

**CONDENSED CONSOLIDATED INTERIM
BALANCE SHEETS** *(unaudited)*

<i>(\$ thousands)</i>	Note	September 30, 2018	December 31, 2017
Assets			
Current Assets			
Cash and cash equivalents		\$ 27,611	\$ 35,836
Accounts receivable		1,893	3,780
Deposits and prepaid expenses		2,224	556
		31,728	40,172
Investments	3	4,436	9,109
Property, plant and equipment	4	114,685	98,893
Exploration and evaluation assets	5	52,416	53,675
Goodwill		2,346	2,346
Deferred tax assets		13,019	13,019
		\$ 218,630	\$ 217,214
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 18,347	\$ 16,623
Credit facilities	11	15,755	13,901
		34,102	30,524
Other liability		-	3,487
Asset retirement obligation	6	12,880	12,465
		46,982	46,476
Shareholders' Equity			
Share capital	7	415,747	414,995
Contributed surplus		19,300	18,171
Accumulated other comprehensive loss		(304)	(724)
Deficit		(263,095)	(261,704)
		171,648	170,738
		\$ 218,630	\$ 217,214

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS *(unaudited)*

<i>(\$ thousands, except per share amounts)</i>	Note	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
		2018	2017	2018	2017
Revenue					
Petroleum and natural gas sales		\$ 6,892	\$ 5,446	\$ 26,507	\$ 14,059
Royalties		(225)	(342)	(1,588)	(669)
Petroleum and natural gas revenue, net of royalties		6,667	5,104	24,919	13,390
Expenses					
Direct operating		3,092	2,235	8,142	6,567
General and administrative		818	723	3,429	2,274
Depletion and depreciation	4	2,364	3,005	8,818	6,904
Loss on equity investment	3	2,021	1,617	5,094	2,403
Gain on Red Leaf investment	3	-	(265)	-	(2,601)
Gain on disposition of assets		-	-	(213)	(3,657)
Impairment of assets & lease expiries	4,5	(72)	160	11	8,019
Gain on risk management contracts		-	(62)	-	(1,039)
Share based compensation		188	138	494	267
Accretion of asset retirement obligation	6	88	58	217	128
Interest expense		157	108	376	464
Other (income) expense		3	(36)	(5)	(55)
Net loss before taxes		(1,992)	(2,577)	(1,444)	(6,284)
Deferred tax expense (recovery)		31	64	(52)	501
Net Loss		(2,023)	(2,641)	(1,392)	(6,785)
Other comprehensive income (loss), net of tax					
<i>Items that may be reclassified subsequently to net income (loss):</i>					
Foreign currency translation adjustment		(48)	(67)	54	(125)
Gain (loss) on foreign exchange on investments	3	(204)	(348)	366	(817)
		(252)	(415)	420	(942)
Total comprehensive loss		\$ (2,275)	\$ (3,056)	\$ (972)	\$ (7,727)
Net loss per share					
Basic and diluted	7	\$ (0.01)	\$ (0.01)	\$ -	\$ (0.02)

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY *(unaudited)*

<i>(\$ thousands)</i>	Note	<i>Nine months ended September 30,</i>	
		2018	2017
Share Capital			
Balance, beginning of period	7	\$ 414,995	\$ 359,151
Private placements		-	24,818
Warrants exercised		713	1,812
Options exercised		47	29
Share issue costs (net of tax)		(8)	(988)
Balance, end of period		415,747	384,822
Contributed Surplus			
Balance, beginning of period		18,171	17,254
Share based compensation		1,129	600
Balance, end of period		19,300	17,854
Accumulated Other Comprehensive Loss			
Balance, beginning of period		(724)	138
Other comprehensive income (loss)		420	(942)
Balance, end of period		(304)	(804)
Deficit			
Balance, beginning of period		(261,703)	(236,883)
Net loss		(1,392)	(6,785)
Balance, end of period		(263,095)	(243,668)
Total Shareholders' Equity		\$ 171,648	\$ 158,204

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS *(unaudited)*

<i>(\$ thousands)</i>	Note	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
		2018	2017	2018	2017
Operating Activities					
Net Loss		\$ (2,023)	\$ (2,641)	\$ (1,392)	\$ (6,785)
Adjustments for:					
Depletion and depreciation	4	2,364	3,005	8,818	6,904
Impairment of assets & lease expiries	4,5	(72)	160	11	8,019
Unrealized gain on risk management contracts		-	(62)	-	(1,107)
Gain on disposition of assets	5	-	-	(213)	(3,657)
Gain on Red Leaf investment	3	-	(265)	-	(2,601)
Loss on equity investment	3	2,021	1,617	5,094	2,403
Share based compensation		188	138	494	267
Accretion of asset retirement obligation	6	88	58	217	128
Deferred tax expense (recovery)		31	64	(52)	501
Interest expense		157	108	376	464
Other items not involving cash		(48)	(67)	54	(125)
Abandonment expenditures	6	(86)	(177)	(123)	(182)
Adjusted Funds Flow from Operations		2,620	1,938	13,284	4,229
Interest paid		(30)	(226)	(158)	(634)
Change in non-cash working capital		2,139	6,271	(1,874)	6,309
Net cash from operating activities		4,729	7,983	11,252	9,904
Investing Activities					
Property, plant and equipment expenditures	4	(1,739)	(1,404)	(11,804)	(5,647)
Exploration and evaluation expenditures	5	(4,338)	(3,504)	(10,388)	(11,575)
Purchase of investment	3	-	(2,180)	-	(10,330)
Sale of exploration and evaluation assets		-	-	-	4,450
Change in non-cash working capital		(1,750)	(5,275)	110	4,155
Net cash used in investing activities		(7,827)	(12,363)	(22,082)	(18,947)
Financing Activities					
Proceeds from issue of share capital	7	-	912	760	26,659
Share issue costs	7	-	(29)	(8)	(1,352)
Other liability		-	-	-	3,487
Increase in credit facilities		11,458	7,304	38,465	19,318
Repayment of credit facilities		(10,811)	(11,400)	(36,612)	(29,900)
Net cash from (used in) financing activities		647	(3,213)	2,605	18,212
Change in cash and cash equivalents		(2,451)	(7,593)	(8,225)	9,169
Cash and cash equivalents, beginning of period		30,062	25,037	35,836	8,275
Cash and cash equivalents, end of period		\$ 27,611	\$ 17,444	\$ 27,611	\$ 17,444

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2018 and 2017 (unaudited)

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 nine months ended September 30, 2018 and 2017 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, 2017 with the exception of deferred taxes. 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, 2017, 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 November 9, 2018.

2. Accounting Policy Changes

Adoption of IFRS 9 Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments (“IFRS 9”), which replaced IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). The Company applied the new standard retrospectively and, in accordance with the transitional provisions, comparative figures have not been restated. The adoption of IFRS 9 did not have a material impact on the Company’s condensed consolidated interim financial statements. The nature and effects of the key changes to the Company’s accounting policies resulting from the adoption of IFRS 9 are summarized below.

Classification of Financial Assets and Financial Liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the Company’s business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for

classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The differences between the two standards did not impact the Company at the time of transition.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39. The ECL model applies to the Company's receivables. As at September 30, 2018, over 88% of the Company's trade accounts receivable were investment grade and 91% were outstanding for less than 30 days. The average expected credit loss on the Company's trade accounts receivable was 1.02% as at September 30, 2018.

Transition

On January 1, 2018, the Company identified the business model used to manage its financial assets and classified its financial instruments into the appropriate IFRS 9 category and applied the ECL model to financial assets classified as measured at amortized cost.

The classification and measurement of financial instruments under IFRS 9 did not have a material impact on the Company's opening retained earnings as at January 1, 2018. In addition, the application of the ECL model to financial assets classified as measured at amortized cost did not result in a material adjustment on transition.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and financial liabilities. The Company has no contract assets or debt investments measured at FVOCI.

Financial Instrument	Measurement Category	
	IAS 39	IFRS 9
Cash and Cash Equivalents	Loans and receivables	Amortized Cost
Accounts Receivable	Loans and receivables	Amortized Cost
Deposits & Prepaid Expenses	Loans and receivables	Amortized Cost
Accounts Payable and Accrued Liabilities	Financial Liabilities Measured at Amortized Cost	Amortized Cost
Current portion of risk management contracts	FVTPL	FVTPL
Credit Facilities	Financial Liabilities Measured at Amortized Cost	Amortized Cost

There were no adjustments to the carrying amounts of financial instruments as a result of the change in classification from IAS 39 to IFRS 9.

Adoption of IFRS 15 Revenues From Contracts With Customers

Effective January 1, 2018, the Company adopted IFRS 15 Revenue From Contracts With Customers ("IFRS 15") replacing IAS 11 Construction Contracts, IAS 18 Revenue and several revenue-related interpretations. Questerre adopted IFRS 15 using the modified retrospective with cumulative effect approach using the following practical expedients: electing to apply the standard retrospectively only to contracts that were not completed contracts on January 1, 2018, and for modified contracts, evaluating the original contract together with any contract modifications at the date of initial application.

The adoption of IFRS 15 did not have a material impact on the timing or measurement of revenue. However, IFRS 15 contains new disclosure requirements.

Update to Significant Accounting Policies

Financial Instruments

The Company applied IFRS 15 retrospectively but elected not to restate comparative information. As such, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy found in the annual consolidated financial statements for the year ended December 31, 2017. The following accounting policy is applicable from January 1, 2018. Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Classification and Measurement of Financial Assets

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classified its financial assets:

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;
- FVOCI: Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or
- FVTPL: Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial assets.

On initial recognition, the Company may irrevocably designate a financial asset that meets the amortized cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. On initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. There is no subsequent reclassification of fair value changes to earnings following the derecognition of the investment. However, dividends that reflect a return on investment continue to be recognized in net earnings. This election is made on an investment-by-investment basis.

At initial recognition, the Company measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in net earnings.

Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Impairment of Financial Assets

The Company recognizes loss allowances for ECLs on its financial assets measured at amortized cost. Due to the nature of its financial assets, Questerre measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

Classification and Measurement of Financial Liabilities

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

Financial liabilities at FVTPL are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Questerre recognizes revenue when it transfers control of the product or service to a customer, which is generally when title passes from the Company to its customer.

Questerre recognizes revenue from the following major products and services - sale of crude oil, natural gas and natural gas liquids ("NGLs"). The Company satisfies its performance obligations in contracts with customers upon the delivery of crude oil, natural gas, and NGLs, which is generally at a point in time. Questerre sells its production of crude oil, natural gas, and NGLs pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. Questerre's revenue transactions do not contain significant financing components and payments are typically due within 30 days of revenue recognition. The Company does not adjust transaction prices for the effects of a significant financing component when the period between the transfer of the promised goods or services to the customer and payment by the customer is less than one year. The Company does not disclose information about remaining performance obligations that have an original expected duration of one year or less and it does not have any long-term contracts with unfulfilled performance obligations.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the nine-month period ended September 30, 2018 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, 2017.

IFRS 16 Leases

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

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\$86.77 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 September 30, 2018. No value was assigned to the non-current assets of Red Leaf for the purposes of determining the fair value of the Company's investment. The Company also evaluated the fair value of the preferred shares based on the face value and accrued but unpaid dividends as of September 30, 2018.

The investment balance is comprised of the following:

<i>(\$ thousands)</i>	September 30, 2018	December 31, 2017
Investment in Red Leaf	\$ 12,909	\$ 12,510
Equity loss on investment in Red Leaf	(8,473)	(3,401)
	\$ 4,436	\$ 9,109

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 September 30, 2018.

The assets, liabilities and net loss of Red Leaf as of September 30, 2018 were comprised as follows:

<i>(\$ thousands)</i> ⁽¹⁾		
Current assets	\$	131,616
Other current assets		416
Current liabilities		2,254
Other current liabilities		1,489
Net loss ⁽²⁾		(9,630)

⁽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

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

<i>(\$ thousands)</i>	September 30, 2018	December 31, 2017
Balance, beginning of year	\$ 9,109	\$ 490
Purchase of investment	-	10,330
Reversal of impairment	-	2,336
Preferred shares fair value	-	274
Equity loss on investment	(5,094)	(3,401)
Gain (loss) on foreign exchange	421	(920)
Balance, end of period	\$ 4,436	\$ 9,109

For the nine months ended September 30, 2018, the gain on foreign exchange relating to investments was \$0.42 million (September 30, 2017: loss of \$1.01 million), which was recorded in other comprehensive income (loss) net of a deferred tax recovery of \$0.04 million (September 30, 2017: \$0.13 million).

4. Property, Plant and Equipment

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

<i>(\$ thousands)</i>	Oil and Natural Gas Assets	Other Assets	Total
Cost or deemed cost:			
Balance, December 31, 2016	\$ 213,012	\$ 1,334	\$ 214,346
Additions	11,781	-	11,781
Acquisitions	6,935	-	6,935
Transfer from exploration and evaluation assets	15,078	-	15,078
Balance, December 31, 2017	246,806	1,334	248,140
Additions	11,498	-	11,498
Transfer from exploration and evaluation assets	13,090	-	13,090
Balance, September 30, 2018	\$ 271,394	\$ 1,334	\$ 272,728
Accumulated depletion, depreciation and impairment losses:			
Balance, December 31, 2016	\$ 125,937	\$ 1,284	\$ 127,221
Depletion and depreciation	9,712	11	9,723
Impairment	12,303	-	12,303
Balance, December 31, 2017	147,952	1,295	149,247
Depletion and depreciation	8,810	8	8,818
Other	(22)	-	(22)
Balance, September 30, 2018	\$ 156,740	\$ 1,303	\$ 158,043

<i>(\$ thousands)</i>	Oil and Natural Gas Assets	Other Assets	Total
Net book value:			
At December 31, 2017	\$ 98,854	\$ 39	\$ 98,893
At September 30, 2018	\$ 114,654	\$ 31	\$ 114,685

During the quarter ended September 30, 2018 and the year ending 2017, the Company did not capitalize any administrative overhead charges or stock based compensation expense related to development activities. Included in the September 30, 2018 depletion calculation are future development costs of \$160.50 million (December 31, 2017: \$172.37 million). As at September 30, 2018, \$7.96 million of assets under construction were included within property, plant and equipment (December 31, 2017: \$1.05 million) and are not subject to depletion and depreciation.

5. Exploration and Evaluation Assets

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

<i>(\$ thousands)</i>	September 30, 2018	December 31, 2017
Balance, beginning of year	\$ 53,675	\$ 58,915
Additions	11,863	17,753
Transfers to property, plant and equipment	(13,090)	(15,078)
Undeveloped lease expiries	(32)	(7,122)
Disposition	-	(793)
Balance, end of period	\$ 52,416	\$ 53,675

During the period ended September 30, 2018, the Company capitalized administrative overhead charges of \$1.58 million (December 31, 2017: \$1.48 million) including \$0.64 million of stock based compensation expense (December 31, 2017: \$0.51 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 has 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. Should the Company's legal motion be denied, the carrying value of its exploration and evaluation assets in Quebec of \$30.8 million as of September 30, 2018, 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 \$12.88 million as at September 30, 2018 (December 31, 2017: \$12.47 million) based on an undiscounted total future liability of \$16.92 million (December 31, 2017: \$16.26 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 2.29% (December 31, 2017: 1.97%). An inflation rate of 2.2% (December 31, 2017: 2.2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

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

<i>(\$ thousands)</i>	September 30, 2018	December 31, 2017
Balance, beginning of year	\$ 12,465	\$ 8,726
Liabilities incurred (disposed)	(60)	665
Liabilities settled	(123)	(201)
Revisions due to change in estimates and discount rates	381	804
Liabilities acquired	-	2,298
Accretion	217	173
Balance, end of period	\$ 12,880	\$ 12,465

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 September 30, 2018, there were no Class "B" Common voting shares or preferred shares outstanding.

a) Issued and outstanding – Common Shares

	Number <i>(thousands)</i>	Amount <i>(\$ thousands)</i>
Balance, December 31, 2017	385,331	\$ 414,995
Options exercised	110	47
Warrants exercised	3,566	713
Share issue costs (net of tax effect)	-	(8)
Balance September 30, 2018	389,007	\$ 415,747

In connection with a private placement completed in July 2016, the Company issued warrants to purchase Common Shares at a price of \$0.20 per Common Share until January 28, 2018. All outstanding warrants were exercised as of September 30, 2018.

b) Per share amounts

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

<i>(thousands, except as noted)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2018	2017	2018	2017
Net loss (\$ thousands)	\$ (2,023)	\$ (2,641)	\$ (1,392)	\$ (6,785)
Issued Common Shares at beginning of period	388,412	345,470	385,331	308,274
Effect of shares issued pursuant to:				
Private placements	-	-	-	26,735
Exercise of options and warrants	-	1,215	3,282	3,912
Weighted average number of Common Shares outstanding (basic)	388,412	346,685	388,613	338,921
Basic net loss per share	\$ (0.01)	\$ (0.01)	\$ -	\$ (0.02)

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

<i>(thousands, except as noted)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2018	2017	2018	2017
Net loss (\$ thousands)	\$ (2,023)	\$ (2,641)	\$ (1,392)	\$ (6,785)
Weighted average number of Common Shares outstanding (basic)	388,412	346,685	388,613	338,921
Effect of outstanding options		-		-
Weighted average number of Common Shares outstanding (diluted)	388,412	346,685	388,613	338,921
Diluted net loss per share	\$ (0.01)	\$ (0.01)	\$ -	\$ (0.02)

Under the current stock option plan, options can be exchanged for Common Shares, or for cash at the Company's discretion. As a result, they are considered potentially dilutive. 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. The options are anti-dilutive due to the loss sustained during the quarter and year to date periods.

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:

	September 30, 2018		December 31, 2017	
	Number of Options (thousands)	Weighted Average Exercise Price	Number of Options (thousands)	Weighted Average Exercise Price
Outstanding, beginning of period	21,387	\$0.50	14,856	\$0.41
Granted	3,288	0.48	6,900	0.69
Forfeited	(150)	0.52	(232)	0.52
Expired	(3,003)	0.88	(90)	0.70
Exercised	(110)	0.42	(47)	0.62
Outstanding, end of period	21,412	\$0.44	21,387	\$0.50
Exercisable, end of period	17,584	\$0.45	9,180	\$0.50

9. Capital Management

The Company believes with its net current assets 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.

	September 30, 2018	December 31, 2017
<i>(\$ thousands)</i>		
Credit facilities	\$ 15,755	\$ 13,901
Shareholders' equity	171,648	170,738

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 September 30, 2018 included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at September 30, 2018, 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 outstanding as of September 30, 2018.

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 September 30, 2018, the credit facilities include a revolving operating demand facility of \$17.9 million ("Credit Facility A") and a corporate credit card of \$0.1 million ("Credit Facility 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 4.20%. 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 September 30, 2018 was 1.85 and the covenant was met. At September 30, 2018, \$15.76 million (December 31, 2017: \$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. Subsequent Events

In November 2018, Credit Facility A was renewed at \$17.9 million and Credit Facility B remains at \$0.1 million.