2018 ANNUAL REPORT

QUESTERRE ENERGY CORPORATION

2018

QUESTERRE ENERGY CORPORATION IS LEVERAGING ITS EXPERTISE GAINED THROUGH EARLY EXPOSURE TO SHALE AND OTHER NON-CONVENTIONAL RESERVOIRS.

THE COMPANY HAS BASE PRODUCTION AND RESERVES IN THE TIGHT OIL BAKKEN/TORQUAY OF SOUTHEAST SASKATCHEWAN.

IT IS BRINGING ON PRODUCTION FROM ITS LANDS IN THE HEART OF THE HIGH-LIQUIDS MONTNEY SHALE FAIRWAY.

IT IS A LEADER ON SOCIAL LICENSE TO OPERATE ISSUES FOR ITS GIANT UTICA SHALE GAS DISCOVERY IN QUEBEC.

IT IS PURSUING OIL SHALE PROJECTS WITH THE AIM OF COMMERCIALLY DEVELOPING THESE SIGNIFICANT RESOURCES.

QUESTERRE IS A BELIEVER THAT THE FUTURE SUCCESS OF THE OIL AND GAS INDUSTRY DEPENDS ON A BALANCE OF ECONOMICS, ENVIRONMENT AND SOCIETY. WE ARE COMMITTED TO BEING TRANSPARENT AND ARE RESPECTFUL THAT THE PUBLIC MUST BE PART OF MAKING THE IMPORTANT CHOICES FOR OUR ENERGY FUTURE.

QUESTERRE'S COMMON SHARES TRADE ON THE TORONTO STOCK EXCHANGE AND OSLO STOCK EXCHANGE UNDER THE SYMBOL QEC.

President's Message

2018 was a very good year with progress on our key objectives despite a setback on two regulations in Quebec.

The successful farmout wells at Kakwa North contributed to a more than 60% increase in our year-end reserves. These wells were drilled with longer horizontal legs and more completions intervals than our existing wells. Initial results point to another step change in production rates and future wells will likely continue to use the longer laterals with more intervals. We also doubled our land position at Kakwa and now have a meaningful core area in the condensate-rich fairway.

Although disappointed by the last-minute changes to the regulations in Quebec, we are continuing to make progress on social license. We are building a coalition of industry leaders for our clean tech energy pilot and support is growing. To advance this pilot, which would be a world first, we signed an agreement to regain operatorship and consolidate our ownership in Quebec. Through this agreement we will add over 753,000 net acres and expect to materially increase our net resources.

We advanced the engineering for our oil shale project in Jordan. A feasibility study completed by Hatch estimates we would receive premium pricing to Brent for our oil and total capital and operating costs of between US$38-$40/bbl, which is competitive with similar scale projects. As we prepare for the concession negotiations later this year, we have begun the next round of engineering to further reduce these costs and improve returns.

Highlights

- Total proved and probable reserves increased by 63% to 30 MMBoe with a before income tax NPV-10% of $229 million
- Kakwa North farm-in wells test at average rates of 2,800 boe/d including over 1,000 bbl/d of condensate
- Concludes agreement to acquire 753,000 net acres and regain operatorship in Quebec
- Feasibility study for Jordan oil shale project supports concession application
- Production averages 1,869 boe/d with adjusted funds flow from operations of $15 million during the year

Kakwa, Alberta

With the farmout of Kakwa North, we are now developing our Montney acreage with two partners.

Our new partner is an experienced operator and previously operated the Kakwa Central acreage. In the last year, they have drilled three wells and built the pipeline infrastructure, including a tie-in to a third-party processing plant. This pipeline tie-in also runs through our recently acquired joint acreage at Kakwa West, reducing future infrastructure costs. They have the option of drilling one additional well to complete their earning for a joint interest in both Kakwa North and Kakwa South. Once earning is completed, a joint drilling program could begin in the last quarter of this year.

Their wells are designed with laterals approximately 25% longer and nearly three times as many completion intervals as our other Kakwa wells. Their first well at Kakwa North set a new record for the number of completion intervals run on coiled tubing at a measured depth of 6,900m. Based on the early results, this could lead to another step change in improving recoveries.

We also continued development of our Kakwa Central acreage and participated in the operator's program during the year. In addition to the drilling and completion activity, there was an investment in infrastructure including a central water and processing facility expansion to double capacity for future growth. Subject to commodity prices, we plan to participate in a similar drilling program in 2019.

St. Lawrence Lowlands, Quebec

Social license remains the key to moving forward in Quebec.

Based on the growing interest in our clean tech energy pilot and its benefits, it could help both solve our regulatory challenges and secure the social acceptability we need to move forward. We are developing a detailed proposal with a leading Quebec engineering firm and plan to submit this formal application for approval later this year.

While elements of this clean tech energy pilot have been implemented in oil and gas development globally, integrating existing and new technologies will be a first under this pilot project. In addition to the jobs and other economic benefits of developing local natural gas, this pilot is targeting near zero emissions, no drinking water usage and no toxic fluids below ground. It could promote the development of related clean tech industries that use natural gas as feedstock such as methanol, fertilizers and other value-added products. To ensure communities directly benefit, we also introduced a plan to share revenues from the pilot with the local towns and municipalities.

Regaining operatorship of this project will be essential to implementing the clean tech energy pilot and the revenue sharing proposal. We expect to become the operator later this year when we close the acquisition and consolidate our assets in Quebec. In addition to the cash and other consideration of approximately $11 million, including contingent payments, we will release each other from all claims associated with the outstanding litigation.

Oil Shale Mining

The Hatch feasibility study validated our assessment of commercially developing our multi-billion barrel oil shale resource in Jordan with Red Leaf's EcoShale process.

This year we are moving to the next phase of engineering to improve the accuracy of our estimates. We are leveraging the ongoing engineering work by Hatch and our partner, Red Leaf, to optimize the engineering work for EcoShale. We are particularly focused on reducing capital costs. Given the large upfront investment in developing a 50,000 bbl/d retort refinery to processes oil shale and produce low sulphur diesel and gasoline, any material reductions in capital can substantially improve project returns.

We expect these capital costs and the fiscal terms we intend to finalize during our concession negotiations this year will be critical to attracting the partners and financing needed to advance this project to the next stage.

Operational & Financial

As a result of the significant investment in Kakwa over the last two years, our production grew by 40% over the prior year to average 1,869 boe/d. With over two thirds of our production as oil and liquids, specifically condensate, we realized an average sales price of $48/boe. This contributed to adjusted funds flow from operations of $15.1 million for year compared to $6.8 million last year.

This funded one half of our capital expenditures with the remainder financed by our cash on hand. Consistent with prior years, almost 90% of our capital investment of $31 million in the year was at Kakwa. Drilling, completions and facilities spending account for the majority of this amount with land acquisitions accounting for the balance.

Outlook

With stronger oil prices, and, more importantly, differentials in the first quarter of this year, we expect to participate in the proposed drilling program at Kakwa Central with the goal to turn our reserve growth into production growth. This investment may increase in the second half of the year with additional drilling at Kakwa North.

In Quebec, our goals for this year are to close the acquisition and work with the Government, local communities and other stakeholders on social license. Based on the feedback on our pilot and revenue sharing plan, we are optimistic we can make substantial progress this year.

We are also optimistic about the prospects for our oil shale project given the activity in Jordan. The first oil shale fired power plant with capacity of 400MW is under construction and we believe a second project with a capacity of 25,000 bbl/d could be sanctioned by the end of this year. Our project is considerably larger that both of these projects and, with success on optimizing costs and improving returns, we could see it ultimately developed.

Michael Binnion, President and Chief Executive Officer

Principal Areas of Operation

Kakwa, Alberta

The Kakwa area is situated approximately 75 kilometres south of Grande Prairie in west central Alberta.

Among other zones of interest, the area is prospective for condensate-rich natural gas in the deep, over-pressured fairway of the Montney formation, at a depth of approximately 3,100 metres to 3,600 metres. Questerre's wells are currently targeting two of three prospective intervals in the Upper Montney formation. Economics are enhanced by relatively high liquids content, particularly condensate, and Crown royalty incentives. Questerre currently holds 40,160 (21,720 net) acres in the area, including a 25% working interest in 10,080 acres ("Kakwa Central"), 100% working interest in 4,480 acres ("Kakwa North"), a 50% interest in 21,760 acres ("Kakwa West") and a 100% interest in 3,840 acres ("Kakwa South").

Initial development of the Montney focused on areas of dry gas or relatively low liquids of approximately 25 bbls/MMcf in British Columbia. With changes in the natural gas market, activity shifted to target sweet spots where natural gas liquids rates are higher. With test rates from its wells as high as 200 bbls/MMcf, the Company's acreage is in one of the sweet spots of this liquids-rich fairway. More importantly, liquids from these wells are mainly condensate which retains a premium to light oil and liquids prices because it is used as a diluent for bitumen and heavy oil production in Alberta.

In 2018, capital investment in Kakwa totaled $27.67 million (2017: $22.39 million) with daily production averaging 1,474 boe/d (2017: 1,123 boe/d). Total proved and probable reserves at December 31, 2018 were estimated at 27.85 MMBoe (2017: 16.09 MMBoe) with a before income tax NPV-10% of $183.79 million (2017: $121.59 million).

The majority of this capital investment and production was attributable to the Kakwa Central acreage. On this acreage, 3 (0.71 net) wells were drilled and 5 (1.18 net) wells completed and tied-in. In addition, field infrastructure was expanded to accommodate for future growth. These expansions included the central water facility and central processing facility where capacity was effectively doubled as well as installation of ancillary pipelines and gas-lift facilities. Questerre holds a 25% interest in these facilities. The investment in infrastructure totaled $12.36 million or just under half of the total investment in Kakwa for the year (2017: $7.74 million). As a result of this significant investment over the last two years, Questerre anticipates a limited investment of approximately $2 million in infrastructure will be required over the next three years to further expand field capacity.

At Kakwa North, the Company's farm-in partner drilled, completed and tied-in two wells. The wells were placed on production early in the first quarter of 2019. During the first thirty days, gross production from these wells averaged 5.5 MMcf/d and 733 bbls/d of condensate and other liquids (1,653 boe/d). Though the initial rates from these wells is encouraging, they are not necessarily indicative of long-term performance. The results from these wells contributed to the material increase in proved and probable reserves at Kakwa during 2018.

The operator also spud the third farm-in well early in 2019 with the potential for a fourth farm-in well to be drilled later this year. Questerre holds a royalty interest in these wells converting to a 50%

working interest after payout. Upon the completion of all contemplated farm-in wells at Kakwa North and Kakwa South, Questerre will hold a 50% interest in 8,320 gross acres in these areas.

In the fourth quarter of 2018, the Company acquired 21,760 gross (10,880 net) acres at Kakwa West, immediately offsetting its acreage at Kakwa North and Kakwa Central. The lands are subject to an industry standard gross overriding royalty. The Company is evaluating plans for development with the operator.

Based on realized commodity prices and continued results, the Company anticipates it will participate in the planned drilling program of up to 5 (1.25 net) wells at Kakwa Central in 2019. Subject to the results from the farm-in wells at Kakwa North and the operator's program, the Company may participate in additional drilling on this acreage.

Antler, Saskatchewan

The Antler area is approximately 200 kilometres from Regina in southeast Saskatchewan. The primary target is high quality light oil from the Bakken/Torquay formation, a dolomitic siltstone shale sequence at a depth of between 1,050 metres and 1,150 metres. Secondary targets include the Souris Valley, a carbonate sequence at a depth of approximately 900 metres to 1,000 metres. The Company currently holds 11,952 net acres in the Antler area.

Consistent with prior years, activities at Antler targeted optimizing existing production and expanding the pilot secondary recovery scheme to increase recovery of the oil in place.

Questerre invested $1.02 million (2017: $8.79 million) at Antler with daily production averaging 359 bbls/d (2017: 179 bbls/d). Total proved and probable reserves as at December 31, 2018 were estimated at 1.87 MMbbls (2017: 2.02 MMbbls) with a before income tax NPV-10% of $40.68 million (2017: $48.72 million).

In 2019, Questerre expects to continue its work on optimizing existing production and the pilot secondary recovery scheme.

St. Lawrence Lowlands, Quebec

The Lowlands are situated in Quebec, south of the St. Lawrence River between Montreal and Quebec City. The exploration potential of the Lowlands is complemented by proximity to one of the largest natural gas markets in North America and a well-established distribution network.

The area is prospective for natural gas in several horizons with the primary target being the Utica formation. Secondary targets include the shallower Lorraine silts and the deeper Trenton Black-River carbonate. The majority of Questerre's one million gross acres lies in the heart of the fairway between two major geological features — Logan's Line, a subsurface thrust fault to the east and the Yamaska growth fault to the west.

Following a successful vertical test well program in 2008 and 2009, Questerre and its partner, Repsol Oil & Gas Canada Inc. (formerly Talisman Energy Inc.), began a pilot horizontal well program to assess commerciality of the Utica in 2010. In the fall of 2010, the pilot program was suspended while the provincial government initiated an environmental assessment of shale gas development in the province.

Following almost six years of extensive studies and public consultation, in December 2016, the Government of Quebec passed Bill 106, *An Act to implement the 2030 Energy Policy and amend various legislative provisions*. These amendments include the enactment of the *Petroleum Resources Act* (Quebec) (the "*Petroleum Resources Act*") to govern the future development of petroleum resources in Quebec. In September 2017, the Ministry of Natural Resources published the proposed regulations required for the implementation of the *Petroleum Resources Act.*

The purpose of the *Petroleum Resources Act* is: (i) to replace the current oil & gas statutory framework set by the *Quebec Mining Act*; and (ii) to govern the development of petroleum resources while ensuring the safety of persons and property, environmental protection and optimal recovery of the resource, in compliance with the greenhouse gas emission reduction targets set by the Quebec Government.

In 2018, Questerre focused on continued engagement with the Government of Quebec for the passage of the final hydrocarbon regulations, securing social acceptability and regaining operatorship for its natural gas discovery in the Lowlands.

The Company will regain operatorship through the purchase and sale agreement executed with a senior exploration and production company to acquire joint assets in the Lowlands. This follows the letter of intent signed in early 2018.

Pursuant to the agreement, Questerre will acquire the exploration rights to 753,000 net acres in the Lowlands, associated wells and equipment, geological and geophysical data and other miscellaneous assets. Upon closing of the transaction, both parties will release each other from all claims related to outstanding litigation. Other consideration including cash and contingent payments and the security required for the assumption of abandonment and reclamation liabilities ("A&R Liabilities") is approximately $11 million in aggregate. Questerre may post a letter of credit as security for the A&R Liabilities. Closing of the transaction is subject to the approval by the Government of Quebec for the transfer of the exploration permits and licenses to Questerre and is scheduled before December 31, 2019. The Company intends to update the resource assessment of its Quebec assets following the closing of this transaction. For more information on the resource assessment, please see the Company's 2017 Annual Information Form ("AIF") dated March 27, 2018 and its press release dated March 12, 2018 available on the Company's website at www.questerre.com and www.sedar.com.

In the third quarter of 2018, the Government of Quebec enacted the *Petroleum Resources Act* to govern the development of hydrocarbons in the province. It also enacted the associated regulations (the "Regulations") which include unexpected restrictions on oil and gas activities, specifically the prohibition of hydraulic fracturing of shale and a prohibition of activities within 1,000 meters from urbanized areas and bodies of water. These restrictions would prevent Questerre from developing its assets in Quebec. Questerre believes the remaining Regulations while stricter than other jurisdictions, are generally workable.

Following the enactment of the Regulations, Questerre filed a legal brief with the Superior Court of Quebec challenging the validity of the specific Regulations relating to the hydraulic fracturing restrictions. The brief requested a stay and ultimately a judicial hearing to have them set aside. The Company's motion was made on the basis that the Regulations are ultra vires, or beyond the legal authority granted to the Government by the *Petroleum Resources Act*, contrary to the independent

scientific studies, and moreover they do not comply with the consultation requirements detailed in Quebec legislation with respect to the enactment of regulations. The Company was granted a fast track hearing for the judicial review in the first quarter of 2019.

At the request of the Ministry of Justice, Questerre agreed to temporarily defer the judicial review hearing. To address concerns about the potential environmental impacts of development, Questerre has recently submitted for review by the Ministry of Environment a conceptual engineering plan to test its clean tech energy pilot program. Discussions with the Government are on going. These actions are to allow the parties to resolve the issues raised in the Company's legal brief in a constructive manner.

During the year, the Company continued to advance its clean tech energy pilot as part of its goal to secure social acceptability for its project. This pilot is designed to test the technologies and processes needed to produce natural gas while substantially eliminating greenhouse gas emissions, drinking water usage and toxic fluids below ground as well as materially reduce noise pollution. The Company also introduced a revenue sharing initiative with local communities to further improve social acceptability.

In 2019, the Company plans to continue its work on social acceptability while engaging with the Government to resolve the present regulatory uncertainty.

Oil Shale Mining

Questerre's oil shale assets include its project in the Kingdom of Jordan ("Jordan") and its interest in Red Leaf Resources Inc. ("Red Leaf"). Red Leaf is a private Utah based company whose principal assets include the EcoShale process to produce oil and shale and oil shale leases in the state of Utah. Questerre currently owns approximately 30% of the common share capital of Red Leaf and holds a license to the EcoShale process.

The Company acquired the Jordanian project in 2015 through a Memorandum of Understanding ("MOU") for the appraisal and development of oil shale with the Ministry of Energy and Mineral Resources in Jordan (the "MEMR"). The MOU currently covers an area of 265 km^2 in the Isfir-Jafr area, approximately 200 km south of the capital Amman. The Company holds a 100% working interest in the MOU and the resources. Upon acceptance of the requisite submissions under the MOU to the MEMR, the Company anticipates it will enter into negotiations for a concession agreement to include fiscal and other terms. The Company will continue to hold an exclusive right to exploration for the acreage under the MOU during the term of these negotiations.

Following an independent resource assessment prepared by Millcreek Mining Group ("Millcreek") in accordance with Canadian Securities Administrators' National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") and the COGE Handbook ("COGE") effective October 1, 2016, the Company's primary objective is to evaluate the feasibility of commercial development. For more information on the resources assessment, please refer to the Company's 2016 AIF dated March 24, 2017 and press release dated October 27, 2016 available on the Company's website at www.questerre.com and www.sedar.com.

The economic feasibility work involves assessing multiple retorting processes specifically for the Jordanian oil shale. This includes two processes that have been proven at commercial scale. Also under evaluation is the EcoShale process developed by Red Leaf. With Questerre, Red Leaf has

redesigned the EcoShale process to focus on reusable capsules. Red Leaf estimates that using large steel vessels similar to those used in coker facilities in refineries instead of the original single use earthen capsule could materially reduce costs.

In addition to assessing the retorting component of production, Questerre commissioned engineering studies to evaluate the three other components - mining and preparation of the ore, infrastructure, including power and other utilities, and upgrading of the produced oil including a marketing study. In 2018, Questerre completed an internal review of the retorting processes and the engineering studies. Based on the unique characteristics of the Jordanian shale, the Company believes the re-designed EcoShale process could be the most efficient.

In June 2018, the Company finalized a feasibility study for this project incorporating the engineering studies completed to date. Conducted by Hatch Ltd. ("Hatch"), a global engineering firm, the design basis for the study is an initial project capable of sustaining production of 50,000 bbl/d.

The study estimates capital costs, including a 20% contingency, of US$18-$20/bbl and operating costs of US$18/bbl. These costs include the upgrading of the produced oil to low sulphur diesel and gasoline, that based on a regional marketing study, typically realize a US$10-$12/bbl premium to the Brent benchmark pricing. These costs are AACE Class 5 cost estimates with an average accuracy of +100%/-50%.

Based on these results that support the technical and economic feasibility of the project, the Company is moving to the next phase of contract engineering with Hatch. This is designed to identify opportunities to optimize the processes and potentially improve economic returns. It is also designed to improve the accuracy of cost estimates from Class 5 to Class 4 which have an average accuracy of +30%/-20%.

The Company currently holds 132,293 common shares, representing approximately 30% of the common share capital of Red Leaf and 288 Series A Preferred Shares, representing less than 0.5% of the issued and outstanding preferred share capital of Red Leaf.

In addition to its EcoShale process and its oil shale leases in Utah, Red Leaf holds US$93 million in cash and no debt as of December 31, 2018. In addition to common shares, Red Leaf's equity capital includes convertible preferred shares with dividends accruing at 8% per annum compounded annually. As at December 31, 2018, the preferred shares are entitled to a priority amount of US$90 million 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. For more information, see Note 7 to the Financial Statements.

Environmental Stewardship

Questerre is committed to the economic development of resources in an environmentally conscious and socially responsible manner. We acknowledge that, like all industries, we impact the environment. Although this impact cannot be completely eliminated, we can ensure that our footprint is minimized. Questerre believes in a prudent approach to the sourcing, use and disposal of water for drilling and completion operations in compliance with strict environmental regulations. Wherever possible, we recycle and reuse water. Where produced water cannot be recycled, we dispose of it responsibly at controlled sites in accordance with government regulations.

Our surface rights are shared with stakeholders including the landowners and the government. Horizontal drilling and multi-well pads keep disturbance to a minimum by reducing the number of drilling pads required. Commercial development will use central facilities for drilling, completion and production operations to further reduce surface disturbance. We constantly invest in new technologies and adopt best practices that help us keep our surface footprint to a minimum. Our focus in Quebec is on natural gas, the cleanest fossil fuel. Production close to markets saves on transportation and reduces overall emissions. We support and promote the use of technology to improve efficiencies and reduce emissions from our operations.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of March 28, 2019 and should be read in conjunction with the audited consolidated financial statements of Questerre Energy Corporation ("Questerre" or the "Company") as at and for the years ended December 31, 2018 and 2017. Additional information relating to Questerre, including Questerre's Annual Information Form for the year ended December 31, 2018 dated March 28, 2019 ("AIF"), is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is actively involved in the acquisition, exploration and development of oil and gas projects, and, in specific, non-conventional projects such as tight oil, oil shale, shale oil and shale gas. Questerre is committed to the economic development of its resources in an environmentally conscious and socially responsible manner.

The Company's Class "A" Common voting shares ("Common Shares") are listed on the Toronto Stock Exchange and the Oslo Stock Exchange under the symbol "QEC".

Basis of Presentation

Questerre presents figures in the MD&A using accounting policies within the framework of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, representing generally accepted accounting principles ("GAAP"). All financial information is reported in Canadian dollars, unless otherwise noted.

Forward-Looking Statements

Certain statements contained within this MD&A constitute forward-looking statements. These statements relate to future events or our 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 "anticipate", "assume", "believe", "budget", "can", "commitment", "continue", "could", "estimate", "expect", "forecast", "foreseeable", "future", "intend", "may", "might", "plan", "potential", "project", "will" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Management believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A.

This MD&A contains forward-looking statements including, but not limited to, those pertaining to the following:

- drilling plans and the development and optimization of producing assets;
- future production of oil, natural gas and natural gas liquids and the weighting thereof;
- future commodity prices;
- legislative and regulatory developments in the Province of Quebec;
- the acquisition of assets in Quebec and the operatorship of such assets;
- the timing of the development of the Company's resources in Quebec;

- the Company's focus on engagement with the Government of Quebec for the passage of the final oil and gas regulations and social acceptability in Quebec;
- liquidity and capital resources;
- the assessment and report of the retorting processes and engineering studies of the Company's oil shale project in Jordan;
- moving to the next phase of contract engineering in Jordan;
- the Company's plans to enter into negotiations for a concession agreement in Jordan;
- the Company's compliance with the terms of its credit facility;
- timing of the next review of the Company's credit facility by its lender;
- the efficiency of the re-designed EcoShale process and cost reductions associated therewith;
- ability of the Company to meet its foreseeable obligations;
- expectations regarding the Company's liquidity increasing over time;
- capital expenditures and the funding thereof;
- Questerre's reserves and resources;
- impacts of capital expenditures on the Company's reserves and resources;
- the benefits of the joint venture infrastructure in the Kakwa area;
- average royalty rates;
- commitments and Questerre's participation in future capital programs;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness;
- joint venture partner willingness to participate in capital programs;
- flow-through shares and use of proceeds and renunciation and indemnity obligations associated therewith;
- insurance;
- use of financial instruments;
- critical accounting estimates and;
- timing and type of economic feasibility studies.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A, the AIF, and the documents incorporated by reference into this document:

- volatility in market prices for oil, natural gas liquids and natural gas;
- counterparty credit risk;
- access to capital;
- the terms and availability of credit facilities;
- changes or fluctuations in oil, natural gas liquids and natural gas production levels;
- liabilities inherent in oil and natural gas operations;
- adverse judicial rulings, regulatory rulings, orders and decisions;
- attracting, retaining and motivating skilled personnel;
- uncertainties associated with estimating oil and natural gas reserves and resources;
- competition for, cost and availability of, among other things, capital, acquisitions of reserves, undeveloped lands, equipment, skilled personnel and services;

- incorrect assessments of the value of acquisitions and targeted exploration and development assets;
- fluctuations in foreign exchange or interest rates;
- stock market volatility, market valuations and the market value of the securities of Questerre;
- failure to realize the anticipated benefits of acquisitions;
- the passage of applicable hydrocarbon and environmental legislation and regulations and local acceptability;
- actions by governmental or regulatory authorities, including changes in royalty structures and programs, and income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry;
- limitations on insurance;
- changes in environmental, tax, or other legislation applicable to the Company's operations, and its ability to comply with current and future environmental and other laws; and
- geological, technical, drilling and processing problems, and other difficulties in producing oil, natural gas liquids and natural gas reserves.

Statements relating to "reserves" or "resources" are by their nature 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 discounted and undiscounted net present values of future net revenue attributable to reserves and resources do not represent the fair market value thereof.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities law. Certain information set out herein with respect to forecasted results is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding the Company's reasonable expectations as to the anticipated results of its proposed business activities. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

BOE Conversions

Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalent of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Non-GAAP Measures

This document contains certain financial measures, as described below, which do not have standardized meanings prescribed under GAAP. As these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned

that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

This document contains the term "adjusted funds flow from operations", which is an additional non-GAAP measure. The Company uses this measure to help evaluate its performance.

As an indicator of the Company's performance, adjusted funds flow from operations should not be considered as an alternative to, or more meaningful than, net cash from operating activities as determined in accordance with GAAP. The Company's determination of adjusted funds flow from operations may not be comparable to that reported by other companies. Questerre considers adjusted funds flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund operations and support activities related to its major assets.

Adjusted Funds Flow from Operations Reconciliation

($ thousands)	**2018**	2017
Net cash from operating activities	**$ 13,091**	$ 14,661
Interest received	**(544)**	(154)
Interest paid	**593**	769
Change in non-cash working capital	**2,073**	(8,495)
Adjusted funds flow from operations	**$ 15,213**	$ 6,781

This document also contains the terms "operating netbacks", "cash netbacks" and "working capital surplus (deficit)", which are non-GAAP measures.

The Company considers netbacks a key measure as it demonstrates its profitability relative to current commodity prices. Operating and cash netbacks, as presented, do not have any standardized meaning prescribed by GAAP and may not be comparable with the calculation of similar measures for other entities. Operating netbacks have been defined as revenue less royalties, transportation and operating costs. Cash netbacks have been defined as operating netbacks less general and administrative costs. Netbacks are generally discussed and presented on a per boe basis.

The Company also uses the term "working capital surplus (deficit)". Working capital surplus (deficit), as presented, does not have any standardized meaning prescribed by GAAP, and may not be comparable with the calculation of similar measures for other entities. Working capital surplus (deficit), as used by the Company, is calculated as current assets less current liabilities excluding the risk management contracts.

Select Annual Information

As at/for the years ended December 31,	**2018**	2017	2016
Financial ($ thousands, except as noted)			
Petroleum and Natural Gas Sales	**32,969**	21,361	17,120
Adjusted Funds Flow from Operations	**15,213**	6,780	7,045
Basic and Diluted ($/share)	**0.04**	0.02	0.03
Net Income (Loss)	**13,466**	(24,821)	169
Basic and Diluted ($/share)	**0.03**	(0.07)	–
Capital Expenditures, net of Acquisitions and Dispositions	**31,102**	27,746	14,218
Working Capital Surplus (Deficit)	**(9,078)**	9,648	(17,019)
Total Non-Current Financial Liabilities	**13,736**	15,952	8,726
Total Assets	**233,372**	217,215	177,761
Shareholders' Equity	**187,291**	170,739	139,660
Common Shares Outstanding (thousands)	**389,007**	385,331	308,274
Weighted average - basic (thousands)	**388,712**	350,055	278,662
Weighted average - diluted (thousands)	**395,715**	350,055	280,410
Operations (units as noted)			
Average Production			
Crude Oil and Natural Gas Liquids (bbls/d)	**1,263**	821	801
Natural Gas (Mcf/d)	**3,635**	3,350	3,436
Total (boe/d)	**1,869**	1,379	1,373
Average Sales Price			
Crude Oil and Natural Gas Liquids ($/bbl)	**66.27**	61.28	47.51
Natural Gas ($/Mcf)	**1.82**	2.42	2.55
Total ($/boe)	**48.33**	42.44	34.06
Netback ($/boe)			
Petroleum and Natural Gas Revenue	**48.33**	42.44	34.06
Royalties Expense	**(2.76)**	(2.17)	(1.86)
Percentage	**6%**	5%	5%
Operating Expense	**(17.09)**	(19.93)	(15.23)
Operating Netback	**28.48**	20.34	16.98
General and Administrative Expense	**(6.50)**	(6.24)	(5.49)
Cash Netback	**21.99**	14.11	11.48
Wells Drilled			
Gross	**3.00**	7.00	3.00
Net	**0.71**	1.60	0.75

Highlights

- Total proved and probable reserves increased by 63% to 30 MMBoe with a before income tax NPV-10% of $229 million
- Kakwa North farm-in wells test at average rates of 2,800 boe/d including over 1,000 bbl/d of condensate
- Concludes agreement to acquire 753,000 net acres and regain operatorship in Quebec
- Feasibility study for Jordan oil shale project supports concession application
- Production averages 1,869 boe/d with adjusted funds flow from operations of $15 million during the year

2018 Activities

Western Canada

Kakwa, Alberta

With the farmout of its Kakwa North acreage during the year, development of the Company's condensate-rich Montney acreage is now underway with two joint venture partners.

In 2018, capital investment in Kakwa totaled $27.67 million (2017: $22.39 million) with daily production averaging 1,474 boe/d (2017: 1,123 boe/d). Total proved and probable reserves at December 31, 2018 were estimated at 27.85 MMBoe (2017: 16.09 MMBoe) with a before income tax NPV-10% of $183.79 million (2017: $121.59 million). The Company currently holds 40,160 (21,720 net) acres in the Kakwa area.

The majority of this capital investment and production was attributable to the Kakwa Central acreage where Questerre holds a 25% interest in 10,080 acres. On this acreage, 3 (0.71 net) wells were drilled and 5 (1.18 net) wells completed and tied-in during the year. These included the 102/04-09-63-6W6M Well and the 102/11-18-63-5W6M Well. During the first thirty days gross production from these two wells averaged 2.9 MMcf/d and 583 bbls/d of condensate and liquids (1,067 boe/d). Questerre holds a 25% interest in these wells. Though the initial rates from these wells is encouraging, they are not necessarily indicative of long-term performance. The operator also spud a third well, 100/01-29-63-05W5M, late in the fourth quarter which should be completed by mid-2019.

In addition, field infrastructure was expanded to accommodate for future growth. These expansions included the central water facility and central processing facility where capacity was effectively doubled as well as installation of ancillary pipelines and gas-lift facilities. Questerre holds a 25% interest in these facilities. The investment in infrastructure totaled $12.36 million or just under half of the total investment in Kakwa for the year (2017: $7.74 million). As a result of this significant investment over the last two years, Questerre anticipates a limited investment of approximately $2 million for infrastructure spending will be required over the next three years to further expand field capacity.

At Kakwa North, the Company's farm-in partner drilled, completed and tied-in two wells. During the first thirty days, gross production from these wells averaged 5.5 MMcf/d and 733 bbls/d of condensate (1,653 boe/d). Though the initial rates from these wells is encouraging, they are not necessarily indicative of long-term performance. The results from these wells contributed to the material increase in proved and probable reserves at Kakwa for 2018.

The operator also spud the third farm-in well early in 2019 with the potential for a fourth farm-in well to be drilled later this year. Questerre holds a royalty interest in all the farm-in wells converting to a 50% working interest after payout. Upon the completion of all contemplated farm-in wells at Kakwa North and Kakwa South, Questerre will hold a 50% interest in 8,360 gross acres in these areas.

In the fourth quarter of 2018, the Company acquired 21,760 (10,880 net) acres at Kakwa West, immediately offsetting its acreage at Kakwa North and Kakwa Central. The lands are subject to an industry standard gross overriding royalty. The Company is evaluating plans for development with the operator.

Based on realized commodity prices and continued results, the Company anticipates it will participate in the planned drilling program of up to 5 (1.25 net) wells at Kakwa Central in 2019. Subject to the results from the farm-in wells at Kakwa North and the operator's program, the Company may participate in additional drilling on this acreage.

Antler, Saskatchewan

Consistent with prior years, activities at Antler targeted optimizing existing production and expanding the pilot secondary recovery scheme to increase recovery of the oil in place.

Questerre invested $1.02 million (2017: $8.79 million) at Antler with daily production averaging 359 bbl/d (2017: 179 bbl/d). Total proved and probable reserves as at December 31, 2018 were estimated at 1.87 MMbbls (2017: 2.02 MMbbls) with a before income tax NPV-10% of $40.68 million (2017: $48.72 million). The Company currently holds 11,952 net acres in the Antler area.

In 2019, Questerre expects to continue its work on optimizing existing production and the pilot secondary recovery scheme.

St. Lawrence Lowlands, Quebec

In 2018, Questerre focused on engaging with the Government of Quebec for the passage of the final hydrocarbon regulations, securing social acceptability and regaining operatorship for its natural gas discovery in the Lowlands.

The Company will regain operatorship through the purchase and sale agreement executed with a senior exploration and production company to acquire joint assets in the Lowlands. This follows the letter of intent signed in early 2018.

Pursuant to the agreement, Questerre will acquire the exploration rights to 753,000 net acres in the Lowlands, associated wells and equipment, geological and geophysical data and other miscellaneous assets. Upon closing of the transaction, both parties will release each other from all claims related to outstanding litigation. Other consideration including cash and contingent payments and the security required for the assumption of abandonment and reclamation liabilities ("A&R Liabilities") is approximately $11 million in aggregate. Questerre may post a letter of credit as security for the A&R Liabilities. Closing of the transaction is subject to the approval by the Government of Quebec for the transfer of the exploration permits and licenses to Questerre and is scheduled before December 31, 2019. The Company intends to update the resource assessment of its Quebec assets following the closing of this transaction.

In the third quarter of 2018, the Government of Quebec enacted the *Petroleum Resources Act* to govern the development of hydrocarbons in the province. It also enacted the associated regulations

(the "Regulations") which includes restrictions on oil and gas activities, specifically the prohibition of hydraulic fracturing of shale and a prohibition of activities within 1,000m from urbanized areas and bodies of water. These restrictions would prevent Questerre from developing its assets in Quebec. Questerre believes the remaining Regulations while stricter than other jurisdictions, are generally workable.

Following the enactment of the Regulations, Questerre filed a legal brief with the Superior Court of Quebec challenging the validity of the specific Regulations relating to the hydraulic fracturing restrictions. The brief requested a stay and ultimately a judicial hearing to have them set aside. The Company's motion was made on the basis that the Regulations are ultra vires, or beyond the legal authority granted to the Government by the *Petroleum Resources Act*, contrary to the independent scientific studies, and moreover they do not comply with the consultation requirements detailed in Quebec legislation with respect to the enactment of regulations. The Company was granted a fast track hearing for the judicial review in the first quarter of 2019.

At the request of the Ministry of Justice, Questerre has agreed to temporarily defer the judicial review hearing. To address concerns about the potential environmental impacts of development, Questerre has recently submitted for review by the Ministry of Environment a conceptual engineering plan to test its Clean Tech Energy pilot program. The Company recently retained a senior Quebec engineering firm to prepare a detailed plan and permit application which is expected to be an eight month project. Discussions with the Government are on going. These actions are to allow the parties to resolve the issues raised in the Company's legal brief in a constructive manner.

During the year, the Company continued to advance its clean tech energy pilot as part of its goal to secure social acceptability for its project. This pilot is designed to test the technologies and processes needed to produce natural gas while substantially eliminating greenhouse gas emissions, drinking water usage and toxic fluids below ground as well as materially reduce noise pollution. The Company also introduced a revenue sharing initiative with local communities to further improve social acceptability.

In 2019, the Company plans to continue its work on social acceptability while engaging with the Government to resolve the regulatory situation. Should Questerre be unsuccessful in its negotiations with the Government or receive an unfavorable ruling for its judicial review, the value of its Quebec assets could be materially impaired.

Oil Shale Mining

Questerre advanced the technical and economic feasibility assessment of its oil shale project in Jordan during the year.

In June 2018, the Company finalized a feasibility study for this project. Conducted by Hatch Ltd. ("Hatch"), a global engineering firm, the design basis for the study is an initial project capable of sustaining production of 50,000 bbl/d.

The study estimates capital costs, including a 20% contingency, of US$18 $20/bbl and operating costs of US$18/bbl. These costs include the upgrading of the produced oil to low sulphur diesel and gasoline, that based on a regional marketing study, typically realize a US$10 $12/bbl premium to the Brent benchmark pricing. These costs are AACE Class 5 cost estimates with an average accuracy of +100%/-50%.

Based on these results, the Company is moving to the next phase of contract engineering with Hatch. This is designed to identify opportunities to optimize the processes and potentially improve economic returns. It is also designed to improve the accuracy of cost estimates from Class 5 to Class 4 which have an average accuracy of +30%/-20%.

This study and other requisite documentation required under the Memorandum of Understanding ("MOU") with the Kingdom of Jordan for its oil shale acreage were submitted in the second quarter of the year. Upon acceptance of these documents, the Company anticipates it will enter negotiations for a concession agreement to include the fiscal and other terms essential to the overall project economics. The Company continues to hold the exclusive exploration rights to the acreage under the MOU following its expiry on May 22, 2018 and during the term of the negotiations.

Corporate

After a review conducted in the third quarter of 2018, effective November 2018, the Company's credit facilities with a Canadian chartered bank remained unchanged at $18 million. The facilities consist primarily of a revolving operating demand loan. Any borrowings under the facilities, except letters of credit, are subject to interest at the Bank's prime interest rate and applicable basis point margins based on the ratio of debt to cash flow, measured quarterly. The effective interest rate in 2018 was 4.14%. The facilities are secured by a revolving credit agreement, a debenture including a first floating charge over all assets of the Company and a general assignment of book debts. As at December 31, 2018, $13.84 million was drawn under the facility. The next scheduled review of these facilities is in the second quarter of 2019.

Drilling Activities

Three (0.71 net) wells were spud during 2018 at Kakwa. Questerre holds an average 23.6% working interest in the three wells drilled at Kakwa Central. Two additional wells were drilled at Kakwa North, where Questerre holds an overriding royalty convertible to a working interest after payout.

Production

	2018			2017		
	Oil and Liquids (bbls/d)	**Natural Gas (Mcf/d)**	**Total (boe/d)**	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Total (boe/d)
Alberta	**879**	**3,635**	**1,485**	600	3,350	1,158
Saskatchewan	**359**	**–**	**359**	179	–	179
Manitoba	**25**	**–**	**25**	42	–	42
	1,263	**3,635**	**1,869**	821	3,350	1,379

Note: Oil and liquids includes light & medium crude oil and natural gas liquids. Natural gas includes conventional and shale gas.

The increased capital investment in Kakwa in the last two years contributed to materially higher production over the prior year.

Representing approximately 80% of corporate volumes, Kakwa production increased from 1,123 boe/d to 1,474 boe/d. Nine (2.1 net) wells were brought on production in the last two years compared to 4 (1 net) well(s) in the prior two years. The well count increased because Questerre participated in

the entire drilling program in these years compared to 2016 when the Company limited its participation to only one third of the wells drilled to preserve financial liquidity.

Questerre's oil and liquids production is comprised primarily of light crude oil and condensate and nominal volumes of other natural gas liquids. Natural gas production is shale gas from Kakwa. The liquids weighting increased from 60% to 68% in 2018 due to higher volumes from Antler, Saskatchewan where the Company acquired 180 bbl/d of light oil production in December 2017. Over time, the Company anticipates its liquids weighting to average approximately 60% reflecting the relative weighting of natural gas liquids to natural gas at Kakwa.

In 2019, the Company plans to participate in up to five (1.25 net) wells on the Kakwa Central acreage subject to commodity prices and results. With the majority of these wells scheduled to be tied in the second half of this year, Questerre anticipates its production to decline marginally over the year with an increase by year-end. Pending the results from Kakwa North, Questerre could participate in additional drilling on this acreage in the fourth quarter of this year.

2018 Financial Results

Petroleum and Natural Gas Sales

	2018			2017		
($ thousands)	**Oil and Liquids**	**Natural Gas**	**Total**	Oil and Liquids	Natural Gas	Total
Alberta	**$ 20,201**	**$ 2,414**	**$ 22,615**	$ 13,271	$ 2,961	$ 16,232
Saskatchewan	**9,706**	**–**	**9,706**	4,218	–	4,218
Manitoba	**648**	**–**	**648**	911	–	911
	$ 30,555	**$ 2,414**	**$ 32,969**	$ 18,400	$ 2,961	$ 21,361

Note: Oil and liquids includes light & medium crude oil and natural gas liquids. Natural gas includes conventional and shale gas.

Year over year, petroleum and natural gas sales increased by over 50% due to higher production volumes and liquids prices. In spite of lower natural gas prices, higher crude oil prices accounted for40% of this increase with higher volumes accounting for the balance.

Pricing

	2018	2017
Benchmark prices:		
Natural Gas - AECO, daily spot ($/Mcf)	**1.34**	2.26
Crude Oil - Canadian Light Sweet Blend ($/bbl)	**69.07**	65.86
Realized prices:		
Natural Gas ($/Mcf)	**1.82**	2.42
Crude Oil and Natural Gas Liquids ($/bbl)	**66.27**	61.28

Note: Oil and liquids includes light & medium crude oil and natural gas liquids. Natural gas includes conventional and shale gas.

While average crude oil prices increased over the prior year, they ended 2018 materially lower. The benchmark West Texas Intermediate ("WTI") averaged US$65/bbl compared to US$52/bbl last year with prices in December closing at US$49/bbl compared to US$58/bbl in 2017.

A bullish outlook on prices in the first three quarters of the year was supported by concerns about supply disruptions from Venezuela, Iran and Libya. In the last quarter, the outlook turned bearish with rising trade tensions between the US and China, weakening sentiment for demand growth and more importantly, the consistent growth in US oil production, driven by the Permian. Coupled with a lack of access to international markets, increasing domestic storage levels and Midwest refinery outages in the fourth quarter, differentials between WTI and the Canadian benchmark Light Sweet Blend ("MSW") and condensate prices increased to record levels in the last quarter.

In 2018, the MSW differential increased to US$11.11/bbl from US$2.50/bbl with an average discount of US$26.30/bbl (2017: US$1.11/bbl) in the fourth quarter. Condensate differentials also increased materially to a US$3.77/bbl discount in 2018 from a US$0.60/bbl premium in 2017 and a fourth quarter average of US$13.50/bbl (2017: US$2.57 premium). These differentials improved materially in the first quarter of 2019 in part due to the mandated production curtailment announced by the Government of Alberta.

Realized prices for Questerre's oil and liquids track the MSW benchmark with condensate often receiving a premium to this price. This is offset by lower prices for other natural gas liquids, particularly propane.

Natural gas prices increased nominally during the year with the benchmark Henry Hub averaging US$3.12/MMBtu compared to US$2.99/MMBtu in 2017.

Growth in supply was more than offset by higher demand resulting in storage levels reaching 15-year lows in the United States. Dry natural gas production increased to a new record of over 80 Bcf/d this summer, driven by the Marcellus and Utica in the northeast United States and associated gas primarily from the Permian. Consumption increased with higher weather-related demand for power generation, liquified natural gas exports and exports to Mexico. In Canada, production also grew to multi-year highs but declining exports to the United States have resulted in differentials substantially exceeding the AECO reference price for natural gas in Alberta.

Higher heat content production from Kakwa contributed to a realized price of $1.82/Mcf (2017: $2.42/Mcf) compared to an AECO average $1.34/Mcf (2017: $2.26/Mcf).

Royalties

($ thousands)	**2018**	2017
Alberta	**$ 1,223**	$ 676
Saskatchewan	**568**	257
Manitoba	**94**	160
	$ 1,885	$ 1,093
% of Revenue:		
Alberta	**5%**	4%
Saskatchewan	**6%**	6%
Manitoba	**15%**	18%
Total Company	**6%**	5%

Mirroring the increase in petroleum and natural gas revenue, royalties increases from $1.09 million to $1.89 million in 2018. As a percentage of revenue, this increased marginally to 6% from 5%.

Royalties on production in Alberta, specifically Kakwa, include gross overriding royalties and Crown royalties net of credits for processing the Crown's share of production through joint facilities and incentive programs.

These incentive programs include the legacy New Well Royalty Rate and the Natural Gas Deep Drilling Program that provides for royalties of up to 5%. These will remain in effect for a period of 10 years from the commencement of the Modernized Royalty Framework ("MRF"). Under the MRF, that took effect on January 1, 2017, Crown incentive programs for new wells will be replaced with a capital cost allowance, with initial royalty rates of 5% of gross revenue until cumulative revenue reaches a certain threshold that is determined by the total vertical depth, the total lateral length and the total proppant placed for the well. Thereafter, the well will move to post payout status with sliding scale royalties based on product type and commodity price. Once the well's production rate drops to a mature rate, the royalty rate will decrease to mitigate higher fixed costs.

Operating Costs

($ thousands)	**2018**	2017
Alberta	**$ 8,324**	$ 7,844
Saskatchewan	**3,129**	1,938
Manitoba	**206**	248
	$ 11,659	$ 10,030
$/boe:		
Alberta	**15.36**	18.56
Saskatchewan	**23.88**	29.66
Manitoba	**22.56**	16.16
Total Company	**$ 17.09**	$ 19.93

Operating costs in 2018 increased by just over 15% to $11.66 million from $10.03 million last year.

On a unit of production basis, this decreased to $17.09/boe from $19.93/boe with the higher production volumes in 2018. With approximately 80% of the Kakwa operating costs, including firm transportation and processing commitments, as fixed, the allocation of these costs over higher volumes resulted in lower costs on a boe basis. Similarly, at Antler, over 85% of the operating costs are fixed and the higher volumes also translated into a lower expense on a boe basis.

General and Administrative Expenses

($ thousands)	**2018**	2017
General and administrative expenses, gross	**$ 5,742**	$ 4,119
Capitalized expenses and overhead recoveries	**(1,310)**	(976)
General and administrative expenses, net	**$ 4,432**	$ 3,143

Gross general and administrative expenses ("G&A") increased by 39% to $5.74 million from $4.12 million in 2018. The increase is primarily attributable to payments under the bonus plan and the reversal of salary and fee reductions implemented in 2015 and 2016 to preserve financial liquidity. Additionally, higher consulting and legal costs were incurred in the current year. Capitalized expenses are the administrative costs associated with its exploration projects in Quebec and Jordan and these amounts increased over the prior year due to the higher government and public relations activity in Quebec.

Depletion, Depreciation, Impairment and Lease Expiries

For the year ended December 31, 2018, Questerre reported depletion, depreciation and accretion expense of $12.01 million (2017: $9.90 million). The higher expense reflects the higher production volumes in the current year. On a per unit basis, depletion expense decreased to $15.71/boe from $17.95/boe with increased volumes from cash generating units ("CGUs") with lower finding and development costs.

At December 31, 2018, the Company reviewed the carrying amounts of its property, plant and equipment and exploration and evaluation assets for indicators of impairment such as changes in future prices, future costs, reserves and discount rates. Based on this review, the Company's Montney CGU was tested for impairment in accordance with the Company's accounting policy. The recoverable amount of the CGUs was estimated based on the fair value less costs of disposal ("FVLCD") using a discounted cash flow model. Due to the increase in the reserves assigned to the Kakwa area, the Company recorded a reversal of $28 million of impairment expense incurred in 2017 and 2015. No impairment or impairment reversals were recorded for any of the Company's other CGUs. In 2017, the Company incurred an impairment expense of $12.30 million for its Montney and Other Alberta CGUs due to the lower commodity prices and an increase in the discount rate for the Montney CGU as a result of higher expected returns for Montney producers.

The Company also recorded an expense of $1.56 million primarily related to acreage in Quebec that has been relinquished as the Company has no future plans for development. By comparison, in 2017, the Company incurred $7.12 million for land expiries in Alberta.

Loss on Equity Investment

Questerre currently holds approximately 30% of the common share capital of Red Leaf Resources Inc. ("Red Leaf"). The Company uses the equity method of accounting for its ownership in Red Leaf. Under

the equity method, the Company's investment is recognized at cost with any changes to fair value being recognized through the income statement. The Company also records its proportionate share of Red Leaf's income or loss.

Questerre recorded a loss of $7.63 million (2017: $3.4 million) representing its share of the net loss realized by Red Leaf for the period and an impairment expense of $1.70 million. In 2017, the Company reversed a previously recorded impairment charge of $2.34 million relating to the increase in the fair value of Red Leaf common shares held prior to the acquisition completed in the second quarter of 2017. For more information, please see Note 7 to the Financial Statements.

Share Based Compensation

Pursuant to the Company's stock option plan, an optionee may request that the Company purchase all or any part of the then vested options of the optionee for an amount equal to the market price of the Common Shares less the exercise price of the option shares. Notwithstanding the foregoing, the Company may, at its sole discretion, decline to accept and, accordingly, has no obligations with respect to the exercise of this put right at any time. Once the options are cash settled, the options are cancelled.

The Company recorded stock based compensation expense of $0.71 million for the year ended December 31, 2018 (2017: $0.41 million).

Other Income and Expenses

Questerre reported interest expense of $0.59 million for the year ended December 31, 2018 and $0.77 million for the prior year. The expense primarily relates to the interest on its credit facilities with a Canadian chartered bank. The Company also reported interest income of $0.54 million for the year (2017: $0.15 million). The interest was earned on term deposits held with Canadian chartered institutions.

The Company recorded a gain on foreign exchange, net of deferred tax, through other comprehensive income (loss) of $0.74 million for the year ended December 31, 2018 (2017: loss $0.86 million). The income is due to an increase in the exchange rate relating to its US dollar denominated investment in Red Leaf.

Deferred Taxes

The Company reported a deferred tax expense of $6.12 million for 2018 (2017: $5.53 million).

The expense is due to the net income in the current year and resulted in a reduction in the deferred tax asset at year end. In 2018, the Company assessed the recoverability of this asset using the estimate of before tax cash flows associated with its proved reserves using escalating pricing and future development costs as outlined in its independent reserve report, including an estimate of applicable G&A costs associated with these reserves. Questerre had sufficient tax pools to offset taxable income in 2018.

Total Comprehensive Income (Loss)

Questerre's total comprehensive income was $14.20 million for 2018 compared to a loss of $25.68 million in 2017. The Company's change in total comprehensive income is attributable mainly to the reversal of previous impairment expense and higher revenue offset by the higher loss on its investment

in Red Leaf in the current year. In 2017, Questerre total comprehensive loss also included a gain of $3.66 million on the sale of exploration and evaluation assets and a gain of $1.05 million on risk management contracts.

Net Income (Loss) Per Share

Questerre's basic net income was $0.03 per share compared to a loss of $0.07 per share in 2017. Questerre reported net income was $13.47 million in 2018 and a net loss of $24.82 million in 2017.

Cash Flow from Operating Activities

Net cash from operating activities for the years ended December 31, 2018 and 2017 was $13.09 million and $14.66 million, respectively. While adjusted funds flow from operations increased in 2018, a decrease in non-cash working capital in the current year contributed to the lower net cash from operating activities in 2018 compared to the prior year.

Cash Flow used in Investing Activities

Cash flow used in investing activities decreased to $30.41 million in 2018 from $33.18 million in 2017. For the year ended December 31, 2018, the Company incurred capital expenditures of $30.97 million compared to $25.26 million for the same period in 2017. In 2017, expenditures included $10.33 million to increase its investment in Red Leaf and $6.94 million to acquire producing assets in Antler offset by an asset disposition of $4.45 million in Kakwa.

Cash Flow provided by Financing Activities

Cash flow provided by financing activities decreased materially to $0.69 million from $46.08 million in 2017. In 2017, the Company completed private placements for gross proceeds of $57.9 million and made a net repayment under its credit facilities of $9 million. In 2018, the Company raised $0.76 million through the exercise of warrants and stock options and made no net change in the amount outstanding under its credit facilities.

Capital Expenditures

($ thousands)	**2018**	2017
Alberta	**$ 27,753**	$ 22,158
Saskatchewan & Manitoba	**1,020**	1,630
Jordan	**1,335**	833
Quebec	**869**	640
	30,977	25,261
Acquisitions (Saskatchewan)	**125**	6,935
Proceeds from disposition	**–**	(4,450)
Total	**$ 31,102**	$ 27,746

In 2018, Questerre incurred capital expenditures of $30.97 million as follows:

- In Alberta, $27.75 million was primarily invested to drill, complete and equip wells and expand infrastructure on the Kakwa Central joint venture acreage;
- In Jordan, the Company invested $1.33 million in the technical and economic feasibility assessment of its oil shale project;
- In Saskatchewan, $1.02 million was invested to workover wells and expand the secondary recovery pilot; and
- In Quebec, $0.87 million was invested to secure social acceptability.

In 2017, Questerre incurred capital expenditures, excluding dispositions and acquisitions, of $25.26 million as follows:

- $22.16 million was invested in Alberta to participate in the drilling and completion of wells and related infrastructure costs on the Kakwa Central joint venture acreage;
- $1.54 million was invested in Saskatchewan to optimize production from wells that resulted in increased reserves; and
- $0.83 million was invested in Jordan to assess the Company's oil shale acreage.

In 2017, the Company completed an acquisition of producing assets in Saskatchewan for $6.94 million. The Company also disposed of exploration and evaluation assets in the Kakwa area for gross proceeds of $4.45 million.

Liquidity and Capital Resources

The Company's objectives when managing its capital are firstly to maintain financial liquidity, and secondly to optimize the cost of capital at an acceptable risk to sustain the future development of the business.

At December 31, 2018, $13.84 million (December 31, 2017: $13.90 million) was drawn on the credit facility and the Company is in compliance with all of its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with its credit facilities. 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 to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at December 31, 2018 was 1.48 and the covenant was met. See Note 13 to the Financial Statements.

The size of the credit facilities is determined by, among other things, the Company's current reserve report, results of operations and forecasted commodity prices. The next scheduled review is expected to be completed in the second quarter of 2019.

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 be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity.

Questerre had a working capital deficit, including amounts due under its credit facilities, of $9.08 million at December 31, 2018, as compared to a surplus of $9.65 million at December 31, 2017.

Management believes that with its expected positive operating cash flows from operations and current credit facilities, the Company should generate sufficient cash flows and have access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations. To execute its business plan including the full participation in the current and future drilling programs and Kakwa Central and Kakwa North, the Company anticipates it will need to improve its financial liquidity through potential asset sales, equity issuances or securing additional credit facilities. However, it cannot provide any assurance that sufficient financing will be available on acceptable terms or that cash flows will be generated from operating activities to reduce its working capital deficiency and to carry out its planned capital expenditure program.

An improvement in commodity prices should improve cash flow and reduce the working capital deficit. This will likely result in additional adjusted funds flow from operations being available to finance planned capital expenditures. On an ongoing basis, the Company will manage where possible future capital expenditures to maintain liquidity (See "Commitments"). The Company intends to invest up to 85% of the 2019 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2018. It anticipates that, as a result, reserves associated with wells not drilled in 2019 will remain in the proved undeveloped category.

For a detailed discussion of the risks and uncertainties associated with the Company's business and operations, see the Risk Management section of the MD&A and the AIF.

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, 2018, there were no Class "B" common voting shares or preferred shares outstanding.

The following table provides a summary of the outstanding Common Shares and options as at the date of the MD&A and the current and preceding year-ends.

(thousands)	**March 28, 2019**	**December 31, 2018**	December 31, 2017
Common Shares	**389,007**	**389,007**	385,331
Stock Options	**27,512**	**21,412**	21,387
Warrants	–	–	3,566
Weighted average Common Shares			
Basic		**388,712**	350,055
Diluted		**395,715**	350,055

A summary of the Company's stock option activity during the years ended December 31, 2018 and 2017 follows:

	December 31, 2018		December 31, 2017	
	Number of Options *(thousands)*	**Weighted Average Exercise Price**	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	**21,387**	**$ 0.50**	14,856	$ 0.41
Granted	**3,288**	**0.48**	6,900	0.69
Forfeited	**(150)**	**0.52**	(232)	0.52
Expired	**(3,003)**	**0.88**	(90)	0.70
Exercised	**(110)**	**0.42**	(47)	0.62
Outstanding, end of period	**21,412**	**$ 0.44**	21,387	$ 0.50
Exercisable, end of period	**10,403**	**$ 0.34**	9,180	$ 0.50

Commitments

A summary of the Company's net commitments at December 31, 2018 follows:

($ thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Transportation, Marketing and Processing	$ 3,654	$ 4,084	$ 4,728	$ 3,990	$ 3,990	$ 11,972	$ 32,418
Office Leases	139	117	–	–	–	–	256
	$ 3,793	$ 4,201	$ 4,728	$ 3,990	$ 3,990	$ 11,972	$ 32,674

In order to maintain its capacity to execute its business strategy, the Company expects that it will need to continue the development of its producing assets. There will also be expenditures in relation to G&A and other operational expenses. These expenditures are not yet commitments, but Questerre expects to fund such amounts primarily out of adjusted funds flow from operations and its existing credit facilities.

Risk Management

Companies engaged in the petroleum and natural gas industry face a variety of risks. For Questerre, these include risks associated with exploration and development drilling as well as production operations, commodity prices, exchange and interest rate fluctuations. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates and government regulations could have an impact on the Company's future operating results and/or financial condition. While management realizes that all the risks may not be controllable, Questerre believes that they can be monitored and managed. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF and Note 6 to the audited consolidated financial statements for the year ended December 31, 2018.

A significant risk for Questerre as a junior exploration company is access to capital. The Company attempts to secure both equity and debt financing on terms it believes are attractive in current markets. Management also endeavors to seek participants to farm-in on the development of its projects on favorable terms. However, there can be no assurance that the Company will be able to

secure sufficient capital if required or that such capital will be available on terms satisfactory to the Company.

As future capital expenditures will be financed out of adjusted funds flow from operations, borrowings and possible future equity sales, the Company's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry, and the Company's securities in particular. To the extent that external sources of capital become limited or unavailable, or available but on onerous terms, the Company's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected. Based on current funds available and expected adjusted funds flow from operations, the Company believes it has sufficient funds available to fund its projected capital expenditures. However, if adjusted funds flow from operations is lower than expected, or capital costs for these projects exceed current estimates, or if the Company incurs major unanticipated expense related to development or maintenance of its existing properties, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Company's capital expenditure plans may result in a delay in development or production on the Company's properties. The Company anticipates that future development of its Quebec assets will require significant additional capital to be financed through among other sources, future equity issuances or asset dispositions.

Questerre faces a number of financial risks over which it has no control, such as commodity prices, exchange rates, interest rates, access to credit and capital markets, as well as changes to government regulations and tax and royalty policies.

The Company uses the following guidelines to address financial exposure:

- Internally generated cash flow provides the initial source of funding on which the Company's annual capital expenditure program is based.
- Equity, including flow-through shares, if available on acceptable terms, may be raised to fund acquisitions and capital expenditures.
- Debt may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be controlled.
- Farm-outs of projects may be arranged if management considers that a project requires too much capital or where the project affects the Company's risk profile.

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 from the Company's receivables from joint venture partners and oil and gas marketers. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. Credit risk also arises from the Company's cash and cash equivalents. In the past, the Company manages credit risk exposure by investing in Canadian banks and credit unions. Management does not expect any counterparty to fail to meet its obligations.

Poor credit conditions in the industry may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner if possible.

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 and infrastructure companies and the Company has not experienced any credit loss relating to these sales to date. Pursuant to IFRS 9, the Company made a provision of $0.17 million at December 31, 2018 for its expected credit losses related to its accounts receivable.

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

The Company has issued and may continue in the future to issue flow-through shares to investors. The Company uses its best efforts to ensure that qualifying expenditures of Canadian Exploration Expense ("CEE") are incurred in order to meet its flow-through obligations. However, in the event that the Company incurs qualifying expenditures of Canadian Development Expense or has CEE expenditures reclassified under audit by the Canada Revenue Agency, the Company may be required to liquidate certain of its assets in order to meet the indemnity obligations under the flow-through share subscription agreements.

Exploration and development drilling risks are managed through the use of geological and geophysical interpretation technology, employing technical professionals and working in areas where those individuals have experience. For its non-operated properties, the Company strives to develop a good working relationship with the operator and monitors the operational activity on the property. The Company also carries appropriate insurance coverage for risks associated with its operations.

The Company may use financial instruments to reduce corporate risk in certain situations. Questerre's hedging policy is up to a maximum of 40% of total production at management's discretion.

As at December 31, 2018, the Company had no outstanding commodity risk management contract in place.

Environmental Regulation and Risk

The oil and natural gas industry is currently subject to environmental regulations pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases of emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and natural gas industry operations, which can affect the location and operation of wells and facilities, and the extent to which exploration and development is permitted. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other

person in possession of the site. Compliance with such legislation can require significant expenditures, and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders. The Company mitigates the potential financial exposure of environmental risks by complying with the existing regulations and maintaining adequate insurance. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF.

Critical Accounting Estimates

The preparation of the 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 and Resources

All of Questerre's petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with NI 51-101 and the COGE Handbook. For further information, please refer to "Statement of Reserves Data and Other Oil and Gas Information" in the AIF.

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 and resources will change to reflect updated information. Reserve and resource 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 and resource estimates impact a number of the areas, in particular, the valuation of property, plant and equipment, exploration and evaluation assets and the calculation of depletion.

Cash Generating Units

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.

Impairment of Property, Plant and Equipment, Exploration and Evaluation and Goodwill

The Company assesses its oil and natural gas properties, including exploration and evaluation assets, for possible impairment or reversal of previously recognized impairments if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable or indications that previously recognized losses should be reversed. 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 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 the 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 on 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.

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.

Share Based Compensation

The Company has a stock option plan enabling employees, officers and directors to receive Common Shares or cash at exercise prices equal to the market price or above on the date the option is granted. 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.

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 related to deferred tax assets in the year. Since December 31, 2016, the recoverability of deferred tax assets is assessed using proved reserves including an estimate of G&A associated with the assets.

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.

Investment in Red Leaf

Questerre has investments in certain private companies, including Red Leaf, which it classifies as an equity investment and assesses for indicators of impairment at each period end. For the purposes of impairment testing, the Company measures the fair value of Red Leaf by valuation techniques such as the net asset value approach.

Accounting Standards Changes

Changes in Accounting Policies for 2018

The Company adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. See Note 4 to the Financial Statements.

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.

Design and Evaluation of Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Questerre is required to comply with National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*" ("NI 52-109") and is required to make specific disclosures with respect to NI 52-109 as follows:

- The Company has designed and evaluated the effectiveness of Disclosure Controls and Procedures ("DC&P"). The President and Chief Executive Officer and the Chief Financial Officer have concluded that DC&P are designed appropriately and are operating effectively as at December 31, 2018.
- The Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), 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 Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's ICFR as at December 31, 2018 and have concluded that such ICFR have been designed appropriately and are operating effectively.
- The Company reports that no changes were made to ICFR during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Fourth Quarter 2018 Results

Petroleum and natural gas revenue decreased by 12% to $6.46 million for the last quarter of 2018 from $7.30 million in the same period last year. Although production volumes increased by 19%, realized prices declined by over 31%. Production increased over the prior year with additional wells brought on stream at the Kakwa Central area over the last two years. The decline in realized liquids prices in the fourth quarter this year to $45.96/bbl from $66.98/bbl last year reflects the decrease in the benchmark WTI as well as a material increase in differentials to Canadian condensate and light oil.

Operating costs increased nominally to $3.52 million from $3.46 million last year. On a boe basis this declined from $21.96 to $18.75. With approximately 80% of operating costs at Kakwa and Antler as fixed, the allocation of these costs over higher production volumes in the current year results in a lower expense per unit of production. During the quarter, the Company realized a loss of $4.24 million related to its investment in Red Leaf (2017: $1.05 million). Based on the review of the carrying amount of its assets at December 31, 2018 and as a result of the increase in reserves at Kakwa, the Company recorded a reversal of previously incurred impairment expense of $28 million in the fourth quarter (2017: $12.30 million expense).

Total comprehensive income for the three months ended December 31, 2018 was $15.17 million compared to a loss of $17.96 million for the same period in 2017. The change in the Company's total

comprehensive income is attributable to the reversal of the previously recorded impairment expenses offset by the higher loss on its investment in Red Leaf.

Questerre's net cash from operating activities was $1.84 million for the quarter ended December 31, 2018 compared to $1.27 million for the same period in 2017. This is attributable to the increase in interest income and the lower petroleum and natural gas revenue in the current year. During the quarter, capital expenditures including the acquisition of additional acreage at Kakwa totaled $8.8 million (2017: $8.04 million).

Quarterly Financial Information

($ thousands, except as noted)	**December 31, 2018**	September 30, 2018	June 30, 2018	March 31, 2018
Production (boe/d)	**2,033**	1,414	2,016	2,013
Average Realized Price ($/boe)	**34.35**	52.98	54.91	52.66
Petroleum and Natural Gas Sales	**6,462**	6,892	10,074	9,541
Adjusted Funds Flow from Operations	**1,929**	2,620	6,012	4,652
Net Profit (Loss)	**14,858**	(2,023)	572	59
Basic and Diluted ($/share)	**(0.01)**	(0.01)	–	–
Capital Expenditures, net of acquisitions and dispositions	**8,785**	6,077	7,452	8,663
Working Capital Surplus (Deficit)	**(9,077)**	(2,374)	1,239	2,804
Total Assets	**233,372**	218,630	220,043	218,346
Shareholders' Equity	**187,291**	171,648	173,464	172,123
Weighted Average Common Shares Outstanding				
Basic (thousands)	**388,412**	388,412	387,862	387,848
Diluted (thousands)	**392,612**	388,412	395,552	396,285

($ thousands, except as noted)	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Production (boe/d)	1,714	1,643	1,037	1,123
Average Realized Price ($/boe)	46.30	36.03	44.34	43.82
Petroleum and Natural Gas Sales	7,302	5,446	4,184	4,429
Adjusted Funds Flow from Operations (1)	2,552	1,938	880	1,411
Basic and Diluted ($/share)	–	–	–	–
Net Loss	(18,036)	(2,641)	(3,621)	(523)
Basic and Diluted ($/share)	(0.05)	(0.01)	(0.01)	(0.01)
Capital Expenditures, net of acquisitions and dispositions	14,976	4,906	2,544	5,320
Working Capital Surplus (Deficit)	9,648	(7,559)	(3,184)	3,274
Total Assets	217,214	198,904	205,672	205,640
Shareholders' Equity	170,738	158,204	160,069	163,888
Weighted Average Common Shares Outstanding				
Basic (thousands)	383,093	346,685	345,408	324,426
Diluted (thousands)	383,093	346,685	345,408	324,426

The general trends over the last eight quarters are as follows:

- Petroleum and natural gas revenues and adjusted funds flow from operations have fluctuated with production volumes and realized commodity prices.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. Following increased investment in Kakwa in 2017, production has grown to

2,033 boe/d in the most recent quarter. The Company plans to continue to invest at Kakwa, subject to commodity prices and results, and expects a commensurate increase in production.

- The level of capital expenditure over the quarter has varied largely due to the timing and number of wells drilled and completed for the Kakwa asset as well as the timing of the infrastructure investment.
- The working capital deficit has generally increased when capital expenditures and other investments have been higher than adjusted funds flow from operations and cash from financing activities.
- Shareholders' equity increased in the quarters ended March 31, 2017, December 31, 2017, as a result of the equity issuances completed by the Company during those periods and in the quarters ended March 31, 2018 and June 30, 2018 as a result of warrant and option exercises.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the year ended December 31, 2018, other than commitments as disclosed.

Related Party Transactions

The Company did not engage in any related party transactions during the year ended December 31, 2018, other than key management compensation as disclosed.

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 28, 2019

Independent Auditor's Report

To the Shareholders of Questerre Energy Corporation

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Questerre Energy Corporation and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of net income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to

continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Alisa Sorochan.

(signed) PricewaterhouseCoopers LLP
Chartered Professional Accountants

Calgary, Alberta
March 28, 2019

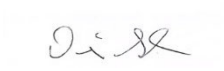
Consolidated Balance Sheets

($ thousands)	Note	**December 31, 2018**	December 31, 2017
Assets			
Current Assets			
Cash and cash equivalents	5	**$ 19,208**	$ 35,836
Accounts receivable	6	**1,918**	3,780
Deposits and prepaid expenses		**2,141**	556
		23,267	40,172
Investments	7	**287**	9,109
Property, plant and equipment	8	**142,564**	98,893
Exploration and evaluation assets	9	**58,092**	53,675
Goodwill		**2,346**	2,346
Deferred tax assets	10	**6,816**	13,019
		$ 233,372	$ 217,214
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 18,503**	$ 16,623
Credit Facilities	13	**13,842**	13,901
		32,345	30,524
Other Liability	20	**–**	3,487
Asset retirement obligation	12	**13,736**	12,465
		46,081	46,476
Shareholders' Equity			
Share capital	14	**415,747**	414,995
Contributed surplus		**19,772**	18,171
Accumulated other comprehensive income		**10**	(724)
Deficit		**(248,238)**	(261,704)
		187,291	170,738
		$ 233,372	$ 217,214

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 Income (Loss) and Comprehensive Income (Loss)

($ thousands, except per share amounts)	Note	For the year ended December 31, **2018**	2017
Revenue			
Petroleum and natural gas sales	15	**$ 32,969**	$ 21,361
Royalties		**(1,885)**	(1,093)
Petroleum and natural gas revenue, net of royalties		**31,084**	20,268
Expenses			
Direct operating		**11,659**	10,030
General and administrative		**4,432**	3,143
Depletion, depreciation and accretion	8,12	**12,013**	9,896
Loss on equity investment	7	**9,334**	3,450
Gain on Red Leaf investment	7	**–**	(2,610)
Gain on disposition of assets		**(213)**	(3,657)
Impairment (recovery) of assets	8,9	**(28,024)**	12,303
Lease expiries	8,9	**1,565**	7,122
Gain on risk management contracts	6	**–**	(1,049)
Share based compensation	11	**712**	411
Interest expense		**609**	769
Other & interest income		**(585)**	(247)
Income (loss) before taxes		**19,582**	(19,293)
Deferred tax expense	10	**6,116**	5,528
Net income (loss)		**13,466**	(24,821)
Other Comprehensive Income (Loss), Net of Tax			
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on foreign exchange	7	**421**	(740)
Foreign currency translation adjustment		**313**	(122)
Reclass to net loss on write-down of investments	7	**–**	–
		734	(862)
Total Comprehensive Income (Loss)		**$ 14,200**	$ (25,683)
Net income (loss) per Share			
Basic and diluted	14	**$ 0.03**	$ (0.07)

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

Consolidated Statements of Changes in Equity

($ thousands)	For the year ended December 31, **2018**	2017
Share Capital		
Balance, beginning of year	**$ 414,995**	$ 359,151
Private Placements	**–**	55,988
Warrants exercised	**713**	1,912
Options exercised	**47**	29
Share issue costs (net of tax)	**(8)**	(2,085)
Balance, end of year	**415,747**	414,995
Contributed Surplus		
Balance, beginning of year	**18,171**	17,254
Share based compensation	**1,601**	917
Balance, end of year	**19,772**	18,171
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of year	**(724)**	138
Other comprehensive income (loss)	**734**	(862)
Balance, end of year	**10**	(724)
Deficit		
Balance, beginning of year	**(261,704)**	(236,883)
Net income (loss)	**13,466**	(24,821)
Balance, end of year	**(248,238)**	(261,704)
Total Shareholders' Equity	**$ 187,291**	$ 170,738

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

Consolidated Statements of Cash Flows

($ thousands)	Note	For the years ended December 31, 2018	2017
Operating Activities			
Net income (loss)		**$ 13,466**	$ (24,821)
Adjustments for:			
Depletion, depreciation and accretion	8,12	**12,013**	9,896
Gain on Red Leaf investment		**–**	(2,610)
Gain on disposition of assets		**(213)**	(3,657)
Impairment (recovery) of assets	8,9	**(28,024)**	12,303
Lease expiries	8,9	**1,565**	7,122
Loss on equity investment	7	**9,334**	3,450
Unrealized gain on risk management contracts		**–**	(1,117)
Share based compensation	11	**712**	411
Deferred tax expense	10	**6,116**	5,528
Interest expense		**608**	769
Interest income		**(544)**	(170)
Other items not involving cash		**313**	(122)
Abandonment expenditures	12	**(133)**	(201)
Adjusted funds flow from operations		**15,213**	6,781
Interest expense		**544**	154
Interest income		**(593)**	(769)
Change in non-cash working capital	18	**(2,073)**	8,495
Net cash from operating activities		**13,091**	14,661
Investing Activities			
Property, plant and equipment expenditures	8	**(12,996)**	(7,935)
Exploration and evaluation expenditures	9	**(17,981)**	(17,326)
Purchase of investment	7	**–**	(10,330)
Acquisition of plant, property and equipment	8	**(125)**	(6,935)
Sale of exploration and evaluation assets		**–**	4,450
Change in non-cash working capital	18	**690**	4,892
Net cash used in investing activities		**(30,412)**	(33,184)
Financing Activities			
Proceeds from issue of share capital		**760**	57,928
Increase in credit facilities		**47,953**	30,880
Repayment of credit facilities		**(48,012)**	(39,867)
Share issue costs		**(8)**	(2,857)
Net cash from financing activities		**693**	46,084
Change in cash and cash equivalents		**(16,628)**	27,561
Cash and cash equivalents, beginning of year		**35,836**	8,275
Cash and cash equivalents, end of year		**$ 19,208**	$ 35,836

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, 2018 and 2017 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 28, 2019, 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 financial assets classified as fair value through profit and loss which are measured at fair value with changes in fair value recorded in profit or loss and changes due to foreign exchange recorded through other comprehensive income 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 or reversal of previously recognized impairments if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable or indications that previously recognized losses should be reversed. 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.

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 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"). For the purposes of testing for impairment, 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.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are included in current assets due to their short-term nature. They are recognized initially at the amount expected to be received, less, when material, a discount to reduce to fair value. Subsequently, they 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.

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.

Impairment of Financial assets

Questerre applies the simplified approach to providing for expected credit losses prescribed by IFRS 9 *Financial Instruments* ("IFRS 9") which permits the use of the lifetime expected loss provision for all trade receivables carried at amortized costs.

At each reporting date, the Company measures the lifetime expected loss provision taking into consideration Questerre's historical credit loss experience as well as forward-looking information in order to establish loss rates. The impairment loss (or reversal) is the amount of expected credit losses that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized. Also refer to Note 4 for Changes in Accounting Polices and Disclosures in 2018.

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.

g) 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.

h) Revenue from commodity sales

Questerre principally generates revenue from the sale of commodities, which include crude oil, natural gas, condensate and natural gas liquids ("NGLs"). Revenue associated with the sale of commodities is recognized when control is transferred from Questerre to its customers. Questerre's commodity sale contracts represent a series of distinct transactions. Questerre considers its performance obligations to be satisfied and control to be transferred when all of the following conditions are satisfied:

- Questerre has transferred title and physical possession of the commodity to the buyer;
- Questerre has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- Questerre has the present right to payment.

Revenue represents our share of commodity sales net of royalty obligations to governments and other mineral interest owners. Questerre sells its production pursuant to variable priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under these contracts, the Company is required to deliver a variable volume of crude oil, natural gas, condensate or NGLs to the contract counterparty.

Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs. Payment terms for Questerre's commodity sales contracts are on the 25th of the month following delivery. Questerre does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year and therefore Questerre does not adjust its revenue transactions for the time value of money. The Company enters into contracts with customers that can have performance obligations that are unsatisfied, or partially unsatisfied, at the reporting date.

The Company applies a practical expedient of IFRS 15 Revenue from Contracts with Customers ("IFRS 15") and does not disclose quantitative information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to-date. Also refer to Note 4 for Changes in Accounting Policies and Disclosures in 2018.

i) 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.

j) 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 2018

IFRS 9 *Financial Instruments*

Questerre retrospectively applied the requirements of IFRS 9 on January 1, 2018 and the adoption did not result in a change in the carrying value of any of the Company's financial instruments on transition date.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39 Financial Instruments: recognition and measurement ("IAS 39"). The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, and IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not result in a material change on the financial statements of the Company, however, there are additional required disclosures which have been included in Note 6.

IFRS 9 also contains a new hedge accounting model, however, the Company did not apply hedge accounting to any of its commodity price risk management contracts. In addition, IFRS 9 includes amended guidance for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. Questerre does not have any investments in debt instruments for which this guidance is applicable. For the comparative year presented, prior to the adoption of IFRS 9, the previous accounting policy differs as follows:

a) Cash, Accounts Receivable, Loans and Other Receivables

A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or significant delinquency in payments are considered indicators that a receivable is impaired.

b) Impairment of Financial Assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

Financial assets carried at amortized cost

The amount of the impairment 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 effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income.

Financial assets carried at fair value through profit or loss

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 comprehensive income.

IFRS 15 *Revenue From Contracts With Customers*

The Company has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue. Refer to Note 6 for more information including additional disclosures as required under IFRS 15.

Revenue from the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. The Company recognizes revenue when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon.

For the comparative year presented, prior to the adoption of IFRS 15, the previous accounting policy differs as follows:

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when the risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party. Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

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*

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases and related interpretations. The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 has also been adopted. IFRS 16 requires lessees to recognize a lease obligation and right-of-use asset for the majority of leases. Questerre is currently evaluating the impact of the standard including identifying and reviewing contracts that are impacted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

5. Cash and Cash Equivalents

($ thousands)	**December 31, 2018**	December 31, 2017
Bank balances	**$ 14**	$ 1,871
Short-term bank deposits	**19,194**	33,965
	$ 19,208	$ 35,836

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, 2018 included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at December 31, 2018, 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

The fair value of PP&E recognized is based on market values. The market value of PP&E is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) are generally estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on internally and externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of E&E assets is estimated with reference to the market values of current arm's length transactions in comparable locations. Refer to Notes 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, 2018**	December 31, 2017
Current	**$ 1,756**	$ 3,076
31 - 60 days	**129**	204
61 - 90 days	**3**	79
>90 days	**182**	573
Allowance for doubtful accounts	**(152)**	(152)
	$ 1,918	$ 3,780

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 or when cash resources may be limited, 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, 2018, the Company had no outstanding commodity risk management contracts.

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, 2018, 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, 2018, the Company had credit facilities outstanding of $13.84 million (December 31, 2017: $13.90 million).

f) Capital management

The Company believes with its expected positive adjusted funds flow from operations and existing credit facilities 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. To execute its current business plan including incurring capital expenditures related to the full

participation in the current and future drilling programs it anticipates it will be require access to additional financial liquidity.

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, 2018**	December 31, 2017
Credit facilities	**$ 13,842**	$ 13,901
Shareholders' equity	**187,291**	170,738

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.

Questerre currently holds 132,293 common shares, representing approximately 30% of the common share capital of Red Leaf and 288 Series A Preferred Shares of Red Leaf representing less than 0.5% of the issued and outstanding preferred shares capital of Red Leaf.

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.

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$90 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, 2018. 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 excluding accrued but unpaid dividends as of December 31, 2018.

($ thousands)	**December 31, 2018**	December 31, 2017
Investment	**$ 13,604**	$ 12,510
Equity loss on investment	**(13,317)**	(3,401)
	$ 287	$ 9,109

The equity loss on investment represents the Company's proportionate share of the net loss realized by Red Leaf for the year ended December 31, 2018 and an impairment in the carrying value of its

investment based on its assessment of Red Leaf's current net asset value attributable to the common shares.

The assets, liabilities and net loss of Red Leaf as of December 31, 2018 were comprised as follows:

($ thousands)[1]	
Cash and Cash Equivalents	**$ 132,425**
Other Current Assets	**754**
Current Liabilities	**1,883**
Non-current liabilities	**1,658**
Net Loss[2]	**(16,226)**

[1] Converted at an exchange rate of US$1 = C$1.364

[2] Converted at an exchange rate of US$1 = C$1.296

The issued and outstanding share capital of Red Leaf as of December 31, 2018 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, 2018, this priority amount is approximately US$90 million.

The table that follow sets out the changes in investment over the respective periods.

($ thousands)	**December 31, 2018**	December 31, 2017
Balance, beginning of year	**$ 9,109**	$ 490
Purchase of investment	**–**	10,330
Reversal of impairment	**–**	2,336
Preferred shares fair value adjustment	**–**	274
Equity loss on investment	**(7,631)**	(3,401)
Gain (loss) on foreign exchange	**512**	(920)
Impairment expense	**(1,703)**	–
Balance, end of the year	**$ 287**	$ 9,109

For the year ended December 31, 2018, the gain on foreign exchange relating to investments was $0.51 million (December 31, 2017: loss $0.92 million) and was recorded in other comprehensive income (loss) net of deferred tax. 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, 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
Additions	13,337	–	13,337
Transfer from exploration and evaluation assets	14,071	–	14,071
Balance, December 31, 2018	**$ 274,214**	**$ 1,334**	**$ 275,548**
Accumulated depletion, depreciation and impairment losses:			
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
Depletion and depreciation	11,751	10	11,761
Impairment reversal	(28,024)	–	(28,024)
Balance, December 31, 2018	**$ 131,679**	**$ 1,305**	**$ 132,984**

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Net book value:			
At December 31, 2017	$ 98,854	$ 39	$ 98,893
At December 31, 2018	**$ 142,535**	**$ 29**	**$ 142,564**

During the years ended December 31, 2018 and 2017, the Company did not capitalize any administrative overhead or stock based compensation expense directly related to development activities. Included in the December 31, 2018 depletion calculation are future development costs of $318.94 million (December 31, 2017: $172.37 million). As at December 31, 2018, no assets under construction were included within property, plant and equipment (December 31, 2017: $1.05 million).

In 2018, 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 Montney CGU was tested for impairment in accordance with the Company's accounting policy. The recoverable amount of $118.37 million for the Montney CGUs was estimated based on the FVLCD using a discounted cash flow model. Based on this assessment and the carrying value, the Company reversed a previously recorded impairment expense of $28 million related to its Montney CGU in the current year. The factors that led to the reversal of the impairment was an increase in reserves due to drilling.

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

	2019	2020	2021	2022	2023	Average Annual % Change Thereafter
WTI (US$/barrel)	58.58	64.60	68.20	71.00	72.81	2.00
AECO ($/MMbtu)	1.88	2.31	2.74	3.05	3.21	2.00

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	Not Applicable	$ 15,555	Not Applicable	$ 846

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, 2018**	December 31, 2017
Balance, beginning of year	**$ 53,675**	$ 58,915
Additions	**19,740**	17,873
Transfers to property, plant and equipment	**(14,071)**	(15,078)
Undeveloped lease expiries	**(1,565)**	(7,122)
Foreign currency translation adjustment - Jordan	**313**	(120)
Disposition	**–**	(793)
Balance, end of period	**$ 58,092**	$ 53,675

During the year ended December 31, 2018, the Company capitalized administrative overhead charges of $2.36 million including $0.92 million for capitalized stock based compensation expense directly related to exploration and evaluation activities. During the year ended December 31, 2017, the Company capitalized administrative overhead charges of $1.48 million and $0.51 million was recognized for capitalized stock based compensation expense directly related to these activities.

In 2018, the Company incurred an expense of $1.49 million for undeveloped land relinquishments for its Quebec assets.

In September 2018, the Ministry of Energy and Natural Resources in Quebec (the "Ministry") introduced regulations effectively prohibiting any exploitation of natural gas in the province including the banning of hydraulic fracturing of shale. The Company filed a legal motion requesting a temporary stay and judicial review to have the specific regulations relating to the ban on hydraulic fracturing to be set aside. The Company was granted a hearing date in early 2019. At the request of the Ministry of Justice, Questerre agreed to temporarily defer the judicial review. The Company is engaged in discussions with the Government to allow the parties to resolve the issues raised in its legal motion in a constructive manner. Should the Company be unsuccessful in resolving the situation to its satisfaction and the Company's legal motion subsequently denied, the carrying value of its exploration and evaluation assets in Quebec of $30.01 million as of December 31, 2018, could be materially impaired.

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, 2018	December 31, 2017
Net income (loss) before taxes	$ **19,582**	$ (19,293)
Combined federal and provincial tax rate	**27.00%**	27.00%
Computed "expected" deferred tax expense (recovery)	**5,287**	(5,209)
Increase (decrease) in deferred taxes resulting from:		
Non-deductible differences	**193**	(200)
Deferred tax asset not recognized in year	**157**	11,035
Rate adjustments	**480**	(98)
Deferred tax expense	$ **6,116**	$ 5,528

In the fourth quarter of 2018, 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 2018 and 2017.

The movement of the deferred tax asset is as follows:

($ thousands)	December 31, 2018	December 31, 2017
Balance, beginning of year	$ **13,019**	$ 17,645
Tax recorded to statement of net profit or loss	**(6,116)**	(5,528)
Tax on share issue costs	**3**	771
Tax charge relating to flow through shares	**–**	–
Tax charge relating to components of other comprehensive income or loss	**(90)**	131
Balance, end of year	$ **6,816**	$ 13,019

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, 2016	$ 6,550	2,356	271	9,984
Credited to equity			771	
Credited (charged) to net profit or loss	(2,697)	1,009	(311)	(3,305)
Balance, December 31, 2017	3,853	3,365	731	6,679
Credited (charged) to net profit or loss	(3,853)	343	(192)	5,546
Credited to equity				
Balance, December 31, 2018	**$ –**	**$ 3,708**	**$ 539**	**$ 12,225**

($ thousands)	Petroleum and natural gas properties	Investments and Other
Deferred tax liability:		
Balance, December 31, 2016	$ –	$ 1,935
Charged (credited) to net profit or loss	–	(195)
Charged to other comprehensive income or loss	–	(131)
Balance, December 31, 2017	–	1,609
Charged (credited) to net profit or loss	8,046	–
Credited to equity	–	–
Balance, December 31, 2018	**$ 8,046**	**$ 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, 2018 expire from 2026 to 2038.

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, 2018**	December 31, 2017
Petroleum and natural gas properties	**$ 219**	$ 219
Investments	**50,370**	44,622
Non-capital losses	**101,481**	103,774
Capital losses	**36,481**	36,489
	$ 188,551	$ 185,104

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	9,324	1.77	$ 0.24	7,233	1.63	$ 0.25
$0.31 - $0.70	11,788	3.35	0.58	2,920	2.36	0.48
$0.71 - $1.00	50	3.89	0.71	–	–	–
$1.01 - $1.40	250	0.44	1.40	250	0.44	1.40
	21,412	**2.63**	**$ 0.44**	**10,403**	**1.80**	**$ 0.34**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2018:

	December 31, 2018		December 31, 2017	
	Number of Options *(thousands)*	**Weighted Average Exercise Price**	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	**21,387**	**$ 0.50**	14,856	$ 0.41
Granted	**3,288**	**0.48**	6,900	0.69
Forfeited	**(150)**	**0.52**	(232)	0.52
Expired	**(3,003)**	**0.88**	(90)	0.70
Exercised	**(110)**	**0.42**	(47)	0.62
Outstanding, end of period	**21,412**	**$ 0.44**	21,387	$ 0.50
Exercisable, end of period	**10,403**	**$ 0.34**	9,180	$ 0.50

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 2018 and 2017:

	December 31, 2018	December 31, 2017
Weighted average fair value per award ($)	**0.32**	0.43
Volatility (%)	**82.52**	77.93
Forfeiture rate (%)	**13.14**	14.50
Expected life (years)	**5.00**	5.00
Risk free interest rate (%)	**2.21**	0.98

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

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 $13.74 million as at December 31, 2018 (December 31, 2017: $12.47 million) based on an undiscounted total future liability of $18.47 million (December 31, 2017: $16.26 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 1.99% (December 31, 2017: 1.97%). An inflation rate of 2.2% (December 31, 2017: 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, 2018**	December 31, 2017
Balance, beginning of year	**$ 12,465**	$ 8,726
Liabilities incurred	**174**	665
Liabilities settled	**(133)**	(201)
Revisions due to change in discount and inflation rates	**978**	804
Liabilities acquired	**–**	2,298
Accretion	**252**	173
Balance, end of year	**$ 13,736**	$ 12,465

13. Credit Facility

As at December 31, 2018, 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 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, 2018 was 1.48 and the covenant was met. At December 31, 2018, $13.84 million (December 31, 2017: $13.90 million) was drawn on Credit Facility A with an effective average interest rate of 4.14% for 2018 (2017: 4.53%). As at December 31, 2018, the Company has a letter of credit outstanding for $0.11 million with the Quebec government for abandonment costs.

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

($ thousands)	**December 31, 2018**	December 31, 2017
Credit Facilities beginning of year	**$ 13,901**	$ 22,888
Drawndown from Credit Facilities	**47,953**	30,880
Repayment of Credit Facilities	**(48,012)**	(39,867)
Credit Facilities end of year	**$ 13,842**	$ 13,901

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 November 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, 2018, 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, 2017	385,331	414,995
Options exercised	110	47
Warrants exercised	3,566	713
Share issue costs (net of tax effect)	–	(8)
Balance, December 31, 2018	**389,007**	**$ 415,747**

b) Per share amounts

Basic net income (loss) per share is calculated as follows:

(thousands, except as noted)	**December 31, 2018**	December 31, 2017
Net income (loss)	**$ 13,466**	$ (24,821)
Weighted average number of Common Shares outstanding (basic)	**388,712**	350,055
Basic net income (loss) per share	**$ 0.03**	$ (0.07)

Diluted net income (loss) per share is calculated as follows:

(thousands, except as noted)	**December 31, 2018**	December 31, 2017
Net income (loss)	**$ 13,466**	$ (24,821)
Weighted average number of Common Shares outstanding (basic)	**388,712**	350,055
Effect of outstanding options	**7,003**	–
Weighted average number of Common Shares outstanding (diluted)	**395,715**	350,055
Diluted net income (loss) per share	**$ 0.03**	$ (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, 2018, 10.34 million options (December 31, 2017: 21.39 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, 2018, there were no warrants outstanding.

15. Petroleum and Natural Gas Sales

($ thousands)	**December 31, 2018**	December 31, 2017
Oil and liquids	**$ 30,555**	$ 18,400
Natural gas	**2,414**	2,961
	$ 32,969	$ 21,361

16. Employee Salaries and Benefits

($ thousands)		**December 31, 2018**		December 31, 2017
Salaries, bonuses and other short-term benefits	**$**	**2,315**	$	1,383
Share based compensation		**1,601**		917
	$	**3,916**	$	2,300

17. Key Management Compensation

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

($ thousands)		**December 31, 2018**		December 31, 2017
Salaries, bonuses, director fees and other short-term benefits	**$**	**1,905**	$	1,195
Share based compensation		**1,466**		830
	$	**3,371**	$	2,025

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 $1.45 million at December 31, 2018. 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, 2018**		December 31, 2017
Accounts receivable	**$**	**1,862**	$	(1,442)
Deposits and prepaid expenses		**(1,585)**		69
Accounts payable and accrued liabilities		**(1,659)**		14,760
Change in non-cash working capital	**$**	**(1,383)**	$	13,387
Related to:				
Operating activities	**$**	**(2,073)**	$	8,495
Investing activities		**690**		4,892
	$	**(1,383)**	$	13,387

19. Commitments

A summary of the Company's net commitments at December 31, 2018 follows:

($ thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Transportation, Marketing and Processing	$ 3,654	$ 4,084	$ 4,728	$ 3,990	$ 3,990	$ 11,972	$ 32,418
Office Leases	139	117	–	–	–	–	256
	$ 3,793	$ 4,201	$ 4,728	$ 3,990	$ 3,990	$ 11,972	$ 32,674

20.Other Liability

In 2011, a joint venture partner commenced legal action primarily relating to the costs of drilling two wells in Quebec in 2010. The Company's potential exposure with respect to this liability was estimated at $5.9 million plus interest and costs. In 2017, $3.5 million of this amount was recorded as a contingent liability with the remaining $2.4 million recorded in current liabilities as it expected this portion of the disputed amount to have been settled within the next year. In 2018, the Company entered into an agreement with the partner to acquire these assets and execute a mutual release with respect to this legal action. See Note 22 Subsequent Events.

21. Related Party Transactions

The Company did not engage in any related party transactions during the year ended December 31, 2018, other than key management compensation as disclosed.

22. Subsequent Events

In the first quarter of 2019, the Company executed a definitive purchase and sale agreement with a senior exploration and production company (the "Agreement") to acquire all their assets in Quebec. This follows the letter of intent signed in early 2018 as set out in the Company's press release dated June 4, 2018.

Pursuant to the Agreement, Questerre will acquire the exploration rights to 753,000 net acres in Quebec, associated wells and equipment, geological and geophysical data and other miscellaneous assets. Upon closing of the transaction, both parties will release each other from all claims related to outstanding litigation. Other consideration including cash and contingent payments and the security required for the assumption of abandonment and reclamation liabilities ("A&R Liabilities") is approximately $11 million in aggregate. Questerre may post a letter of credit as security for the A&R Liabilities. Closing of the transaction is subject to the approval by the Government of Quebec for the transfer of the exploration permits and licenses to Questerre.

Corporate Information

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Hans Jacob Holden

Dennis Sykora

Bjorn Inge Tonnessen

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