and customary events of default. At December 31, 2015 the Company's Debt to Cashflow ratio was 2.4 times. If current commodity prices persist, the Company expects to have a Debt to Cashflow ratio in excess of 2.5 times in 2016. The Company does not currently anticipate initiating an action that would be restricted by the incurrence covenants. Further, the Company can default under the senior notes if the Company defaults any other indebtedness with an outstanding principal greater than \$10,000, unless the default has been waived or remedied.

The Company has the ability to manage its cash flow and net capital expenditures in 2016 to avoid potential default. These options include the ability to initiate the sale of assets, further adjustments to the capital program, monetization of commodity contracts or the issuance of equity.



Suite 3100, 525 - 8th Avenue S.W.
Calgary, Alberta T2P 1G1

www.cequence-energy.com