Q1

2019

QUARTERLY REPORT

QUESTERRE ENERGY CORPORATION

2019

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 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

Highlights

- Executed agreement to acquire assets and regain operatorship in Quebec
- Working with stakeholders on social license for Clean Tech Energy project in Quebec
- Third farm-in well spud at Kakwa North
- Average daily production of 1,944 boe/d for the quarter with adjusted funds flow from operations of $2.45 million

In the first quarter, we made good progress in Quebec through the agreement to regain operatorship and discussions with stakeholders on our Clean Tech Energy project.

We also made progress on our Montney assets at Kakwa. The first two farm-in wells at Kakwa North were tied-in. Initial production from these wells with longer laterals and more intense completions compares favorably to our other joint venture wells. The operator also spud the third farm-in well and we anticipate one more well could spud this summer.

Although the results are early, we are very optimistic that the current completion design at Kakwa North may be another step change in developing the Montney. The longer laterals with more closely spaced treatments and higher overall sand tonnage could improve both initial production rates and ultimate recovery per well. We are pleased the operator of our adjacent Kakwa Central acreage plans to evaluate this completion design on our joint acreage.

Optimizing this completion design will significantly improve returns and project economics as less than a quarter of our identified drilling locations have been drilled to date. Our inventory of undrilled wells is based only on two intervals in the Upper Montney. It could increase further if we are able to prove up a third interval in the Lower Montney. Just offsetting our Kakwa Central acreage, an industry operator recently announced a Lower Montney test with high condensate content similar to our existing Upper Montney wells.

Early in the second quarter, we closed an equity placement to improve our financial liquidity. This allows us to continue investing in Kakwa and increasing the investment as necessary. We are also in a much stronger financial position to advance our project in Quebec.

The interest in our Clean Tech Energy project is growing. We submitted a preliminary plan to the Government of Quebec for comment during the quarter. Later this year, we expect a more detailed plan will be submitted for their consideration and approval.

Recent commentary in the Quebec media demonstrates more work is needed on social license. Our Clean Tech Energy project is a game changer designed to address stakeholder concerns. Our approach is to consult stakeholders in advance and to finalize our project plan reflecting their input.

The goal is producing natural gas with near zero emissions, freshwater usage and toxic chemicals below ground. By combining new and existing processes and technologies, we expect it could be competitive, both environmentally and economically, with renewables. Our main objective this year is to communicate the environmental and economic benefits of this project to all stakeholders.

The investment in Kakwa over the last year contributed to production volumes of 1,944 boe/d in the quarter, essentially flat over the prior year. Improved commodity prices, particularly differentials over the fourth quarter of last year, contributed to adjusted funds flow from operations of $2.45 million for the quarter. This largely financed our capital expenditures of $2.85 million in the quarter, mainly at Kakwa.

We anticipate the first joint well at Kakwa North could spud in the fourth quarter of this year.

We are working to close our agreement to regain operatorship in Quebec and consolidate our interests. We are also working with a local investment firm to find a Quebec-based strategic investor. We are hopeful by the end of this year to have made substantial progress on a partner and advancing social acceptability for our Clean Tech Energy project.

Michael Binnion
President and Chief Executive Officer

Management's Discussion And Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of May 10, 2019. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") as at March 31, 2019 and for the three month periods ended March 31, 2019 and 2018 (the "Q1 Statements"), and the audited annual consolidated financial statements of the Company for the year ended December 31, 2018 and the Management's discussion and analysis prepared in connection therewith. Additional information relating to Questerre, including Questerre's Annual Information Form ("AIF") for the year ended December 31, 2018, is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an independent energy company actively engaged 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 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 Company's focus on engagement with the Government of Quebec;
- liquidity and capital resources;
- the Company's intention to use the EcoShale process to produce oil from shale in Jordan;
- the engineering and optimization of the retorting processes to improve economic returns on the Company's Jordan assets, including use of the EcoShale process;
- the Company's plans to enter into negotiations for a concession agreement in Jordan;
- ability of the Company to meet its foreseeable obligations;
- 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;
- ability of the Company to meet its foreseeable obligations;
- expectations regarding the Company's liquidity increasing over time;
- capital expenditures and the funding thereof;
- the Company's methods to address financial exposure;
- Questerre's reserves and resources;
- impacts of capital expenditures on the Company's reserves and resources;
- 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 and related provisions for credit losses;
- joint venture partner willingness to participate in capital programs;
- 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 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 impact of the Regulations in Quebec and the outcome of the Company's challenge of the validity of certain restrictive Regulations;
- 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 reserves and resources 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 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 laws. 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 ("Mcf") to one barrel of oil ("bbl"), and the conversion ratio of one barrel to six thousand cubic feet is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalent 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 six to one, utilizing a conversion on a six to one 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 by 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 Questerre'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. Questerre'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

	Three months ended March 31,	
($ thousands)	**2019**	2018
Net cash used in operating activities	**$ (592)**	$ (352)
Interest received	**(1)**	(58)
Interest paid	**174**	136
Change in non-cash operating working capital	**2,873**	4,926
Adjusted Funds Flow from Operations	**$ 2,454**	$ 4,652

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

The Company considers operating netbacks to be a key measure as it demonstrates its profitability relative to current commodity prices. Operating 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. 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 any current portion of risk management contracts.

Select Information

	Three months ended	
As at/for the period ended March 31,	**2019**	2018
Financial ($ thousands, except as noted)		
Petroleum and Natural Gas Sales	**7,105**	9,541
Net Profit (Loss)	**(934)**	59
Adjusted Funds Flow from Operations	**2,454**	4,652
Basic and diluted ($/share)	**0.01**	0.01
Capital Expenditures, net of acquisitions and dispositions	**2,848**	8,663
Working Capital Surplus (Deficit)	**(9,544)**	2,804
Total Assets	**231,975**	218,346
Shareholders' Equity	**186,812**	172,123
Common Shares Outstanding (thousands)	**389,007**	388,956
Weighted average - basic (thousands)	**389,007**	387,848
Weighted average - diluted (thousands)	**389,007**	396,285
Operations (units as noted)		
Average Production		
Crude Oil and Natural Gas Liquids (bbls/d)	**1,311**	1,374
Natural Gas (Mcf/d)	**3,798**	3,835
Total (boe/d)	**1,944**	2,013
Average Sales Price		
Crude Oil and Natural Gas Liquids ($/bbl)	**53.04**	71.90
Natural Gas ($/Mcf)	**2.48**	2.36
Total ($/boe)	**40.61**	52.66
Netback ($/boe)		
Petroleum and Natural Gas Sales	**40.61**	52.66
Royalties Expense	**(2.30)**	(3.39)
Percentage	**6%**	6%
Direct Operating Expense	**(18.07)**	(15.30)
Operating Netback	**20.24**	33.97
Wells Drilled		
Gross	**1.00**	–
Net	**0.21**	–

(1) Adjusted Funds Flow from Operations is a non-GAAP measure defined as cash flows from operating activities before changes in non-cash operating working capital and interest paid or received.

(2) Working capital deficit is a non-GAAP measure calculated as current assets less current liabilities excluding the current portion of risk management contracts.

(3) 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.

Highlights

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First Quarter 2019 Activities

Kakwa, Alberta

Development continued at both the Company's Kakwa Central and Kakwa North acreage during the quarter.

At Kakwa Central, the Company participated in the drilling of two wells – the 100/01-29-63-05W6M and the 102/01-29-63-05W6M. Completion operations are underway and the wells should be on production late in the second quarter. Questerre hold an average 21% working interest in these wells. The Company plans to participate in the operator's program of up to three (0.75 net) additional wells over the remainder of this year.

At Kakwa North, the operator finalized the tie-in of its first two farm-in wells to a third-party processing facility. Drilling operations also commenced on the third well, the 102/11-12-63-05W6M Well, that should be completed after spring breakup. The Company anticipates that a fourth farm-in well could spud this summer. Questerre holds a royalty interest in all farm-in wells converting to a 50% working interest after payout. Upon completion of the earning, the operator will earn a 50% interest in the Company's acreage at Kakwa North and Kakwa South. The Company anticipates the operator will commence a joint drilling program late in the second half of 2019.

St. Lawrence Lowlands, Quebec

In March 2019, Questerre entered into a purchase and sale agreement with a senior exploration and production company to regain operatorship of its natural gas discovery and acquire joint assets in Quebec.

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. Closing is scheduled to occur prior to December 31, 2019.

The Company continued to engage with the Government of Quebec and work to advance social acceptability for its Clean Tech Energy pilot.

In the first quarter, at the request of the Quebec Ministry of Justice, Questerre agreed to defer its scheduled judicial review for the validity of the new oil and gas regulations in Quebec, specifically the prohibition of hydraulic fracturing and the increase in the setbacks for oil and gas activities. To address concerns about the potential environmental impacts of development, Questerre submitted for review by the Ministry of

Environment a conceptual engineering plan to test its 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 ongoing. These actions are to allow the parties to resolve the issues raised in the Company's legal brief in a constructive manner.

Oil Shale Mining

Questerre continues to assess the technical and economic feasibility of its oil shale project in Jordan.

The Company holds the exclusive exploration rights to approximately 265 sq. km in Jordan prospective for oil shale. The Company intends to use the EcoShale process, developed by Red Leaf Resources Inc. ("Red Leaf") to produce oil from shale. Questerre holds a license for the EcoShale process and owns approximately 25% of the equity capital of Red Leaf.

Following the feasibility study completed by Hatch Ltd., a global engineering firm, last year, engineering is currently focused on identifying opportunities to optimize the processes and improve the economic returns for the project. These processes include the EcoShale process. The Company expects to leverage the ongoing engineering design of the EcoShale process by Red Leaf and Hatch to advance this assessment.

Questerre anticipates negotiations with the Government of Jordan for a concession agreement will begin in the second half of this year. The Company continues to hold the exclusive rights to exploration of this acreage until the negotiations are finalized.

Corporate

Early in the second quarter, the Company completed a private placement for gross proceeds of approximately $14.5 million. The placement consisted of the issuance of 38.9 million Common Shares at $0.38 per Common Share.

Drilling Activities

During the quarter, one (0.21 net) well was drilled on the Company's Kakwa Central acreage and one well was drilled on the Company's Kakwa North acreage. The Company holds an overriding royalty convertible into a working interest after payout on the well drilled at Kakwa North.

Production

Three months ended March 31,		**2019**			2018	
	Oil and Liquids (bbls/d)	**Natural Gas (Mcf/d)**	**Equivalent (boe/d)**	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Alberta	**982**	**3,798**	**1,615**	930	3,835	1,569
Saskatchewan	**277**	**–**	**277**	414	–	414
Manitoba	**52**	**–**	**52**	30	–	30
	1,311	**3,798**	**1,944**	1,374	3,835	2,013

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

With a marginal decline of 3%, production volumes of 1,944 boe/d in the first quarter of 2019 remained largely unchanged from the same period last year.

Consistent with prior periods, Kakwa accounted for over three quarters of corporate volumes. Production from this area reflects the participation in 3 (0.71 net) wells in 2018 and 7 (1.60 net) wells in 2017 at Kakwa Central. The remaining production is primarily attributable to the Antler area in Saskatchewan. Excluding approximately 40 bbl/d of production shut-in for workovers at the end of the quarter, the lower production over the prior year reflects natural depletion declines.

The light oil production from Antler contributed to a corporate liquids weighting of just over two-thirds. The Company's liquids includes light oil from Antler and condensate and other natural gas liquids from Kakwa. The Company anticipates that over time the weighting will revert to approximately 60%, reflecting the split between condensate and other liquids to natural gas at Kakwa.

Subject to the timing and extent of the operator's drilling programs at Kakwa Central, the Company expects its production will remain largely flat for the majority of the year. Production is expected to increase in early 2020 following the commencement of a joint drilling program by the operator of its Kakwa North acreage.

First Quarter 2019 Financial Results

Petroleum and Natural Gas Sales

Three months ended March 31,		**2019**			2018	
	Oil and	**Natural**		Oil and	Natural	
($ thousands)	**Liquids**	**Gas**	**Total**	Liquids	Gas	Total
Alberta	**$ 4,246**	**$ 847**	**$ 5,093**	$ 5,784	$ 861	$ 6,645
Saskatchewan	**1,712**	**–**	**1,712**	2,711	–	2,711
Manitoba	**300**	**–**	**300**	185	–	185
	$ 6,258	**$ 847**	**$ 7,105**	$ 8,680	$ 861	$ 9,541

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

With production volumes relatively flat, petroleum and natural gas revenue in the first quarter declined by $2.4 million or 25% over the same period last year due mainly to lower oil prices.

Pricing

	Three months ended March 31,	
	2019	2018
Benchmark prices:		
Natural Gas - AECO, daily spot ($/Mcf)	**2.27**	2.23
Crude Oil - Mixed Sweet Blend ($/bbl)	**66.53**	69.26
Realized prices:		
Natural Gas ($/Mcf)	**2.48**	2.36
Crude Oil and Natural Gas Liquids ($/bbl)	**53.04**	71.90

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

Oil prices in the first quarter of 2019 improved over the year-end but declined relative to the first quarter of 2018. The benchmark West Texas Intermediate ("WTI") averaged US$54.90/bbl compared to US$48.98/bbl in December 2018 and US$62.87/bbl in the first quarter of 2018.

Concerns about supply supported the bullish sentiment in the quarter. Production cuts by Saudi Arabia and Russia, declining production from Venezuela and the US government's sanction policy towards Iran all contributed to an improvement in global oil prices. Demand also improved with an increase in Chinese imports to record levels. In Canada, the mandatory production curtailment announced by the Government of Alberta contributed to a material improvement in the differentials between WTI and Canadian condensate prices. The differential averaged US$4.34/bbl down from US$13.52/bbl in the fourth quarter last year. In the first quarter of 2018, this differential was a modest premium of US$0.17/bbl.

As the majority of Questerre's production is condensate and light oil, the Company's realized price averaged $53.04/bbl (2018: $71.90/bbl) compared to the MSW benchmark price of $66.53/bbl (2018: $69.26/bbl).

Natural gas prices declined over the prior year and improved marginally over the first quarter of last year. The reference Henry Hub price averaged US$2.88/MMBtu compared US$3.12/MMBtu in the fourth quarter last year and US$2.84/MMBtu in the first quarter of 2018.

Despite increased weather-related demand during the quarter, prices continued to reflect the persistent growth in the US, particularly from the Appalachian Basin and associated gas from the Permian. Current gross production of 12 Bcf/d from the Permian is estimated to equal almost 80% of total Canadian production. Similarly in Canada, growth has been robust, driven by development of the Montney. This growth coupled with limited takeaway capacity and reduced demand from eastern markets has resulted in a material discount between the Henry Hub and benchmark AECO pricing in Alberta.

With higher heat content natural gas from Kakwa, realized natural gas prices averaged $2.48/Mcf (2018: $2.36/Mcf) compared to the AECO reference price of $2.27/Mcf (2018: $2.23/Mcf).

Royalties

	Three months ended March 31,	
($ thousands)	**2019**	2018
Alberta	$ **244**	$ 434
Saskatchewan	**101**	153
Manitoba	**57**	27
	$ **402**	$ 614
% of Revenue:		
Alberta	**5%**	7%
Saskatchewan	**6%**	6%
Manitoba	**19%**	15%
Total Company	**6%**	6%

Consistent with the decrease in revenue over the first quarter last year, royalties decreased from $0.61 million to $0.40 million in the first quarter of 2019. As a percentage of revenue, this remained unchanged at 6% over the same period last year.

Royalties paid on production in Alberta primarily reflect Crown and overriding royalties payable at Kakwa. This also includes Crown incentives for production from the area. Royalties as a percentage of revenue are expected to increase to approximately 7% over the remainder of the year.

Operating Costs

($ thousands)	Three months ended March 31, 2019	2018
Alberta	**$ 2,080**	$ 1,925
Saskatchewan	**1,020**	793
Manitoba	**61**	57
	$ 3,161	$ 2,775
$/boe:		
Alberta	**14.30**	13.63
Saskatchewan	**40.90**	21.29
Manitoba	**13.42**	21.09
Total Company	**18.07**	15.31

In the first quarter of this year, operating costs increased to $3.16 million from $2.78 million last year. On a unit of production basis, these costs increased to $18.07 per boe from $15.31 per boe.

At Kakwa, operating costs increased by just under 10% due to higher workover and trucking expenses. As over 60% of the operating costs at Kakwa are fixed, the Company anticipates that, on a boe basis, this will decrease as additional volumes are brought on production.

At Antler, much of the increase in operating costs was attributable to higher maintenance and repair costs. The Company anticipates these costs will continue to trend higher over the remainder of this year. With over 90% of the costs as fixed and lower production volumes compared to the prior year, this translated into a more material increase on a boe basis.

General and Administrative Expenses

($ thousands)	Three months ended March 31, 2019	2018
General and administrative expenses, gross	**$ 1,190**	$ 1,710
Capitalized expenses and overhead recoveries	**(220)**	(295)
General and administrative expenses, net	**$ 970**	$ 1,415

For the quarter ended March 31, 2019, gross general and administrative costs ("G&A") decreased by $0.52 million or 30% to $1.19 million from $1.71 million in the same period last year. The decrease is attributable to no payments under the bonus plan in 2019 compared to $0.51 million in 2018.

Depletion, Depreciation, Impairment and Lease Expiries

Questerre recorded depletion and depreciation expense of $3.08 million for the quarter ended March 31, 2019, compared to $3.29 million for the same period last year. The lower expense is partially due to the marginally lower production volumes. On unit of production basis, the costs decreased to $16.29/boe from $17.79/boe due to the addition of reserves at Kakwa at a lower finding and development cost in 2018.

Loss on Equity Investment

Questerre currently holds approximately 25% of the equity capital of 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.

In 2018, the Company reduced the carrying value of its Red Leaf investment as it recorded its proportionate share of Red Leaf's net losses and cumulative preferred share dividends. As a result, the Company does not expect to record any further losses with respect to this investment for the foreseeable future. By comparison in the first quarter of 2018, the Company incurred a loss of $1.42 million representing its share of the net loss realized by Red Leaf during the quarter and the impact of the preferred share dividends accruing during the quarter. For more information, please see Note 3 of the Q1 Statements.

Other Comprehensive Income and Expenses

In 2019, the Company recorded a loss of $0.10 million through other comprehensive income. The loss is due to foreign exchange relating to its investment in Jordan and the decrease in value of the US dollar impacting its US dollar denominated investment in Red Leaf. Conversely in 2018, an increase in the value of the US dollar impacted the carrying value of the investment in Red Leaf and resulted in income of $0.26 million.

Total Comprehensive Loss

Questerre's total comprehensive loss was $1.03 million (2018: income of $0.31 million). The loss in the current year is due to the lower petroleum and natural gas revenue offset by the lower depletion expense and no loss on equity investment compared to the prior year.

Cash Flow from Operating Activities

For the three months ended March 31, 2019, net cash used in operating activities was $0.59 million compared to $0.35 million in the same period last year. The change is due to the smaller decrease in non-cash working capital compared to the prior year offset by the lower petroleum and natural gas revenue in the current year.

Cash Flow used in Investing Activities

Cash flow used in investing activities was $4.70 million for the quarter ended March 31, 2019 and $3.82 million for quarter ended March 31, 2018.

In 2019, capital expenditures of $2.85 million were incurred primarily for development at Kakwa. By comparison in the first quarter of last year, capital expenditures, primarily at Kakwa, totaled $8.66 million. The net cash used in investing activities increased over the prior year due to the decrease in non-cash working capital in 2019 as the Company paid down accounts payable relating to capital investment.

Cash Flow from Financing Activities

Cash flow provided by financing activities was $2.30 million for the quarter ended March 31, 2019. In the same period last year, the cash flow used for financing activities was $1.49 million. In the current quarter, the drawdowns under the credit facilities exceeded the repayments whereas in the prior quarter the repayments exceeded the drawdowns.

Capital Expenditures

	Three months ended March 31,	
($ thousands)	**2019**	2018
Alberta	$ **2,470**	$ 8,186
Saskatchewan	**110**	12
Jordan & Other	**268**	465
Total	$ **2,848**	$ 8,663

For the three months ended March 31, 2019, the Company incurred capital expenditures of $2.85 million as follows:

- In Alberta, $2.47 million was invested to drill, complete and equip wells and expand infrastructure on the Kakwa Central joint venture acreage;
- In Saskatchewan, the Company invested $0.11 million to maintain and upgrade production facilities; and
- Other investments include $0.21 million in Quebec to secure social acceptability and $0.15 million in Manitoba for a workover program offset by a change in the exchange rate on the carrying value of its investment in Jordan.

For the same period in 2018, the Company incurred capital expenditures of $8.66 million as follows:

- In Alberta, $8.19 million was invested in the Company's Kakwa Central acreage to expand existing infrastructure and tie-in wells drilled in 2017; and
- In Jordan, $0.47 million was invested in the technical and economic feasibility assessment for its oil shale project.

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 March 31, 2019, $16.16 million (March 31, 2018: $11.67 million) was drawn on the credit facilities and the Company is compliant with all 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 facilities, 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 March 31, 2019 was 1.57 and the covenant was met. See Note 11 to the Q1 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.

Management believes that with its expected positive operating cash flows from operations, its recently completed private placement for gross proceeds of $14.5 million 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.

Questerre anticipates an increase in production, based on its drilling activity at Kakwa, which is expected to improve operating cash flow and increase the contribution to finance planned capital expenditures. On an ongoing basis, the Company will manage where possible future capital expenditures to maintain liquidity (See "Commitments"). However, it does not expect that sufficient cash flows will be generated from operating activities alone to independently finance planned capital expenditure program. Subject to the operators plans at Kakwa, the Company intends to invest up to 90% 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 Company's 2018 Annual 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 March 31, 2019, there were no Class "B" Common voting shares or preferred shares outstanding. The following table provides a summary of the outstanding Common Shares, options and warrants as at the date of the MD&A, the current quarter-end and the preceding year-end.

(thousands)	**May 10, 2019**	**March 31, 2019**	December 31, 2018
Common Shares	**427,907**	**389,007**	389,007
Stock Options	**27,512**	**27,512**	21,412
Weighted average common shares			
Basic		**389,007**	388,712
Diluted		**389,007**	395,715

A summary of the Company's stock option activity during the three months ended March 31, 2019 and the year ended December 31, 2018 follows:

	March 31, 2019		December 31, 2018	
	Number of Options *(thousands)*	**Weighted Average Exercise Price**	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	**21,412**	**$ 0.44**	21,387	$ 0.50
Granted	**6,100**	**0.29**	3,288	0.48
Forfeited	–	–	(150)	0.52
Expired	–	–	(3,003)	0.88
Exercised	–	–	(110)	0.42
Outstanding, end of period	**27,512**	**$ 0.41**	21,412	$ 0.44
Exercisable, end of period	**11,970**	**$ 0.36**	10,403	$ 0.34

Commitments

A summary of the Company's net commitments at March 31, 2019 follows:

($ thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Transportation, Marketing and Processing	$ 2,740	$ 4,084	$ 4,728	$ 3,990	$ 3,990	$ 11,971	$ 31,503

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. Subject to the ruling on its legal motion regarding the Regulations, 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 managed.
- 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 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 $0.02 million at March 31, 2019 for its expected credit losses related to its accounts receivable.

Receivables from joint venture partners are typically collected within one to six 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 ("CDE") 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 March 31, 2019, 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

Questerre’s petroleum and natural gas reserves and resources are evaluated and reported on by independent petroleum engineering consultants in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators (“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 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 few 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 if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Determining if there are facts and circumstances present that indicate that carrying values of the assets may not be recoverable requires Management's judgment and analysis of the facts and circumstances.

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

Changes in Accounting Policies for 2019

Effective 2019, the Company has implemented IFRS 16 Leases which requires entities to recognize lease assets and lease obligations on the balance sheet. For leases entered into prior to January 1, 2019 the Corporation has chosen to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before the date of initial application.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three months ended March 31, 2019 that are applicable to the Company in future periods. A detailed description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2018.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2019 and ended on March 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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.

Quarterly Financial Information

($ thousands, except as noted)	**March 31, 2019**	Dec 31, 2018	Sept 30, 2018	June 30, 2018
Production (boe/d)	**1,944**	2,033	1,414	2,016
Average Realized Price ($/boe)	**40.61**	34.35	52.98	54.91
Petroleum and Natural Gas Sales	**7,105**	6,492	6,892	10,074
Adjusted Funds Flow from Operations	**2,454**	1,929	2,620	6,012
Net Profit (Loss)	**(934)**	14,858	(2,023)	572
Basic and Diluted ($/share)	**–**	(0.01)	(0.01)	–
Capital Expenditures, net of acquisitions and dispositions	**2,848**	8,785	6,077	7,452
Working Capital Surplus (Deficit)	**(9,543)**	(9,078)	(2,374)	1,239
Total Assets	**231,975**	233,372	218,630	220,043
Shareholders' Equity	**186,812**	187,291	171,648	173,464
Weighted Average Common Shares Outstanding				
Basic (thousands)	**389,007**	388,412	388,412	387,862
Diluted (thousands)	**389,007**	392,612	388,412	395,552

($ thousands, except as noted)	March 31, 2018	Dec 31, 2017	Sept 30, 2017	June 30, 2017
Production (boe/d)	2,013	1,714	1,643	1,037
Average Realized Price ($/boe)	52.66	46.30	36.03	44.34
Petroleum and Natural Gas Sales	9,541	7,302	5,446	4,184
Adjusted Funds Flow from Operations	4,652	2,552	1,938	880
Basic and Diluted ($/share)	–	–	–	–
Net Profit (Loss)	59	(18,036)	(2,641)	(3,621)
Basic and Diluted ($/share)	–	(0.05)	(0.01)	(0.01)
Capital Expenditures, net of acquisitions and dispositions	8,663	14,976	4,906	2,544
Working Capital Surplus (Deficit)	2,804	9,648	(7,559)	(3,184)
Total Assets	218,346	217,214	198,904	205,672
Shareholders' Equity	172,123	170,738	158,204	160,069
Weighted Average Common Shares Outstanding				
Basic (thousands)	387,848	383,093	346,685	345,408
Diluted (thousands)	396,285	383,093	346,685	345,408

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. The Company plans to continue to invest at Kakwa, subject to the operator's plans, 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 as well as the timing of the infrastructure investment at Kakwa.
- 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 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 period ended March 31, 2019.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended March 31, 2019.

Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note	**March 31, 2019**	December 31, 2018
Assets			
Current Assets			
Cash and cash equivalents		**$ 16,214**	$ 19,208
Accounts receivable		**2,930**	1,918
Deposits and prepaid expenses		**2,033**	2,141
		21,177	23,267
Investments	3	**281**	287
Right-of-use assets	12	**198**	–
Property, plant and equipment	4	**141,756**	142,564
Exploration and evaluation assets	5	**59,401**	58,092
Goodwill		**2,346**	2,346
Deferred tax assets		**6,816**	6,816
		$ 231,975	$ 233,372
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 14,558**	$ 18,503
Lease liabilities	12	**107**	–
Credit facilities	11	**16,163**	13,842
		30,828	32,345
Lease liabilities	12	**91**	–
Asset retirement obligation	6	**14,244**	13,736
		45,163	46,081
Shareholders' Equity			
Share capital	7	**415,747**	415,747
Contributed surplus		**20,326**	19,772
Accumulated other comprehensive income (loss)		**(89)**	10
Deficit		**(249,172)**	(248,238)
		186,812	187,291
		$ 231,975	$ 233,372

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

Condensed Consolidated Interim Statements of Net Income (Loss) and Comprehensive Income (Loss) *(unaudited)*

($ thousands, except per share amounts)	Note	*Three months ended March 31,* **2019**	2018
Revenue			
Petroleum and natural gas sales		$ **7,105**	$ 9,541
Royalties		**(402)**	(614)
Petroleum and natural gas revenue, net of royalties		**6,703**	8,927
Expenses			
Direct operating		**3,161**	2,775
General and administrative		**970**	1,415
Depletion, depreciation, accretion	4,5,6,12	**3,078**	3,287
Loss on equity investment	3	–	1,422
Gain on disposition of assets		–	(213)
Share based compensation	8	**364**	148
Interest expense		**174**	150
Interest & other income		**(110)**	(69)
Net income (loss) before taxes		**(934)**	12
Deferred tax expense (recovery)		–	(47)
Net income (loss)		**(934)**	59
Other comprehensive income (loss), net of tax			
Items that may be reclassified subsequently to net income (loss):			
Foreign currency translation adjustment		**(93)**	(60)
Gain (loss) on foreign exchange on investments	3	**(6)**	316
		(99)	256
Total comprehensive income (loss)		$ **(1,033)**	$ 315
Net loss per share			
Basic and diluted	7	$ –	$ –

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

Condensed Consolidated Interim Statements of Changes in Equity *(unaudited)*

		Three months ended March 31,	
($ thousands)	Note	**2019**	2018
Share Capital			
Balance, beginning of period	7	**$ 415,747**	$ 414,995
Warrants exercised		**–**	713
Options exercised		**–**	32
Balance, end of period		**415,747**	415,740
Contributed Surplus			
Balance, beginning of period		**19,772**	18,171
Share based compensation		**554**	325
Balance, end of period		**20,326**	18,496
Accumulated Other Comprehensive Loss			
Balance, beginning of period		**10**	(724)
Other comprehensive income (loss)		**(99)**	256
Balance, end of period		**(89)**	(468)
Deficit			
Balance, beginning of period		**(248,238)**	(261,704)
Net income (loss)		**(934)**	59
Balance, end of period		**(249,172)**	(261,645)
Total Shareholders' Equity		**$ 186,812**	$ 172,123

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

Condensed Consolidated Interim Statements of Cash Flows *(unaudited)*

($ thousands)	Note	*Three months ended March 31,* **2019**	2018
Operating Activities			
Net Income (loss)		**$ (934)**	$ 59
Adjustments for:			
Depletion, depreciation and accretion	4,5,6,12	**3,078**	3,287
Gain on disposition of assets	5	**–**	(213)
Loss on equity investment	3	**–**	1,422
Share based compensation	8	**364**	148
Deferred tax recovery		**–**	(47)
Interest expense		**174**	150
Interest income		**(111)**	(58)
Other items not involving cash		**(93)**	(60)
Abandonment expenditures	6	**(24)**	(36)
Adjusted Funds Flow from Operations		**2,454**	4,652
Interest paid	12	**(174)**	(136)
Interest received		**1**	58
Change in non-cash working capital		**(2,873)**	(4,926)
Net cash used operating activities		**(592)**	(352)
Investing Activities			
Property, plant and equipment expenditures	4	**(1,022)**	(4,680)
Exploration and evaluation expenditures	5	**(1,826)**	(3,983)
Change in non-cash working capital		**(1,849)**	4,840
Net cash used in investing activities		**(4,697)**	(3,823)
Financing Activities			
Proceeds from issue of share capital	7	**–**	746
Principal portion of lease payments	12	**(25)**	–
Increase in credit facilities		**9,720**	12,064
Repayment of credit facilities		**(7,400)**	(14,300)
Net cash from (used in) financing activities		**2,295**	(1,490)
Change in cash and cash equivalents		**(2,994)**	(5,665)
Cash and cash equivalents, beginning of period		**19,208**	35,836
Cash and cash equivalents, end of period		**$ 16,214**	$ 30,171

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

1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is actively engaged in the acquisition, exploration and development of oil and gas projects, in specific non-conventional projects such as tight oil, oil shale, shale oil and shale gas. These condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2019 and 2018 comprise the Company and its wholly-owned subsidiaries.

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 – 6 Avenue SW, Calgary, Alberta.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). These condensed consolidated interim financial statements have been prepared following the new IFRS accounting policies and method of computation as the audited annual consolidated financial statements for the year ended December 31, 2018 with the exception of deferred taxes and leases. Taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual net income (loss). The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on May 10, 2019.

2. Accounting Policy Changes

IFRS 16 - Leases

The Company applied IFRS 16 effective January 1, 2019. IFRS 16 requires lessees to recognize a lease obligation and right-of-use asset for the majority of leases. For leases entered into prior to January 1, 2019 the Company has chosen to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before the date of initial application.

The Company has applied IFRS 16 using the modified retrospective approach on January 1, 2019. Therefore, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of the changes is disclosed in Note 12.

On initial adoption, the Company elected to apply the following practical expedients permitted under the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company.

Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most 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. The right-of-use assets recognized are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liabilities.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

The lease liabilities are subsequently measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liabilities are re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to $0. The Company presents right-of-use assets and lease liabilities separately in the balance sheet.

The application of IFRS 16 requires significant judgments and estimations to be made. Areas that require judgment include identifying whether a contract (or part of a contract) includes a lease, determining whether it is reasonably certain that an extension or termination option will be exercised, determining whether variable payments are in substance fixed, establishing whether there are multiple leases in an arrangement and determining the stand-alone amounts for lease and non-lease components. Other sources of estimation uncertainty in the application of IFRS 16 include estimating the lease term, determining the appropriate discount rate to apply to lease payments and assessing whether a right-of-use assets are impaired.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three month period ended March 31, 2019 that are applicable to the Company in future periods. The following accounting standards and interpretations are applicable to the Company in future periods. A detailed description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2018.

3. 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, representing less than 0.5% of the issued and outstanding preferred share 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$91.92 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 March 31, 2019. 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 March 31, 2019.

The investment balance is comprised of the following:

($ thousands)	**March 31, 2019**	December 31, 2018
Investment in Red Leaf	**$ 13,604**	$ 13,604
Equity loss on investment in Red Leaf	**(13,323)**	(13,317)
	$ 281	$ 287

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

($ thousands)	March 31, 2019	December 31, 2018
Balance, beginning of year	**$ 287**	$ 9,109
Equity loss on investment	**–**	(7,631)
Impairment expense	**–**	(1,703)
Gain (loss) on foreign exchange	**(6)**	512
Balance, end of period	**$ 281**	$ 287

The equity loss on investment represents the Company's proportionate share of the net loss realized by Red Leaf and the accrued but unpaid dividends on the outstanding Series A Preferred Shares for the period ending March 31, 2019.

The assets, liabilities and net loss of Red Leaf as of March 31, 2019 were comprised as follows:

($ thousands)[1]	
Current assets	**$ 124,880**
Other current assets	**433**
Current liabilities	**4,089**
Other current liabilities	**1,617**
Net loss[2]	**(7,362)**

(1) Converted at an exchange rate of US$1 = C$1.2945

(2) Converted at an average exchange rate of US$1 = C$1.2708

For the three months ended March 31, 2019, the loss on foreign exchange relating to investments was $0.06 million (December 31, 2018: gain of $0.51 million), which was recorded in other comprehensive income (loss) net of a deferred tax recovery.

4. Property, Plant and Equipment

The following table provides a reconciliation of the Company's property, plant and equipment assets:

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Cost or deemed cost:			
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
Additions	1,346	–	1,346
Transfer from exploration and evaluation assets	698	–	698
Balance, March 31, 2019	**$ 276,258**	**$ 1,334**	**$ 277,592**
Accumulated depletion, depreciation and impairment losses:			
Balance, December 31, 2017	$ 147,952	1,295	149,247
Depletion and depreciation	11,751	10	11,761
Reversal of impairment	(28,024)	–	(28,024)
Balance, December 31, 2018	131,679	1,305	132,984
Depletion and depreciation	2,849	3	2,852
Balance, March 31, 2019	**$ 134,528**	**$ 1,308**	**$ 135,836**

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Net book value:			
At December 31, 2018	$ 142,535	$ 29	$ 142,564
At March 31, 2019	**$ 141,730**	**$ 26**	**$ 141,756**

During the quarter ended March 31, 2019 and the year ending 2018, the Company did not capitalize any administrative overhead charges or stock based compensation expense related to development activities. Included in the March 31, 2019 depletion calculation are future development costs of $317.29 million (December 31, 2018: $318.94 million). No impairment indicators were noted.

5. Exploration and Evaluation Assets

The following table provides a reconciliation of the Company's exploration and evaluation assets:

($ thousands)		**March 31, 2019**		December 31, 2018
Balance, beginning of year	**$**	**58,092**	$	53,675
Additions		**2,249**		19,740
Transfers to property, plant and equipment		**(698)**		(14,071)
Undeveloped lease expiries		**(144)**		(1,565)
Foreign currency translation adjustment - Jordan		**(98)**		313
Balance, end of period	**$**	**59,401**	$	58,092

During the period ended March 31, 2019, the Company capitalized administrative overhead charges of $0.41 million (December 31, 2018: $2.36 million) including $0.19 million of stock based compensation expense (December 31, 2018: $0.92 million) directly related to exploration and evaluation activities.

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 Quebec Ministry of Justice, Questerre agreed to temporarily defer the judicial review in the first quarter of 2019. The Company is engaged in discussions with the Quebec 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 or the Company's legal motion is ultimately denied, the carrying value of its exploration and evaluation assets in Quebec of $30.37 million as of March 31, 2019, could be materially impaired.

6. 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 $14.24 million as at March 31, 2019 (December 31, 2018: $13.74 million) based on an undiscounted total future liability of $17.34 million (December 31, 2018: $18.47 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 1.68% (December 31, 2018: 1.99%). An inflation rate of 2.2% (December 31, 2018: 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)	March 31, 2019	December 31, 2018
Balance, beginning of year	**$ 13,736**	$ 12,465
Liabilities incurred	**57**	174
Liabilities settled	**(24)**	(133)
Revisions due to change in estimates and discount rates	**418**	978
Accretion	**57**	252
Balance, end of period	**$ 14,244**	$ 13,736

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common voting shares ("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 March 31, 2019, 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, 2018 and March 31, 2019	**389,007**	$ 415,747

b) Per share amounts

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

(thousands, except as noted)	*Three months ended March 31,* 2019	2018
Net loss ($ thousands)	**$ (934)**	$ 59
Issued Common Shares at beginning of period	**389,007**	385,331
Effect of shares issued pursuant to:		
Exercise of options and warrants	**–**	3,625
Weighted average number of Common Shares outstanding (basic)	**389,007**	388,956
Basic net loss per share	**$ –**	$ –

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

(thousands, except as noted)	*Three months ended March 31,* **2019**	2018
Net loss ($ thousands)	**$ (934)**	$ 59

Weighted average number of Common Shares outstanding (basic)	**389,007**	387,848
Effect of outstanding options	**–**	8,437
Weighted average number of Common Shares outstanding (diluted)	**389,007**	396,285
Diluted net loss per share	**$ –**	$ –

Under the current stock option plan, options can be exchanged for Common Shares, or for cash at the Company's discretion. As a result, there are 2.83 million stock options considered potentially dilutive as at March 31, 2019. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. Due to the loss sustained during the quarter and year to date periods, these options are considered anti-dilutive and excluded from the calculation of diluted net loss per share.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options 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. The Company accounts for its stock-based compensation awards on the basis that the options will be equity settled.

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

	March 31, 2019		December 31, 2018	
	Number of Options *(thousands)*	**Weighted Average Exercise Price**	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	**21,412**	**$ 0.44**	21,387	$ 0.50
Granted	**6,100**	**0.29**	3,288	0.48
Forfeited	**–**	**–**	(150)	0.52
Expired	**–**	**–**	(3,003)	0.88
Exercised	**–**	**–**	(110)	0.42
Outstanding, end of period	**27,512**	**$ 0.41**	21,412	$ 0.44
Exercisable, end of period	**11,970**	**$ 0.36**	10,403	$ 0.34

9. Capital Management

The Company believes with its net current assets, recent private placement and positive expected funds flow from operations (an additional non-GAAP measure defined as net cash from operating activities before changes in non-cash working capital and interest paid or received) in the near future, that the Company will be able to meet its foreseeable obligations in the normal course of operations. On an ongoing basis the Company reviews its commitment to incur capital expenditures to ensure that adjusted funds flow from operations or access to credit facilities are available to fund these capital expenditures. Refer to Note 11.

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 its cost of capital through the issuance of shares, securing credit facilities and adjusting its capital spending. Questerre monitors its capital structure based on the current and projected adjusted funds flow from operations.

($ thousands)	**March 31, 2019**	December 31, 2018
Credit facilities	**$ 16,163**	$ 13,901
Shareholders' equity	**186,812**	187,291

10. 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 March 31, 2019 included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at March 31, 2019, the fair values of the Company's financial assets and liabilities approximate their carrying values due to the short-term maturity, with the exception of 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.

The Company does not hold any Level 1 financial instruments.

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.

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

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

The Company's investments are considered a Level 3 instrument. The fair values are determined using a discounted cash flow approach.

As at each reporting period, the Company will assess whether a financial asset is impaired, other than those classified as fair value through profit or loss. Any impairment loss will be included in net income (loss) for the period.

c) 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 its 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 both by the relationship between the Canadian and United States dollar and 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 flows from future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas.

The Company had no risk management contracts.

d) 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.

11. Credit Facilities

As at March 31, 2019, 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 B"). Credit Facility A can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. The review of the Company's credit facilities with a Canadian chartered bank was completed in the fourth quarter and resulted in no change in the size of the facilities.

Any borrowing under the credit facilities, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The bank's prime rate currently is 2.70% per annum and the effective interest rate for the quarter was 4.45%. The credit 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 March 31, 2019 was 1.57 and the covenant was met. At March 31, 2019, $16.16 million (December 31, 2018: $13.90 million) was drawn on Credit Facility A.

The current commodity price environment has resulted in tighter capital markets. The credit facilities are demand facilities 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. The next scheduled review of the credit facilities is scheduled for the second quarter of 2019.

12. Right-of-use Assets and Lease Liabilities

a) Right-of-use assets

($ thousands)	Real Estate	Other	Total
Cost			
Balance, January 1, 2019	$ 198	$ –	$ 198
Additions		25	25
Balance, March 31, 2019	**$ 198**	**$ 25**	**$ 223**
Accumulated Depreciation			
Balance, January 1, 2019	$ –	$ –	$ –
Depreciation	25	–	25
Balance, March 31, 2019	**$ 25**	**$ –**	**$ 25**
Carrying value			
Balance, January 1, 2019	$ 198	$ –	$ 198
Balance, March 31, 2019	**$ 173**	**$ 25**	**$ 198**

The associated right-of-use assets were measured at the amount equal to the lease liabilities on January 1, 2019 with no impact on retained earnings.

b) Lease liabilities

A reconciliation of the gross future minimum lease payments on operating lease commitments, as disclosed in Note 19 of the Annual Report for the year ended December 31, 2018, to the lease liabilities as at January 1, 2019 is as follows:

($ thousands)		
Operating lease commitments disclosed as at December 31, 2018	$	**256**
Discounted using the incremental borrowing rate as at January 1, 2019		246
(Less): short-term leases recognized on a straight-line basis as expense		(20)
(Less): low-value leases recognized on a straight-line basis as expense		(28)
Lease liability recognized as at January 1, 2019	$	**198**

Maturity analysis - undiscounted cash flows as at March 31, 2019:		
Current Portion		114
Long term portion		121
Total undiscounted lease liabilities as at March 31, 2019	$	**235**

Lease Liabilities		
Balance, January 1, 2019		198
Additional leases during period		25
Interest expense		2
Lease payments		(27)
Balance, March 31, 2019	$	**198**

Current portion		107
Long term portion		91
Balance, March 31, 2019	$	**198**

Amounts related to lease liabilities recognized in profit or loss are as follows:		
Interest expense on lease liabilities	$	**2**

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, “Leases” (“IAS 17”). Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rates at January 1, 2019 estimated at 4.14%. Leases with a remaining term of less than twelve months and low-value leases were excluded. Interest expense related to leases are included in “Interest paid” under Operating Activities on the Statements of Cash Flow.

13. Subsequent Events

In the second quarter of 2019, the Company completed a private placement for gross proceeds of $14.5 million consisting of the issuance of 38.9 million Common Shares at $0.38 per Common Share.

Corporate Information

Directors

Michael Binnion

Alain Sans Cartier

Earl Hickok

Hans Jacob Holden

Dennis Sykora

Bjorn Inge Tonnessen

Officers

Michael Binnion
President and
Chief Executive Officer

John Brodylo
VP Exploration

Peter Coldham
VP Engineering

Jason D'Silva
Chief Financial Officer

Rick Tityk
VP Land

Bankers

Canadian Western Bank
200, 606 Fourth Street SW
Calgary, Alberta
T2P 1T1

Legal Counsel

Borden Ladner Gervais LLP
1900, 520 Third Avenue SW
Calgary, Alberta
T2P 0R3

Transfer Agent

Computershare Trust
Company of Canada
600, 530 Eighth Avenue SW
Calgary, Alberta
T2P 3S8

DNB Bank ASA
Dronning Eufemias gate 30
N-0021 Oslo, Norway

Auditors

PricewaterhouseCoopers LLP
3100, 111 Fifth Avenue SW
Calgary, Alberta
T2P 5L3

Independent Reservoir Engineers

McDaniel & Associates Cosultants Ltd.
2200, 255 Fifth Avenue SW
Calgary, Alberta
T2P 3G6

GLJ Petroleum Consultants Ltd.
4100, 400 Third Avenue SW
Calgary, Alberta
T2P 4H2

Head Office

1650 AMEC Place
801 Sixth Avenue SW
Calgary, Alberta T2P 3W2
Telephone: (403) 777-1185
Facsimile: (403) 777-1578
Web: www.questerre.com
Email: info@questerre.com

Stock Information

Toronto Stock Exchange
Oslo Stock Exchange
Symbol: QEC

1650 AMEC Place
801 Sixth Avenue SW
Calgary, Alberta T2P 3W2
Telephone: (403) 777-1185
Facsimile: (403) 777-1578
Web: www.questerre.com
Email: info@questerre.com