Management's Report

The consolidated financial statements of Questerre Energy Corporation were prepared by management in accordance with International Financial Reporting Standards. The financial and operating information presented in this annual report is consistent with that shown in the consolidated financial statements.

Management has designed and maintains a system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the financial statements reliably report the Company's operations and that the Company's assets are safeguarded. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed by a resolution of the shareholders to audit the consolidated financial statements of the Company and provide an independent opinion. They have conducted an independent examination of the Company's accounting records in order to express their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through its Audit Committee. The Audit Committee, which consists of non-management directors, has met with PricewaterhouseCoopers LLP and management in order to determine that management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Audit Committee has reported its findings to the Board of Directors, who have approved the consolidated financial statements.

Michael Binnion
President and Chief Executive Officer

Jason D'Silva
Chief Financial Officer

Calgary, Alberta, Canada
March 29, 2018

Independent Auditor's Report

To the Shareholders of Questerre Energy Corporation

We have audited the accompanying consolidated financial statements of Questerre Energy Corporation, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of net profit or loss and comprehensive income or loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise 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 audits 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 Questerre Energy Corporation as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta

March 29, 2018

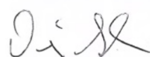
Consolidated Balance Sheets

($ thousands)	Note	December 31, 2017	December 31, 2016
Assets			
Current Assets			
Cash and cash equivalents	5	$ 35,836	$ 8,275
Accounts receivable	6	3,780	2,339
Deposits and prepaid expenses		556	626
		40,172	11,240
Investments	7	9,109	490
Property, plant and equipment	8	98,893	87,125
Exploration and evaluation assets	9	53,675	58,915
Goodwill		2,346	2,346
Deferred tax assets	10	13,019	17,645
		$ 217,214	$ 177,761
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 16,623	$ 5,370
Current portion of risk management contracts	6	-	1,117
Credit Facilities	13	13,901	22,888
		30,524	29,375
Other Liability	20	3,487	-
Asset retirement obligation	12	12,465	8,726
		46,476	38,101
Shareholders' Equity			
Share capital	14	414,995	359,151
Contributed surplus		18,171	17,254
Accumulated other comprehensive income		(724)	138
Deficit		(261,704)	(236,883)
		170,738	139,660
		$ 217,214	$ 177,761

Commitments (note 19)

The notes are an integral part of these consolidated financial statements.

Signed on behalf of the Board of Directors



Dennis Sykora
Director

Bjorn Inge Tonnessen
Director

Consolidated Statements of Net Profit or Loss and Comprehensive Income or Loss

($ thousands, except per share amounts)	Note		For the years ended December 31, 2017		2016
Revenue					
Petroleum and natural gas sales	15	$	21,361	$	17,120
Royalties			(1,093)		(936)
Petroleum and natural gas revenue, net of royalties			20,268		16,184
Expenses					
Direct operating			10,030		7,652
General and administrative			3,143		2,761
Depletion and depreciation	8		9,723		8,861
Gain on sale of exploration and evaluation asset			(3,657)		-
Recovery of impairment on investment	7		(2,336)		-
Gain on acquisition of preferred shares	7		(274)		-
Impairment of assets	8,9		12,303		(22,925)
Lease Expiries			7,122		17,838
Loss (gain) on risk management contracts	6		(1,049)		195
Loss on equity investment	7		3,450		-
Share based compensation	11		411		122
Accretion of asset retirement obligation	12		173		142
Interest expense			599		912
Other (income) expense			(77)		12
Income (loss) before taxes			(19,293)		614
Deferred tax expense	10		5,528		445
Net Income (Loss)			(24,821)		169
Other Comprehensive Loss, Net of Tax					
Items that may be reclassified subsequently to profit or loss:					
Loss on foreign exchange	7		(740)		(13)
Foreign currency translation adjustment			(122)		(30)
Reclass to net loss on write-down of investments	7		-		(28)
			(862)		(71)
Total Comprehensive Income (Loss)		$	(25,683)	$	98
Net Loss per Share					
Basic and diluted	14	$	(0.07)	$	-

The notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

($ thousands)	For the years ended December 31, 2017	2016
Share Capital		
Balance, beginning of year	$ 359,151	$ 347,345
Private Placements	55,988	11,279
Warrants exercised	1,912	15
Options exercised	29	1,006
Share issue costs (net of tax)	(2,085)	(494)
Balance, end of year	414,995	359,151
Contributed Surplus		
Balance, beginning of year	17,254	16,951
Reclassification of share based compensation	917	303
Balance, end of year	18,171	17,254
Accumulated Other Comprehensive Income		
Balance, beginning of year	138	209
Other comprehensive loss	(862)	(71)
Balance, end of year	(724)	138
Deficit		
Balance, beginning of year	(236,883)	(237,052)
Net income (loss)	(24,821)	169
Balance, end of year	(261,704)	(236,883)
Total Shareholders' Equity	$ 170,738	$ 139,660

The notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

($ thousands)	Note	For the years ended December 31, 2017	2016
Operating Activities			
Net loss		$ (24,821)	$ 169
Adjustments for:			
Depletion and depreciation	8	9,723	8,861
Recovery of impairment on investment		(2,336)	-
Gain on acquisition of preferred shares		(274)	-
Impairment of assets & lease expiries	8,9	19,425	(5,087)
Gain on sale of exploration and evaluation asset	8	(3,657)	-
Unrealized (gain) loss on risk management contracts	6	(1,117)	1,531
Loss on equity investment		3,450	-
Share based compensation	11	411	122
Accretion of asset retirement obligation	12	173	142
Deferred tax expense	10	5,528	445
Interest expense		599	912
Other items not involving cash		(122)	(32)
Abandonment expenditures	12	(201)	(18)
Adjusted funds flow from operations		6,781	7,045
Interest paid		(615)	(912)
Change in non-cash working capital	18	8,495	586
Net cash from operating activities		14,661	6,719
Investing Activities			
Property, plant and equipment expenditures	8	(7,935)	(3,301)
Exploration and evaluation expenditures	9	(17,326)	(10,917)
Purchase of investment	7	(10,330)	-
Acquisition of plant, property and equipment	8	(6,935)	-
Sale of exploration and evaluation assets		4,450	-
Change in non-cash working capital	18	4,892	(5,457)
Net cash used in investing activities		(33,184)	(19,675)
Financing Activities			
Proceeds from issue of share capital		57,928	13,218
Increase in credit facilities		30,880	32,246
Repayment of credit facilities		(39,867)	(23,900)
Share issue costs		(2,857)	(676)
Net cash from financing activities		46,084	20,888
Change in cash and cash equivalents		27,561	7,932
Cash and cash equivalents, beginning of year		8,275	343
Cash and cash equivalents, end of year		$ 35,836	$ 8,275

The notes are an integral part of these consolidated financial statements.

1. Reporting Entity

Questerre Energy Corporation ("Questerre" or the "Company") is actively involved in the acquisition, exploration and development of oil and gas projects, specifically, non-conventional projects such as tight oil, oil shale, shale oil and shale gas. The consolidated financial statements of the Company as at and for the years ended December 31, 2017 and 2016 comprise the Company and its wholly-owned subsidiaries in those periods owned. The Company wholly owns Questerre Energy Corporation/Jordan, which holds interests in the oil shale assets in Jordan.

Questerre is incorporated under the laws of the Province of Alberta and is domiciled in Canada. The address of its registered office is 1650, 801 Sixth Avenue SW, Calgary, Alberta.

2. Basis of Preparation

a) Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at March 29, 2018, the date the Board of Directors approved the statements.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available for sale financial assets and financial assets classified as fair value through profit and loss which are measured at fair value with changes in fair value recorded in other comprehensive income or loss or profit or loss as disclosed in Note 3.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company has a wholly-owned subsidiary with a functional currency of the Jordanian Dinar.

d) Jointly controlled assets

The Company conducts many of its oil and gas production activities through jointly controlled operations. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangement. The Company recognizes its share of assets, liabilities, revenues and expenses of a joint operation. Joint ventures arise when the Company has rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method.

e) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These estimates and judgments have risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Petroleum and natural gas reserves

All of Questerre's petroleum and natural gas reserves are evaluated and reported on by independent reserve engineers in accordance with the COGE Handbook and Canadian Securities Administrators' National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. The estimation of reserves and resources is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices. These estimates are evaluated by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. If probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the estimated proved plus probable reserves and there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves.

Reserve estimates impact a number of areas, in particular, the valuation of property, plant and equipment, exploration and evaluation assets and the calculation of depletion.

Refer to Note 8 & 9 for carrying amounts of property, plant and equipment, exploration and evaluation assets.

Cash generating units ("CGU")

A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations. Factors considered in the classification include geography and the manner in which management monitors and makes decisions about its operations.

Refer to Note 8 for carrying amounts of property, plant and equipment.

Impairment of property, plant and equipment, exploration and evaluation and goodwill

The Company assesses its oil and gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate carrying values of the assets may not be recoverable. Determining if there are facts and circumstances present that indicate that carrying values of the assets may not be recoverable requires management's judgment and analysis of the facts and circumstances.

The recoverable amounts of CGUs have been determined based on the higher of value in use ("VIU") and the fair value less costs of disposal ("FVLCD"). The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes, the discount rate, future operating and development costs and recent land transactions. Changes to these assumptions will affect the recoverable amounts of CGUs and may require a material adjustment to their related carrying value.

Goodwill is the excess of the purchase price paid over the fair value of the net assets acquired. Since goodwill results from purchase accounting, it is imprecise and requires judgment in the determination of the fair value of assets and liabilities. Goodwill is assessed for impairment at an operating segment level based on the recoverable amount for each CGU of the Company. Therefore, impairment of goodwill uses the same key judgments and assumptions noted above for impairment of assets.

Refer to Note 8 for the sensitivity analysis related to impairments.

Asset retirement obligation

Determination of the Company's asset retirement obligation is based on internal estimates using current costs and technology in accordance with existing legislation and industry practice and must also estimate timing, a risk-free rate and inflation rate in the calculation. These estimates are subject to change over time and, as such, may impact the charge against profit or loss. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a risk-free rate. The associated abandonment and retirement costs are capitalized as part of the carrying amount of the related asset. The capitalized amount is depleted on a unit of production basis in accordance with the Company's depletion policy. Changes to assumptions related to future expected costs, risk-free rates and timing may have a material impact on the amounts presented.

Refer to Note 12 for the carrying amounts related to the asset retirement obligation.

Share based compensation

The Company has a stock option plan enabling employees, officers and directors to receive Class "A" Common voting shares ("Common Shares") or cash at exercise prices equal to the market price or above on the date the option is granted. The Company does not intend to cash settle these options in future periods. Under the equity settled method, compensation costs attributable to stock options granted to employees, officers or directors are measured at fair value using the Black-Scholes option pricing model. The assumptions used in the calculation are: the volatility of the stock price, risk-free rates of return and the expected lives of the options. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Changes to assumptions may have a material impact on the amounts presented.

For further detail on carrying amounts and assumptions refer to Note 11.

Income tax accounting

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

The Company has revised its estimate of its deferred tax assets in the year. As at December 31, 2017, the recoverability of deferred tax assets was assessed using proved reserves with an estimate of general and administrative costs associated with these proved reserves.

The determination of the Company's income and other tax assets or 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 or liability may differ significantly from that estimated and recorded by management.

Refer to Note 10 for the carrying amounts related to deferred taxes.

Investment in Red Leaf Resources

Questerre holds investments in certain private companies including its investment in Red Leaf Resources Inc. ("Red Leaf"). The Company measures the fair market value of Red Leaf by valuation techniques such as net asset value analysis. Considerable judgment is required in measuring the fair value of the Company's investment in Red Leaf, which may result in material adjustments to its related carrying value.

The Company uses the equity method of accounting to reflect its ownership in Red Leaf. Under the equity method, the Company's initial and subsequent investments are recognized at cost and subsequently adjusted for the Company's share of Red Leaf's income or loss, less distributions received. The Company is deemed to have significant influence in Red Leaf on the basis that it holds more than 20% of the voting power and the ability to participate in the decision making process of Red Leaf through its current Board representation.

Refer to Note 7 for the carrying amounts related to the Company's investment in Red Leaf.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

The acquisition method of accounting is used to account for business combinations 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Contingent consideration is included in the cost of acquisitions at fair value. Directly attributable transaction costs are expensed in the current period and reported within general and administrative expenses. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in profit or loss.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company classifies its financial instruments in the following categories, at initial recognition, depending on the purpose for which the instruments were acquired.

Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if it is held for trading. Derivatives are also included in this category unless they are designated as hedges. The Company has designated its risk management contracts in this category.

Available for sale

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available for sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Any unrealized gains or losses from remeasurement are recognized in other comprehensive income or loss. When an available for sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income or loss to profit or loss. Available for sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are included in current assets due to their short-term nature. Loans and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Cash and cash equivalents include deposits held with banks, less outstanding cheques and short-term deposits with original maturities of one year or less.

Financial liabilities at amortized cost

Financial liabilities at amortized cost comprise credit facilities and accounts payable and accrued liabilities. Financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months.

c) Share capital

Common Shares are classified as equity. Incremental costs directly attributable to the issue of Common Shares are recognized as a deduction from equity, net of any tax effects.

d) Property, plant and equipment and exploration and evaluation assets

Recognition and measurement

Exploration and evaluation expenditures

Costs incurred prior to acquiring the legal rights to explore an area are recognized as exploration and evaluation expense in profit or loss.

Exploration and evaluation costs, including the costs of acquiring licenses, exploratory well expenditures, costs to evaluate the commercial potential of underlying resources and directly attributable general and administrative costs, are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by exploration area pending determination of technical feasibility and commercial viability. Gains and losses on exploration and evaluation assets are recognized on disposal through the income statement.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) 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 based on several factors including the assignment of reserves. A review of each exploration license or field is carried out, at each reporting date, to ascertain whether technical feasibility and commercial viability has been achieved. Upon determination of technical feasibility and commercial viability, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

Every reporting period, the Company evaluates individually significant exploration and evaluation wells for impairment, if there are specific impairment indicators evident at the well level. If technical feasibility and commercial viability of the well is not established, the well costs are written off. For insignificant wells, overall exploration and evaluation well indicators are evaluated. If there are indicators of impairment, the wells are tested for impairment at the CGU level.

Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Cost includes all costs required to acquire developed or producing oil and gas properties and to develop oil and gas properties. Development and production assets are grouped into CGUs for impairment testing.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized net within gain (loss) on divestures in profit or loss.

Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. When the exchange is at fair value, a gain or loss is recognized in profit or loss.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and property, plant and equipment acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. 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, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. Future profit (loss) can be affected as a result of changes in future depletion and depreciation or impairment. Refer to Note 8 for details on the business combinations completed during the year ended December 31, 2017.

Other property, plant and equipment

Expenditures related to work-overs or betterments that improve the productive capacity or extend the life of an asset are capitalized. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method based on estimated proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. These estimates are evaluated by independent reserve engineers at least annually.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the respective useful lives.

Depreciation methods and useful lives are reviewed at each reporting date.

e) Goodwill

Goodwill arises on the acquisition of businesses, subsidiaries, associates and joint ventures. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

f) Impairment

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated and compared to the carrying amount. For goodwill an impairment test is completed each year, or when any indication of impairment exists.

For the purpose of impairment testing, assets are grouped together into CGUs. Goodwill, for the purpose of impairment testing, is assessed for impairment on an operating segment basis. The Company has one operating segment, which is Canada. Exploration and evaluation assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their reclassification to producing assets.

The recoverable amount of an asset or a CGU is the greater of its VIU and FVLCD. FVLCD is determined using discounted future cash flows of proved and probable reserves using an after tax discount rate for FVLCD. In determining FVLCD, recent market transactions are taken into account, if available. In the absence of such transactions, the discounted cash flow model is used. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. Impairment reversals are recognized in profit or loss.

Financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired. The criteria used to

determine if objective evidence of an impairment loss include:

(i) significant financial difficulty of the obligor;

(ii) delinquencies in interest or principal payments; and

(iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available for sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the loss in accumulated other comprehensive income or loss that is reclassified to net income. Available for sale financial assets are tested for impairment on an equity by equity basis.

Impairment losses on financial assets carried at amortized cost and available for sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available for sale equity instruments are not reversed.

g) Share based compensation

The Company has issued options to directors, officers and employees.

In December 2015, the Company changed the accounting for its stock-based compensation awards to assume that options will be equity-settled instead of cash-settled. The change was made to reflect the settlement history of the options and the Company's intent to only settle options in equity in the future. Under the equity settled method, compensation costs attributable to stock options granted to employees, officers or directors are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. The exercise of stock options is recorded as an increase in Common Shares with a corresponding reduction in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Asset retirement obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Asset retirement obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. The best estimate of the provision is recorded on a discounted basis using a risk-free interest rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion of the asset retirement obligation whereas increases or decreases due to changes in the estimated future cash flows and risk-free rates are adjusted through property, plant and equipment or exploration and evaluation assets. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

i) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is when legal title passes to the external party and collectability is reasonably assured. Revenue is measured net of royalties. Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

j) Income tax

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax asset will be realized.

The effect of a change in enacted or substantively enacted income tax rates on future income tax assets and liabilities is recognized in profit or loss in the period that the change occurs unless the original entry was recorded to equity.

k) Net profit or loss per share

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated using the weighted average number of shares outstanding, adjusted for the potential number of shares which may have a dilutive impact on net profit. Potentially dilutive shares include stock options. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase Common Shares at the average market price.

Since the options may be settled in cash or shares at the Company's discretion and therefore there is no obligation to settle in cash, the share units are accounted for as equity-settled share based payment transactions and included in diluted profit per share if the effect is dilutive.

4. Changes in Accounting Policies and Disclosures

Changes in Accounting Policies for 2017

The Company adopted amendments to IAS 7, Statement of Cash Flows, which provide disclosures on evaluating changes in the liabilities arising from financing activities during the year ended December 31, 2017. See Note 13 on IAS 7 adoption.

Future Accounting Pronouncements

The following standards and interpretations have not been illustrated as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures. The Company is currently evaluating the impact of adopting these standards on its consolidated financial statements.

IFRS 16 *Leases*

On January 13, 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 *Revenue From Contracts With Customers* has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

IFRS 15 *Revenue From Contracts With Customers*

In May 2014, the IAS published IFRS 15 *Revenue From Contracts With Customers* ("IFRS 15") replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue* and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive,

when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018. The standard may be applied retrospectively or using a modified retrospective approach. The Company has performed an initial assessment of IFRS 15 and plans to adopt the standard under the modified retrospective approach on January 1, 2018. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard (if any) would be recognized at the date of adoption. The Company will be required to disclose additional information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including a disaggregation of revenue by product type. The Company's initial assessment that adoption of IFRS 15 will not have a material impact on the Company's Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) is made as of the date of these annual financial statements and may change as new publications or interpretations of the new standard become available. The evaluation of all potential measurement and disclosure impacts is ongoing.

IFRS 9 *Financial Instruments*

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments ("IFRS 9"). The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statement of income. The Company has determined that adoption of IFRS 9 will result in changes to the classification of the Company's financial assets but will not change the classification of the Company's financial liabilities. The Company has also determined there will not be any material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption of IFRS 9. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Questerre has determined that the new impairment model will not result in material changes to the valuation of its financial assets on adoption of IFRS 9.

5. Cash and Cash Equivalents

($ thousands)		December 31, 2017		December 31, 2016
Bank balances	**$**	**1,871**	$	7,959
Short-term bank deposits		**33,965**		316
	$	**35,836**	$	8,275

6. Financial Risk Management and Determination of Fair Values

a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration,

development, production, and financing activities such as credit risk, liquidity risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

b) Fair value of financial instruments

The Company's financial instruments as at December 31, 2017 included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at December 31, 2017, the fair values of the Company's financial assets and liabilities equaled their carrying values due to the short-term maturity, except for the Company's investments which are recorded at fair value.

Disclosures about the inputs to fair value measurements are required, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Risk management contracts are considered a Level 2 instrument. The Company's financial derivative instruments are carried at fair value as determined by reference to independent monthly forward settlement prices and currency rates.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

The Company's inputs for the goodwill, property, plant and equipment and exploration and evaluation assets are considered Level 3 fair value measurements. Refer to Note 8 and 9.

c) Credit risk

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises principally from the Company's receivables from joint venture partners and oil and gas marketers. The carrying amounts of accounts receivable and cash and cash equivalents represent the maximum credit exposure.

Substantially all of the accounts receivable are with oil and natural gas marketers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners.

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing companies and the Company has not experienced any credit loss relating to these sales.

Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued. The Company mitigates this risk by obtaining pre-approval of significant capital expenditures.

The Company's accounts receivables are aged as follows:

($ thousands)	December 31, 2017	December 31, 2016
Current	$ 3,076	$ 2,058
31 - 60 days	204	27
61 - 90 days	79	51
>90 days	573	355
Allowance for doubtful accounts	(152)	(152)
	$ 3,780	$ 2,339

The Company does not anticipate any material default as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers. There are no material financial assets that the Company considers past due that are considered impaired.

Cash and cash equivalents include cash bank balances and short-term deposits. The Company manages the credit risk exposure by investing in Canadian banks and credit unions. Management does not expect any counterparty to fail to meet its obligations.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and are updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital.

Since the Company operates in the upstream oil and natural gas industry, it requires sufficient cash to fund capital programs necessary to maintain or increase production, develop reserves and to potentially acquire strategic assets. The Company's capital programs are funded principally by cash obtained through its credit facilities, equity issuances and from operating activities. During times of low oil and natural gas prices, a portion of capital programs can generally be deferred, however, due to the long cycle times and the importance to future cash flow in maintaining the Company's production, it may be necessary to utilize alternative sources of capital to continue the Company's strategic investment plan during periods of low commodity prices. As a result, the Company frequently evaluates the options available with respect to sources of long and short-term capital resources. Occasionally, to the extent possible, the Company will use derivative instruments to manage cash flow in the event of commodity price declines.

The Company's financial obligations relate to trade and other payables, which consist of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. The Company processes invoices within a normal payment period and all amounts are due within the next 12 months.

e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's profit or loss or the value of the financial instruments. The objective of the Company is to mitigate exposure to these risks while maximizing returns to the Company.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by the relationship between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. The Company may enter into oil and natural gas contracts to protect, to the extent possible, its cash flow on future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas.

As at December 31, 2017, the Company had no outstanding commodity risk management contracts.

The net risk management position is as follows:

($ thousands)	**December 31, 2017**	December 31, 2016
Risk Management Liabilities		
Current portion	**$** -	$ 1,117

For the year ended December 31, 2017, the Company recorded a realized loss of $0.07 million and unrealized gain of $1.12 million related to risk management contracts. The Company recorded an unrealized loss of $1.53 million and a realized gain of $1.33 million for the year ended December 31, 2016.

Currency risk

All of Questerre's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. The Company also incurs expenditures in its Jordanian subsidiary that are denominated in Jordanian Dinar and United States dollars. As at December 31, 2017, the Company had no forward foreign exchange contracts in place.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. At December 31, 2017, the Company had credit facilities outstanding of $13.90 million (December 31, 2016: $22.89 million).

f) Capital management

The Company believes with its private placements completed in 2017 and expected positive adjusted funds flow from operations in the near future it will be able to meet its foreseeable obligations in the normal course of operations. On an ongoing basis, the Company reviews its capital expenditures to ensure that funds flow from operations or access to credit facilities are available to fund these capital expenditures.

The volatility of commodity prices has a material impact on Questerre's adjusted funds flow from operations. Questerre attempts to mitigate the effect of lower prices by entering into risk management contracts,

shutting in production in unusually low pricing environments, reallocating capital to more profitable areas and reducing capital spending based on results and other market considerations.

The Company considers its capital structure to include shareholders' equity and any outstanding amounts under its credit facilities. The Company will adjust its capital structure to minimize risk and its cost of capital through the issuance of shares, securing additional credit facilities and adjusting its capital spending as required. Questerre monitors its capital structure based on the current and projected funds flow from operations.

($ thousands)		**December 31, 2017**		December 31, 2016
Credit facilities	**$**	**13,901**	$	22,888
Shareholders' equity		**170,738**		139,660

7. Investment in Red Leaf

Red Leaf is a private Utah based oil shale and technology company whose principal assets are its proprietary EcoShale technology to recover oil from shale and its oil shale leases in the state of Utah.

In the second quarter of 2017, the Company entered into agreements to increase its common share ownership in Red Leaf from approximately 6% to 30% for gross consideration of US$7.52 million.

The acquisition was completed in three tranches with payments to the vendors of US$4.92 million for the first tranche in the second quarter, US$1.3 million for the second tranche and US$1.3 million for final tranche in the third quarter of 2017. Questerre currently holds 132,293 common shares, representing approximately 30% of the common share capital of Red Leaf.

During the third quarter of 2017, Questerre also acquired 288 Series A Preferred Shares of Red Leaf representing less than 0.5% of the issued and outstanding preferred shares capital of Red Leaf for gross consideration of US$0.16 million.

Questerre has determined its investment in Red Leaf will be accounted for using the equity method. This is based on several criteria including its current equity interest in Red Leaf and ability to participate in the decision making process of Red Leaf through its current Board representation.

As a result of the acquisition of Red Leaf common shares, Questerre evaluated the fair value of the Red Leaf common shares held prior to the acquisition. This resulted in a $2.34 million reversal of a previously recorded impairment in the year ended December 31, 2014. The Company measured the fair market value of its investment using a net asset valuation approach. The net assets are estimated as the net current assets of Red Leaf less US$83.5 million representing the original issue price plus accrued but unpaid dividends of the issued and outstanding Series A Preferred Shares of Red Leaf as of December 31, 2017. No value was assigned to the non-current assets of Red Leaf for the purposes of determining the fair value of the Company's investment.

The Company also evaluated the fair value of the preferred shares based on the face value and accrued but unpaid dividends as of December 31, 2017. This resulted in a fair value adjustment of $0.26 million for the year ended December 31, 2017.

($ thousands)	December 31, 2017	December 31, 2016
Investment	$ 12,510	$ 490
Equity loss on investment	(3,401)	-
	$ 9,109	$ 490

The equity loss on investment represents the Company's proportionate share of the net loss realized by Red Leaf during the period commencing from its initial acquisition on May 11, 2017 to December 31, 2017.

The assets, liabilities and net loss of Red Leaf as of December 31, 2017 were comprised as follows:

($ thousands)[1]	
Cash and Cash Equivalents	$ 130,630
Restricted Cash	4,980
Current Liabilities	1,287
Non-current liabilities	1,321
Net Loss[2]	(7,518)

[1] Converted at an exchange rate of US$1=C$1.2545

[2] For the period from May 11, 2017 to Dec 31, 2017 and converted at an average exchange rate of US$1=C$1.2795

The issued and outstanding share capital of Red Leaf as of December 31, 2017 is comprised of the following:

	Issued and Outstanding	Questerre Ownership
Common Shares	415,639	132,293
Preferred Shares	63,427	288

The Series A Preferred Shares carry voting rights and dividends accrue on a cumulative basis, whether or not declared, at a rate of 8% per annum compounding annually. On the occurrence of a defined liquidation event, including certain reorganizations, takeovers, the sale of all or substantially all the assets of the company, and shareholder distributions, the Series A Preferred shareholders are entitled to an amount representing the original issue price plus any accrued dividends. As of December 31, 2017, this priority amount is approximately US$83.5 million.

The following table sets out the changes in investment over the respective periods:

($ thousands)	December 31, 2017	December 31, 2016
Balance, beginning of year	$ 490	$ 632
Purchase of investment	10,330	-
Reversal of impairment	2,336	-
Preferred shares fair value adjustment	274	-
Equity loss on investment	(3,401)	-
Loss on foreign exchange	(920)	(10)
Impairment	-	(132)
Balance, end of the year	$ 9,109	$ 490

For the year ended December 31, 2017, the loss on foreign exchange relating to investments was $0.92

million (December 31, 2016: loss $0.01 million), which was recorded in other comprehensive income (loss) net of deferred tax of $0.11 million (December 31, 2016: $nil).

The determination of fair value requires management to make judgments, estimates and assumptions. These estimates and judgments are reviewed quarterly and have risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

8. Property, Plant and Equipment

A reconciliation of the property, plant and equipment assets is detailed below.

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Cost or deemed cost:						
Balance, December 31, 2015	$	204,101	$	1,334	$	205,435
Additions		3,171		-		3,171
Transfer from exploration and evaluation assets		5,740		-		5,740
Balance, December 31, 2016		213,012		1,334		214,346
Additions		11,781		-		11,781
Acquisition		6,935				6,935
Transfer from exploration and evaluation assets		15,078		-		15,078
Balance, December 31, 2017	**$**	**246,806**	**$**	**1,334**	**$**	**248,140**
Accumulated depletion, depreciation and impairment losses:						
Balance, December 31, 2015	$	116,642	$	1,246	$	117,888
Depletion and depreciation		8,823		38		8,861
Impairment		472		-		472
Balance, December 31, 2016		125,937		1,284		127,221
Depletion and depreciation		9,712		11		9,723
Impairment		12,303		-		12,303
Balance, December 31, 2017	**$**	**147,952**	**$**	**1,295**	**$**	**149,247**

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Net book value:						
At December 31, 2016	$	87,075	$	50	$	87,125
At December 31, 2017	**$**	**98,854**	**$**	**39**	**$**	**98,893**

During the year ended December 31, 2017, the Company did not capitalize any administrative overhead or stock based compensation expense directly related to development activities (2016: $0.06 million). Included in the December 31, 2017 depletion calculation are future development costs of $172.37 million (December 31, 2016: $177.86 million). As at December 31, 2017, $1.05 million of assets under construction were included within property, plant and equipment (December 31, 2016: $2.50 million) and are not subject to depletion and depreciation.

In the fourth quarter of 2017, the Company acquired oil and gas assets in the Antler area of Saskatchewan for cash consideration of $7.25 million before closing adjustments. The purchase price was adjusted for the results of operations between the effective date of October 1, 2017 and the closing of the acquisition. The transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The Company pro forma net operating revenue from the assets acquired was $1.41 million based on the estimated production from these assets and using the Company's average netback in the area for 2017. The closing adjustments included estimated net operating revenue of $0.32 million from the assets for the period from the effective date to closing of the acquisition.

($ thousands)		December 31, 2017
Property, plant and equipment	$	9,548
Decommissioning obligations		(2,298)
Fair value of net assets acquired		7,250
Cash consideration, after closing adjustments	$	6,935

In 2017, the Company reviewed the carrying amounts of its oil and natural gas assets for indicators of impairment or a reversal of previously recorded impairment due to changes in future commodity prices, future costs and reserves. Based on this review, the Company's CGUs of Montney and Other Alberta were tested for impairment in accordance with the Company's accounting policy. The recoverable amount of the CGUs was estimated based on the FVLCD using a discounted cash flow model.

The estimates of FVLCD were determined using discount rates of 10% for the Other Alberta CGU and 12% for the Montney CGU and forecasted after-tax cash flows based on proved plus probable reserves, with escalating prices and future development costs obtained from an independent reserve evaluation report.

The future prices used to determine cash flows from crude oil and natural gas reserves are as follows:

	2018	2019	2020	2021	2022	Average Annual % Change Thereafter
WTI (US$/barrel)	58.50	58.70	62.40	69.00	73.10	2.00
AECO ($/MMbtu)	2.25	2.65	3.05	3.40	3.60	2.00

Based on its assessment, the Company recorded an impairment loss of $11.97 million related to its Montney CGU and $0.36 million relating to its Other Alberta CGU. The factors that led to the impairment were a reduction in forecasted commodity prices and an increase in the discount rate for the Montney CGU. The increase in the discount rate was due to the increase in the estimated weighted average cost of capital for Montney producers and the expected return required by potential acquirers of these assets based on comparable market transactions over the last two years.

The recoverable amounts at December 31, 2017 for these CGUs are as follows:

($ thousands)	Other Alberta	Montney
Recoverable amounts	$ 212	$ 61,555

For the purpose of impairment testing, the Company assesses goodwill for impairment at the Canada level, which represents the Company's only operating segment. Changes to the assumed discount rate or forward price estimates independently would have the following impact on impairment at the Canada operating segment level:

($ thousands)	One Percent Decrease in the Discount Rate	One Percent Increase in the Discount Rate	Five Percent Increase in the Forward Price Estimates	Five Percent Decrease in the Forward Price Estimates
Impairment charge (recovery) of property, plant and equipment	$ (6,870)	$ 8,075	$ (16,491)	$ 18,455

9. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability. Additions represent the Company's share of costs incurred on exploration and evaluation assets during the period.

A reconciliation of the movements in exploration and evaluation assets is detailed below.

($ thousands)	**December 31, 2017**	December 31, 2016
Balance, beginning of year	**$ 58,915**	$ 47,917
Additions	**17,753**	11,078
Transfers to property, plant and equipment	**(15,078)**	(5,740)
Undeveloped lease expiries	**(7,122)**	(17,838)
Disposition	**(793)**	-
Recovery of impairment	**-**	23,498
Balance, end of period	**$ 53,675**	$ 58,915

During the year ended December 31, 2017, the Company capitalized administrative overhead charges of $1.48 million including $0.51 million for capitalized stock based compensation expense directly related to exploration and evaluation activities. During the year ended December 31, 2016, the Company capitalized administrative overhead charges of $1.09 million and $0.18 million was recognized for capitalized stock based compensation expense directly related to these activities.

In 2017, the Company incurred an expense of $7.12 million for undeveloped land expiries in the Montney CGU (2016: $17.84 million).

10. Deferred Income Taxes

The tax on the Company's net loss before taxes differs from the amount that would arise using the weighted average tax rate applicable to profits or losses of the consolidated entities as follows:

($ thousands)	December 31, 2017	December 31, 2016
Net income (loss) before taxes	$ (19,293)	$ 614
Combined federal and provincial tax rate	27.00%	27.00%
Computed "expected" deferred tax expense (recovery)	(5,209)	166
Increase (decrease) in deferred taxes resulting from:		
Non-deductible differences	(200)	(50)
Deferred tax asset not recognized in year	11,035	277
Rate adjustments	(98)	52
Deferred tax expense	$ 5,528	$ 445

In the fourth quarter of 2017, the Company evaluated the recoverability of its deferred tax assets using forecasted before-tax cash flows based on proved reserves, with escalating prices and future development costs obtained from an independent reserve evaluation report and a deduction for estimated general and administrative costs associated with these proved reserves. The statutory tax rate was 27% in 2017 and 2016.

The movement of the deferred tax asset is as follows:

($ thousands)	December 31, 2017	December 31, 2016
Balance, beginning of year	$ 17,645	$ 18,827
Tax recorded to statement of net profit or loss	(5,528)	(445)
Tax on share issue costs	771	182
Tax charge relating to flow through shares	-	(919)
Tax charge relating to components of other comprehensive income or loss	131	-
Balance, end of year	$ 13,019	$ 17,645

The movement in deferred tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

($ thousands)		Petroleum and natural gas properties		Asset retirement obligation		Share issue costs		Non-capital losses
Deferred tax asset:								
Balance, December 31, 2015	$	15,524	$	2,363	$	245	$	2,372
Credited (charged) to net profit or loss		(8,974)		(7)		26		7,612
Balance, December 31, 2016		6,550		2,356		271		9,984
Credited (charged) to net profit or loss		(2,697)		1,009		(311)		(3,305)
Credited to equity						771		
Balance, December 31, 2017	**$**	**3,853**	**$**	**3,365**	**$**	**731**	**$**	**6,679**

($ thousands)		Investments		Other
Deferred tax liability:				
Balance, December 31, 2015	$	1,587	$	90
Charged (credited) to net profit or loss		(2)		232
Charged to other comprehensive income or loss		28		-
Balance, December 31, 2016		1,613		322
Charged (credited) to net profit or loss		127		(322)
Credited to equity		(131)		-
Balance, December 31, 2017	**$**	**1,609**	**$**	**-**

The amount and timing of reversals of temporary differences will be dependent upon, among other things, the Company's future operating results, and acquisitions and dispositions of assets and liabilities.

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. It is expected that future cash flows, generated from its existing proved reserves, will be sufficient to provide future taxable profits to utilize the deferred tax assets.

Non-capital loss carry-forwards at December 31, 2017 expire from 2026 to 2035.

The movement in deferred tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	December 31, 2017	December 31, 2016
Petroleum and natural gas properties	$ 219	$ 219
Investments	44,622	40,738
Non-capital losses	103,774	104,470
Capital losses	36,489	36,488
	$ 185,104	$ 181,915

The Company does not expect to recover or settle its deferred tax assets and liabilities within the next twelve month period.

11. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to purchase Common Shares to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date or one year from the grant date. The grants generally expire five years from the grant date or five years from the commencement of vesting.

Under the Company's option plan, a put right is included that allows the optionee to settle options with cash or equity. The Company does not intend to cash settle these options in future periods. The Company has the option to decline a put right exercise at any time. Under the put right, the optionee will receive the net cash proceeds that is the excess of the closing price of the Common Shares at the day of the put notice over the exercise price of the option. Once the options are cash settled, the options are cancelled.

The number and weighted average exercise prices of stock options are as follows:

	Options Outstanding			Options Exercisable		
	Number of Options *(thousands)*	Weighted Average Years to Expiry	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Years to Expiry	Weighted Average Exercise Price
$0.175 - $0.30	9,453	2.77	$0.24	4,876	2.56	$0.26
$0.31 - $0.70	8,606	3.88	0.61	1,068	2.25	0.32
$0.71 - $1.00	3,078	0.56	0.87	3,028	0.48	0.87
$1.01 - $1.40	250	1.44	1.40	208	1.44	1.40
	21,387	**2.88**	**$0.50**	**9,180**	**1.81**	**$0.50**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2017:

	December 31, 2017		December 31, 2016	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	14,856	$0.41	19,982	$0.72
Granted	6,900	0.69	4,100	0.18
Forfeited	(232)	0.52	(4,289)	0.47
Expired	(90)	0.70	(3,260)	1.85
Exercised	(47)	0.62	(1,677)	0.60
Outstanding, end of period	21,387	$0.50	14,856	$0.41
Exercisable, end of period	9,180	$0.50	5,939	$0.55

The fair value of the liability was calculated using the Black-Scholes valuation model. The following weighted average assumptions were used in the model for options granted in 2017 and 2016:

	December 31, 2017	December 31, 2016
Weighted average fair value per award ($)	0.43	0.10
Volatility (%)	77.93	67.15
Forfeiture rate (%)	14.50	13.42
Expected life (years)	5.00	5.00
Risk free interest rate (%)	0.98	0.53

This forfeiture rate estimate is adjusted to the actual forfeiture rate. Expected volatility and expected life is based on historical information.

In December 2015, the Company changed the accounting for its stock-based compensation awards to assume that options will be equity-settled instead of cash-settled. The change was made to reflect the settlement history of the options. As a result of the change, the Company transferred $0.27 million from Share based Compensation Liability to contributed surplus.

12. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be $12.47 million as at December 31, 2017 (December 31, 2016: $8.73 million) based on an undiscounted total future liability of $16.26 million (December 31, 2016: $11.37 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 1.97% (December 31, 2016: 1.56%). An inflation rate of 2.2% (December 31, 2016: 2.2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

The following table provides a reconciliation of the Company's total asset retirement obligation:

($ thousands)		December 31, 2017		December 31, 2016
Balance, beginning of year	$	8,726	$	8,752
Liabilities incurred		665		161
Liabilities settled		(201)		(18)
Revisions due to change in discount and inflation rates		804		(311)
Liabilities acquired [(1)]		2,298		-
Accretion		173		142
Balance, end of year	$	12,465	$	8,726

[(1)] See Note 8 regarding the business combination

13. Credit Facility

As at December 31, 2017, the credit facilities include a revolving operating demand facility of $17.9 million ("Credit Facility A"), and a corporate credit card of $0.1 million ("Credit Facility C"). Credit Facility A can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. Any borrowing under the facilities, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The bank's prime rate currently is 3.20% per annum. The facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the credit facility, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at December 31, 2017 was 2.66 and the covenant was met. At December 31, 2017, $13.90 million (December 31, 2016: $22.89 million) was drawn on Credit Facility A.

The following table reconciles the movement in the credit facilities during the year.

($ thousands)		December 31, 2017		December 31, 2016
Credit Facilities beginning of year	$	22,888	$	14,542
Drawndown from Credit Facilities		30,880		32,246
Repayment of Credit Facilities		(39,867)		(23,900)
Credit Facilities end of year	$	13,901	$	22,888

The credit facilities are a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity.

In January 2018, Credit Facility A was renewed at $17.9 million, and Credit Facility C remains at $0.1 million.

14. Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class “B” common voting shares and an unlimited number of preferred shares, issuable in one or more series. At December 31, 2017, there were no Class “B” common voting shares or preferred shares outstanding.

a) Issued and outstanding – Common Shares

	Number (thousands)		Amount ($ thousands)
Balance, December 31, 2016	308,274		359,151
Private Placements	67,452		55,988
Options exercised	47		29
Warrants exercised	9,558		1,912
Share issue costs (net of tax effect)	-		(2,085)
Balance, December 31, 2017	**385,331**	**$**	**414,995**

The Company completed a series of private placements in 2017 for gross proceeds of approximately $56 million. In February 2017, the Company issued 30.8 million Common Shares at $0.79 per Common Share for gross proceeds of approximately $24.6 million and 1.41 million Common Shares at $0.49 per Common Share for gross proceeds of $0.60 million. In October 2017, the Company issued 34.9 million Common Shares at $0.89 per Common Share for gross proceeds of approximately $31 million.

b) Per share amounts

Basic net loss per share is calculated as follows:

(thousands, except as noted)		**December 31, 2017**		December 31, 2016
Net loss ($ thousands)	**$**	**(24,821)**	$	169
Weighted average number of Common Shares outstanding (basic)		**350,055**		278,662
Basic net loss per share	**$**	**(0.07)**	$	-

Diluted net loss per share is calculated as follows:

(thousands, except as noted)		**December 31, 2017**		December 31, 2016
Net loss ($ thousands)	**$**	**(24,821)**	$	169
Weighted average number of Common Shares outstanding (basic)		**350,055**		278,662
Effect of outstanding options		**-**		1,748
Weighted average number of Common Shares outstanding (diluted)		**350,055**		280,410
Diluted net loss per share	**$**	**(0.07)**	$	-

Under the current stock option plan, options can be exchanged for Common Shares of the Company, or for cash at the Company’s discretion. They are considered potentially dilutive and are included in the calculation of diluted net loss per share for the period. The average market value of the Common Shares for purposes of

calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. At December 31, 2017, 21.39 million options (December 31, 2016: 14.58 million) were excluded from the diluted weighted average number of Common Shares outstanding calculation as their effect would have been anti-dilutive.

In connection with a private placement completed in July 2016, the Company issued warrants to purchase Common Shares at a price of $0.20 per Common Share until January 28, 2018. At December 31, 2017, there were 3.57 million warrants outstanding.

15. Petroleum and Natural Gas Sales

($ thousands)		**December 31, 2017**		December 31, 2016
Oil and liquids	**$**	**18,400**	$	13,912
Natural gas		**2,961**		3,208
	$	**21,361**	$	17,120

16. Employee Salaries and Benefits

($ thousands)		**December 31, 2017**		December 31, 2016
Salaries, bonuses and other short-term benefits	**$**	**1,383**	$	1,625
Share based compensation		**917**		303
	$	**2,300**	$	1,928

17. Key Management Compensation

Key management includes directors and officers. The compensation paid or payable to key management is as follows:

($ thousands)		**December 31, 2017**		December 31, 2016
Salaries, bonuses, director fees and other short-term benefits	**$**	**1,195**	$	1,287
Share based compensation		**830**		271
	$	**2,025**	$	1,558

The Company has entered into written executive employment agreements with each of the officers of the Company. Each of these written agreements provides that in the event of a change of control of the Company, each of the officers is entitled to: (i) one month of then applicable base salary per year of service with the Company; and (ii) the vesting of all options to purchase Common Shares. In the event of a change in control, the severance payable to key management would have been $1.31 million at December 31, 2017. This amount does not include accelerated stock based compensation expense.

18. Supplemental Cash Flow Information

Changes in non-cash working capital are detailed below:

($ thousands)	December 31, 2017	December 31, 2016
Accounts receivable	$ (1,442)	$ 329
Deposits and prepaid expenses	69	(43)
Accounts payable and accrued liabilities	14,760	(5,157)
Change in non-cash working capital	$ 13,387	$ (4,871)
Related to:		
Operating activities	$ 8,495	$ 586
Investing activities	4,892	(5,457)
	$ 13,387	$ (4,871)

19. Commitments

A summary of the Company's net commitments at December 31, 2017 follows:

($ thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Transportation, Marketing and Processing	$ 4,728	$ 3,990	$ 3,990	$ 3,990	$ 3,990	$ 15,962	$ 36,650
Office Leases	116	99	90	-	-	-	305
	$ 4,844	$ 4,089	$ 4,080	$ 3,990	$ 3,990	$ 15,962	$ 36,955

20. Contingent Liability

In 2011, a joint venture partner commenced legal action primarily relating to the costs of drilling two wells in Quebec in 2010. A trial to determine the amount owing by the Company is currently scheduled for December 2018 with an anticipated ruling likely in early 2019. The Company has recorded an amount of $2.4 million as a current payable on the basis that it expects a portion of the disputed amount may be settled within the next year prior to the scheduled trial. A further $3.5 million has been recorded as a contingent liability in respect of the additional potential exposure with respect to this matter. These amounts above have been accrued in prior years. The Company's potential exposure with respect to this liability is $5.9 million plus accrued interest and costs.

21. Related Party Transactions

The Company did not engage in any related party transactions during the year ended December 31, 2017, other than key management compensation as disclosed.

22. Subsequent Events

In January 2018, Credit Facility A was renewed at $17.9 million and Credit Facility C remains at $0.1 million.