

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of November 9, 2018. 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 September 30, 2018 and for the three and nine month periods ended September 30, 2018 and 2017 (the "Q3 Statements"), and the audited annual consolidated financial statements of the Company for the year ended December 31, 2017 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, 2017, 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, including the timing thereof;
- infrastructure investment;
- future production of oil, natural gas and natural gas liquids;
- future commodity prices;
- legislative and regulatory developments in the Province of Quebec and the timing thereof;
- the timing of the hearing to challenge the validity of certain Regulations in Quebec;

- the impact of price differentials on revenue from the Company's condensate and light oil production;
- the timing of the development of the Company's resources in Quebec and the funding required for such developments;
- liquidity and capital resources;
- entering into of a purchase and sale agreement and the closing of the Company's consolidation of its Quebec assets, including the settlement of outstanding litigation between the parties, and the posting of a letter of credit as security for the A&R Liabilities;
- the Company's technical and feasibility study of its oil shale project in Jordan;
- the Company's plans to enter into negotiations for a concession agreement in Jordan;
- the reduction of operating costs at Kakwa and Antler;
- 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;
- Questerre's reserves and resources;
- impacts of capital expenditures on the Company's reserves and resources;
- the benefits of the joint venture infrastructure in the Kakwa area;
- average royalty rates;
- commitments and Questerre's participation in future capital programs;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness;
- joint venture partner willingness to participate in capital programs;
- 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

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2018	2017	2018	2017
Net cash from operating activities	\$ 4,729	\$ 7,983	\$ 11,252	\$ 9,904
Interest paid	30	226	158	634
Change in non-cash operating working capital	(2,139)	(6,271)	1,874	(6,309)
Adjusted Funds Flow from Operations	\$ 2,620	\$ 1,938	\$ 13,284	\$ 4,229

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. Operating netbacks are generally discussed and presented on a per boe basis.

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

Select Information

<i>As at/for the period ended September 30,</i>	<i>Three months ended</i>		<i>Nine months ended</i>	
	2018	2017	2018	2017
Financial (\$ thousands, except as noted)				
Petroleum and Natural Gas Sales	6,892	5,446	26,507	14,059
Adjusted Funds Flow from Operations	2,620	1,938	13,284	4,229
Basic and diluted (\$/share)	0.01	0.01	0.03	0.01
Net Loss	(2,023)	(2,641)	(1,392)	(6,785)
Basic and diluted (\$/share)	(0.01)	(0.01)	-	(0.02)
Capital Expenditures, net of acquisitions and dispositions	6,077	4,908	22,192	12,772
Working Capital Deficit	(2,374)	(7,558)	(2,374)	(7,558)
Total Assets	218,630	198,904	218,630	198,904
Shareholders' Equity	171,648	158,204	171,648	158,204
Common Shares Outstanding (thousands)	389,007	349,933	389,007	349,933
Weighted average - basic (thousands)	388,412	346,685	388,613	338,921
Weighted average - diluted (thousands)	388,412	346,685	388,613	338,921
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	982	963	1,230	738
Natural Gas (Mcf/d)	2,592	4,080	3,490	3,189
Total (boe/d)	1,414	1,643	1,812	1,270
Average Sales Price				
Crude Oil and Natural Gas Liquids (\$/bbl)	72.69	54.14	73.84	58.49
Natural Gas (\$/Mcf)	1.38	1.72	1.79	2.61
Total (\$/boe)	52.98	36.03	53.58	40.55
Netback (\$/boe)				
Petroleum and Natural Gas Sales	52.98	36.03	53.58	40.55
Royalties Expense	(1.73)	(2.26)	(3.21)	(1.93)
Percentage	3%	6%	6%	5%
Direct Operating Expense	(23.77)	(14.78)	(16.46)	(18.94)
Operating Netback	27.48	18.99	33.92	19.68
Wells Drilled				
Gross	1.00	2.00	2.00	5.00
Net	0.25	0.46	0.50	1.13

(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

- Government of Quebec enacts *Petroleum Resources Act* and regulations
- Kakwa joint venture facilities expansion completed with gross capacity almost doubling to 43 MMcf/d
- Kakwa North well tests at 2,900 boe/d and operator plans tie-in
- Average daily production of 1,414 boe/d for the quarter, impacted by the plant expansion, with adjusted funds flow from operations of \$2.62 million

Third Quarter 2018 Activities

Kakwa, Alberta

Two significant projects were completed on the Company's Kakwa acreage during the quarter. They are designed to accommodate the future growth in production volumes. As a result of these infrastructure expansions, a facility turnaround and other field work, shut-in volumes resulting in lower production over the prior quarter.

These expansions included an increase in the capacity of the central processing facility from 23 MMcf/d to 43 MMcf/d with associated liquids and the central water storage facility from 30,000 m³ to 60,000 m³. Questerre holds a 25% working interest in these facilities. The local gathering system was also expanded and 5 (1.17 net) wells were equipped with gas lift. For the quarter and year to date, Questerre invested \$1.65 million and \$11.23 million respectively in facilities, representing more than half of its total investment in Kakwa during these periods.

On its Kakwa acreage, two wells targeting the Montney formation were drilled during the third quarter. Drilling operations were concluded on the 102/04-09-63-6W6M Well (the "04-09 Well") and the 102/11-18-63-5W6M Well (the "11-18 Well") with laterals of approximately 2300m. The 04-09 Well was completed and placed on production early in the fourth quarter. The 11-18 Well was completed early in the fourth quarter and will be tied in prior to year-end. Questerre holds a 25% working interest in both wells.

Further drilling is expected to resume on this acreage late in the fourth quarter. Subject to the operator's plans, the Company expects to participate in the drilling of up to one (0.21 net) additional well in 2018 and six (1.29 net) wells in 2019.

As part of its commitments on the Kakwa North acreage, as disclosed in the Company's press release dated March 5, 2018, the operator drilled and completed its first well, 103/16-29-063-6W6M well (the "103/16-29 Well"), with a 3000m horizontal leg in the Montney Formation. During the last 24 hours of a 210-hour production test, the 103/16-29 Well flowed at an average rate of 11.6 MMcf/d of natural gas and 990 bbl/d of condensate (2,922 boe/d). Although the early results from the 103/16-29 Well are encouraging they are not necessarily indicative of long-term performance or ultimate recovery. The operator is exercising its option to tie-in the 103/16-29 Well to third party processing facilities. Questerre holds a royalty interest in the 103/16-29 Well which will convert to a working interest after the operator recoups the well costs.

St. Lawrence Lowlands, Quebec

The Government of Quebec enacted the *Petroleum Resources Act* in the third quarter of 2018 to govern the development of hydrocarbons in the province. It also enacted the associated regulations (the “Regulations”) which include restrictions on oil and gas activities, specifically the prohibition of hydraulic fracturing of shale. Questerre believes that the remaining Regulations, while stricter than other jurisdictions, are generally workable.

Questerre filed a legal brief with the Superior Court of Quebec challenging the validity of the specific Regulations relating to the restrictions. The brief also requested a stay and ultimately a judicial hearing to have them set aside. The Company’s motion was made on the basis that the specific Regulations are ultra vires, or beyond the legal power and authority granted to the government by the *Petroleum Resources Act*, contrary to the independent scientific studies, and moreover they do not meet the consultation requirements detailed in Quebec legislation with respect to the enactment of regulations.

The Attorney General requested an extension for the hearing date on the motion to stay, in order to receive clear instructions from the newly elected government on this matter. Questerre consented to the request. Given the high importance of the issues, the Company has been granted a fast track hearing on judicial review in the first quarter of 2019 that will decide on setting the fracking ban regulations aside.

The enactment of the Regulations also satisfies one of the pre requisites for the Company to close its previously announced Letter of Intent with a senior exploration and production company (the “LOI”) to consolidate its assets in Quebec and regain operatorship. Subject to the conditions precedent, Questerre anticipates entering into a purchase and sale agreement in the fourth quarter and closing the acquisition early in 2019.

Pursuant to the LOI, Questerre will acquire the exploration rights to 753,000 net acres in the Lowlands, associated wells and equipment, geological and geophysical data and other miscellaneous assets. Upon closing of the transaction, both parties will release each other from all claims related to the outstanding litigation. Other consideration including cash and the security required for the assumption of abandonment and reclamation liabilities (“A&R Liabilities”) is approximately \$16.10 million in aggregate. Questerre may post a letter of credit as security for the A&R Liabilities.

Oil Shale Mining

During the quarter, Questerre continued its work with Hatch Ltd. (“Hatch”), a global engineering firm, on the technical and economic feasibility of its oil shale project in the Kingdom of Jordan.

This follows the study completed by Hatch in the second quarter which estimated capital costs, including a 20% contingency, of US\$18 to US\$20 per barrel and operating costs of approximately US\$18 per barrel assuming an initial project capable of production of 50,000 bbl/d. These costs include upgrading the produced oil to low sulphur diesel and gasoline that, based on a marketing study, typically realizes a US\$10 to US\$12 per barrel premium to Brent benchmark pricing. These costs are AACE Class 5 cost estimates which have an average accuracy of +100%/-50%.

Hatch is developing the design basis for the next phase of contract engineering which will identify opportunities to optimize the engineering and potentially economic returns. It is also designed to improve the accuracy of cost estimates from Class 5 to Class 4 which have an average accuracy of +30%/-20%.

Questerre also continued its discussions with the Minister of Energy and Mineral Resources (“MEMR”) regarding its submissions under its Memorandum of Understanding (“MOU”) including its work program, technology assessment and proposed pre-development program. Upon acceptance, the Company anticipates it will enter into negotiations with MEMR for a concession agreement to include the fiscal and other terms essential to the overall project economics. The Company continues to hold the exclusive right to the acreage under the MOU following its expiry on May 22, 2018 and during the term of the negotiations.

Corporate

After a review conducted in the third quarter of 2018, effective November 2018, the Company’s credit facilities with a Canadian chartered bank were renewed at \$18 million. The facilities consist primarily of a revolving operating demand loan. Any borrowings under the facilities, except letters of credit, are subject to interest at the Bank’s prime interest rate and applicable basis point margins based on the ratio of debt to cash flow, measured quarterly. The facilities are secured by a revolving credit agreement, a debenture including a first floating charge over all assets of the Company and a general assignment of book debts. As at September 30, 2018, \$15.76 million was drawn under the facility. The next scheduled review of these facilities is in the second quarter of 2019.

Drilling Activities

Two (0.25 net) wells were spud during the third quarter of 2018. Questerre holds a 25% working interest in the first well at our Kakwa acreage and an overriding royalty subject to payout in the second well at our Kakwa North acreage.

Production

	2018			2017		
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
<i>Three months ended September 30,</i>						
Alberta	621	2,592	1,053	762	4,080	1,442
Saskatchewan	338	-	338	155	-	155
Manitoba	23	-	23	46	-	46
	982	2,592	1,414	963	4,080	1,643
<i>Nine months ended September 30,</i>						
	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	836	3,490	1,418	541	3,189	1,073
Saskatchewan	368	-	368	152	-	152
Manitoba	26	-	26	45	-	45
	1,230	3,490	1,812	738	3,189	1,270

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

With Kakwa representing over 75% of corporate volumes, shut-ins for field work, including the expansions and a plant turnaround, were longer than expected. This accounted for the decline in overall production over the prior quarter and the same quarter last year. On a year to date basis, production increased over the prior year as

Questerre participated in the entire drilling program on the acreage in 2017 compared to only one third of the wells drilled in 2016.

Kakwa production volumes declined by just over one third from 1,627 boe/d in the second quarter to 1,038 boe/d in the third quarter. Current production volumes at Kakwa are approximately 1,500 boe/d following the commissioning of the central facility expansion in early October. This does not include volumes from the 11-18 Well which is scheduled to be tied-in by year-end. Drilling is anticipated to resume late in the fourth quarter and Questerre intends to participate in all future wells, subject to the operator's plans, results and commodity prices.

For the nine months ended September 30, 2018, production averaged 1,812 boe/d compared to 1,270 boe/d for the same period last year with Kakwa accounting for approximately 80% of volumes in both periods. The variance is due to Questerre's participation in all seven wells drilled on the joint venture acreage in 2017 compared to its participation in only two (0.50 net) of six (1.5 net) wells drilled in 2016.

Questerre's oil and liquids weighting averaged 69% for the quarter and 68% year to date. The higher weighting on a year to date basis reflects the higher volumes from Antler where the Company acquired approximately 180 bbl/d of oil in the fourth quarter of 2017. Over time this weighting should revert to approximately 60%, reflecting the liquids weighting from Kakwa.

Third Quarter 2018 Financial Results

Petroleum and Natural Gas Sales

<i>Three months ended September 30,</i>	2018			2017		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 3,779	\$ 330	\$ 4,109	\$ 3,761	\$ 647	\$ 4,408
Saskatchewan	2,614	-	2,614	813	-	813
Manitoba	169	-	169	225	-	225
	\$ 6,562	\$ 330	\$ 6,892	\$ 4,799	\$ 647	\$ 5,446

<i>Nine months ended September 30,</i>	2018			2017		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 16,369	\$ 1,699	\$ 18,068	\$ 8,590	\$ 2,245	\$ 10,835
Saskatchewan	7,902	-	7,902	2,521	-	2,521
Manitoba	537	-	537	703	-	703
	\$ 24,808	\$ 1,699	\$ 26,507	\$ 11,814	\$ 2,245	\$ 14,059

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

Higher oil and liquids prices in the third quarter of 2018 offset lower gas prices and production volumes, resulting in petroleum and natural gas revenue increasing by 25% over the prior year. For the nine months ended September 30, 2018, revenue almost doubled to \$26.5 million due to both improvements in production volumes and commodity prices.

Pricing

	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2018	2017	2018	2017
Benchmark prices:				
Natural Gas - AECO, daily spot (\$/Mcf)	1.34	1.74	1.24	2.36
Crude Oil - Mixed Sweet Blend (\$/bbl)	81.78	60.32	77.89	64.74
Realized prices:				
Natural Gas (\$/Mcf)	1.38	1.72	1.79	2.61
Crude Oil and Natural Gas Liquids (\$/bbl)	72.69	54.14	73.84	58.49

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

Crude oil prices continued to strengthen in the third quarter but have since weakened early in the fourth quarter of this year. The benchmark West Texas Intermediate (“WTI”) averaged US\$69.50/bbl compared to US\$67.85/bbl in the preceding quarter and US\$48.21/bbl in the third quarter of 2017.

Although higher supply from Saudi Arabia and Russia more than offset declines from Iran and Venezuela, oil prices improved, supported in part by a robust demand growth outlook and reducing OECD and US inventories. In the United States, increased production, particularly from the Permian, and a lack of pipeline and export capacity, resulted in a US\$5.66/bbl differential with the Brent benchmark. This differential has since widened in the fourth quarter to approximately US\$10/bbl.

In Canada, the differential to international oil prices increased further for all grades of crude with more production coming onstream and no incremental pipeline capacity. The differential between the Canadian Light Sweet Blend (“MSW”) and WTI increased to US\$6.94/bbl from US\$6.50/bbl in the second quarter. These differentials subsequently rose to record levels of more than US\$25/bbl early in the fourth quarter. Questerre anticipates these higher differentials will continue well into 2019 and impact revenue from its condensate and light oil production.

With liquids production from Kakwa consisting mainly of condensate, which receives a premium to the MSW benchmark, Questerre’s realized price for oil and liquids averaged \$72.69/bbl (2017: \$54.14/bbl) compared to an average MSW price of \$81.78/bbl (2017: \$60.32/bbl).

Natural gas prices remained relatively unchanged from the second quarter and marginally lower than the third quarter of 2017. The Henry Hub price average US\$2.86/MMBtu compared to US\$2.83/MMBtu in the second quarter of this year and US\$2.96/MMBtu in the third quarter of 2017.

In the United States, natural gas production increased to over 80 Bcf/d for the first time this summer driven by associated gas from the Permian and continued growth from the Marcellus and Utica. While current storage levels below the five-year average suggest the supply demand balance is improving, a colder than normal winter will be needed to materially improve prices over the next six months. The strong supply growth in the United States continues to reduce demand for Canadian natural gas. Consistent with prior quarters, this growth and a lack of export facilities resulted in the differential between the AECO and Henry Hub pricing exceeding the AECO price during the quarter.

Despite this weakness in pricing, Questerre realized a premium due to the high heat content of natural gas from Kakwa.

Royalties

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Alberta	\$ 104	\$ 240	\$ 1,102	\$ 387
Saskatchewan	97	60	407	157
Manitoba	24	42	79	125
	\$ 225	\$ 342	\$ 1,588	\$ 669
%				
Alberta	3%	5%	6%	4%
Saskatchewan	4%	7%	5%	6%
Manitoba	14%	19%	15%	18%
Total Company	3%	6%	6%	5%

Royalties as a percentage of revenue in the third quarter declined to 3% from 6% in the prior quarter and same period last year. On a year to date basis, royalties represent 6% of revenue compared to 5% in the prior year. The increase in gross royalties for the first nine months of the year compared to last year are due to higher volumes and commodity prices.

For the third quarter, the lower royalty expense and rate for production from Alberta over the prior year is due to a negative variance between estimated and actual expenses. Excluding this one-time variance, the Company expects its royalty rate on production from Alberta to average approximately 7%, reflecting the forecasted rate on production from Kakwa.

Operating Costs

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Alberta	\$ 2,271	\$ 1,759	\$ 5,824	\$ 5,422
Saskatchewan	791	415	2,174	949
Manitoba	30	61	144	196
	\$ 3,092	\$ 2,235	\$ 8,142	\$ 6,567
\$/boe:				
Alberta	23.45	13.13	15.04	18.46
Saskatchewan	25.42	29.13	21.64	22.86
Manitoba	14.45	14.30	20.48	15.96
Total Company	23.77	14.78	16.46	18.94

For both the quarter and year to date periods, gross operating costs increased due to higher production volumes and higher overall expenses.

Including firm transportation and processing commitments, over 75% of the operating costs at Kakwa are fixed. The allocation of these fixed costs over lower production volumes resulted in an increase on a boe basis to \$23.39/boe in the third quarter compared to \$10.62/boe in the second quarter. Excluding a one-time credit of \$0.66 million or \$4.44/boe received in the second quarter, operating costs at Kakwa were \$15.06/boe.

Year to date, with higher production volumes from Kakwa in 2018, costs on a boe basis decreased from \$18.46/boe to \$15.04/boe. The Company anticipates that as additional production volumes are brought on at Kakwa, these operating costs on a unit of production basis will decrease.

At Antler, fixed costs represented over 85% of total operating costs. In the third quarter of 2018, costs were higher in several categories, including workovers. Questerre is targeting an improvement in these costs on a boe basis based on success with a planned workover program.

General and Administrative Expenses

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2018	2017	2018	2017
General and administrative expenses, gross	\$ 1,114	\$ 930	\$ 4,356	\$ 2,839
Capitalized expenses and overhead recoveries	(296)	(207)	(927)	(565)
General and administrative expenses, net	\$ 818	\$ 723	\$ 3,429	\$ 2,274

For the quarter ended September 30, 2018, gross general and administrative costs (“G&A”) increased over the prior year by 20% due to the reversal of salary and fee reductions implemented in 2015 and 2016 to preserve financial liquidity. On a year to date basis, G&A was higher in 2018 due to the reversal of salary and fee reductions as noted earlier, payments under the bonus plan and higher consulting and legal costs.

Depletion, Depreciation, Impairment and Accretion

For the quarter ended September 30, 2018, Questerre recorded depletion and depreciation expense of \$2.36 million compared to \$3 million for the same period last year. The decrease is due to the lower production volumes in the current year over the prior year. This equated to a depletion rate, on a unit of production basis, of \$18.22/boe for the quarter (2017: \$19.91/boe). For the nine months ended September 30, this expense totaled \$8.81 million in 2018 and \$6.90 million in 2017.

For the first nine months of 2018, the Company incurred \$0.02 million related to lease expiries compared to \$8.04 million in 2017. The expense in 2017 related to the expiry of its acreage in the Wapiti area of Alberta where the Company had no plans for future development.

Other Expenses

The majority of other expenses incurred during the quarter and year to date periods relate to its investment in Red Leaf Resources Inc. (“Red Leaf”). Questerre currently holds approximately 30% of the common share capital of Red Leaf. The Company uses the equity method of accounting to reflect 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 the third quarter of 2018, the Company recorded a loss of \$2.02 million (2017: \$1.62 million) mainly representing its share of the net loss realized by Red Leaf for the period. For more information, please see Note 3 to the Q3 Statements.

For the nine month period ended September 30, 2017, the Company reversed a previously recorded impairment charge of \$2.34 million relating to the increase in the fair value of the Red Leaf common shares held prior to the acquisition of additional shares in the second quarter of 2017.

The Company also recorded a loss on foreign exchange, net of deferred tax, through other comprehensive income (loss) of \$0.20 million for the three months ended September 30, 2018 (2017: \$0.35 million). The change is primarily due to a change in the value of the US dollar impacting its US dollar denominated investment in Red Leaf.

Total Comprehensive Loss

Questerre's total comprehensive loss was \$2.28 million (2017: \$3.06 million) for the third quarter of 2018 and \$0.97 million (2017: \$7.73 million) year to date. For both the quarter and year to date periods, the loss was due to the increase in the loss on its investment in Red Leaf. In the prior year, the loss was due to the higher lease expiry expense offset by a \$3.66 million gain on sale of exploration and evaluation assets and the reversal of the impairment charge associated with its investment in Red Leaf.

Cash Flow from Operating Activities

Adjusted funds flow from operations for the third quarter of 2018 was \$2.62 million (2017: \$1.94 million) and for the nine months ended September 30, 2018 it was \$13.28 million (2017: \$4.23 million). Net cash from operating activities for the three months ended September 30, 2018 was \$4.73 million (2017: \$7.98 million) and for the nine months ended September 30, 2018 it was \$11.25 million (2017: \$9.90 million). The Company's net cash from operating activities decreased over the prior year due to a smaller change in non-cash working capital.

Cash Flow used in Investing Activities

Cash flow used in investing activities was \$7.83 million for the quarter ended September 30, 2018 and \$12.36 million for the same period in 2017. For the third quarter of 2017, amounts include \$2.18 million to acquire common shares of Red Leaf.

For the nine months ended September 30, 2018, capital expenditures of \$22.19 million were incurred predominantly at Kakwa for wells and infrastructure expansion. For the same period in 2017, the Company invested \$17.22 million mainly at Kakwa offset by proceeds of \$4.45 million from the disposition of exploration assets. The change in non-cash working capital in 2018 and 2017 reflects the respective change in accounts payable associated with the capital investment program.

Cash Flow from Financing Activities

Cash flow provided by financing activities was \$0.65 million for the quarter ended September 30, 2018 (2017: used in \$3.21 million). In the current quarter, the amounts reflect a net increase in the drawdowns under the credit facilities. In the prior year, the amount reflects the net proceeds from warrant exercises to purchase Common Shares completed in the period offset by a net decrease in drawdowns under the credit facilities.

For the nine month period ended September 30, 2018, the net cash from financing activities was \$2.61 million (2017: \$18.21 million). In addition to the amounts detailed above, the amounts in 2018 include the exercise of warrants to purchase Common Shares. In 2017, the Company also completed private placements for gross proceeds of \$25.6 million net of share issue costs of \$1.32 million in the first half of the year.

Capital Expenditures

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Alberta	\$ 5,330	\$ 3,915	\$ 19,997	\$ 15,203
Saskatchewan	123	771	442	1,171
Jordan & Other	499	222	1,628	843
Total	\$ 5,952	\$ 4,908	\$ 22,067	\$ 17,217
Acquisitions/Dispositions	125	-	125	(4,450)
Net Capital Expenditures	\$ 6,077	\$ 4,908	\$ 22,192	\$ 12,767

For the nine months ended September 30, 2018, the Company incurred capital expenditures of \$22.07 million as follows:

- In Alberta, \$20 million was invested to primarily expand infrastructure and drill and complete wells at its joint venture acreage at Kakwa;
- In Jordan, the Company invested \$1.0 million in the technical and economic feasibility assessment of its oil shale project; and
- In Quebec, \$0.6 million was invested to secure social acceptability.

For the same period in 2017, the Company incurred capital expenditures of \$17.22 million as follows:

- In Alberta, \$15.20 million was invested to drill, complete and equip wells and expand infrastructure at its joint venture acreage at Kakwa;
- In Saskatchewan, \$1.17 million was invested on workovers wells at Antler; and
- In Jordan, \$0.40 million to evaluate its oil shale assets.

In the first half of 2017, the Company disposed of exploration and evaluation assets in the Kakwa area for gross proceeds of \$4.45 million.

Liquidity and Capital Resources

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

At September 30, 2018, \$15.76 million (December 31, 2017: \$13.90 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 (See Note 11 to the Q3 Statements)) 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. The review of the Company's credit facilities was completed in November 2018 and the facilities remain unchanged.

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

As at September 30, 2018, the Company held net current assets, excluding amounts due under the credit facilities of \$13.38 million (December 31, 2017: \$23.55 million). Management believes that with its net current assets, its expected positive operating cash flows from operations and current credit facilities, it should be able to 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 2018 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2017. It anticipates that, as a result, reserves associated with wells not drilled in 2018 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 2017 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 September 30, 2018, 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.

<i>(thousands)</i>	November 9, 2018	September 30, 2018	December 31, 2017
Common Shares	389,007	389,007	385,331
Stock Options	21,412	21,412	21,387
Warrants	-	-	3,566
Weighted average common shares			
Basic		388,613	350,055
Diluted		388,613	350,055

A summary of the Company's stock option activity during the nine months ended September 30, 2018 and the year ended December 31, 2017 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

Commitments

A summary of the Company's net commitments at September 30, 2018 follows:

(\$ thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Transportation, Marketing and Processing	\$ 1,182	\$ 4,728	\$ 4,728	\$ 4,728	\$ 3,990	\$ 15,961	\$ 35,317
Office Leases	34	124	105	-	-	-	263
	\$ 1,216	\$ 4,852	\$ 4,833	\$ 4,728	\$ 3,990	\$ 15,961	\$ 35,580

Questerre has no capital commitments in 2018. 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, 2017.

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 few 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.

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 September 30, 2018, the Company had no outstanding commodity risk management contract in place.

Environmental Regulation and Risk

The oil and natural gas industry is currently subject to environmental regulations pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases of emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and natural gas industry operations, which can affect the location and operation of wells and facilities, and the extent to which exploration and development is permitted. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures, and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders. The Company mitigates the potential financial exposure of environmental risks by complying with the existing regulations and

maintaining adequate insurance. For more information, please refer to the “Risk Factors” and “Industry Conditions” sections of the AIF.

Critical Accounting Estimates

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

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

Petroleum and Natural Gas Reserves

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 2018

The Company adopted IFRS 15 Revenue From Contracts With Customers ("IFRS 15"). IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The adoption of IFRS 15 did not have a material impact on our Company's consolidated financial statements. The Company adopted the final elements of IFRS 9 Financial Instruments ("IFRS 9") and there were no material changes in the measurement and carrying values of the Company's financial instruments.

Further information about changes to our accounting policies resulting from the adoption of IFRS 9 and IFRS 15 can be found in Note 2 to the interim consolidated financial statements.

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.

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 July 1, 2018 and ended on September 30, 2018 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

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
<i>(\$ thousands, except as noted)</i>				
Production (boe/d)	1,414	2,016	2,013	1,714
Average Realized Price (\$/boe)	52.98	54.91	52.66	46.30
Petroleum and Natural Gas Sales	6,892	10,074	9,541	7,302
Adjusted Funds Flow from Operations	2,620	6,012	4,652	2,552
Net Profit (Loss)	(2,023)	572	59	(18,036)
Basic and Diluted (\$/share)	(0.01)	-	-	(0.05)
Capital Expenditures, net of acquisitions and dispositions	6,077	7,452	8,663	14,976
Working Capital Surplus (Deficit)	(2,374)	1,239	2,804	9,648
Total Assets	218,630	220,043	218,346	217,214
Shareholders' Equity	171,648	173,464	172,123	170,738
Weighted Average Common Shares Outstanding				
Basic (thousands)	388,412	387,862	387,848	383,093
Diluted (thousands)	388,412	395,552	396,285	383,093

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
<i>(\$ thousands, except as noted)</i>				
Production (boe/d)	1,643	1,037	1,123	1,261
Average Realized Price (\$/boe)	36.03	44.34	43.82	39.43
Petroleum and Natural Gas Sales	5,446	4,184	4,429	4,574
Adjusted Funds Flow from Operations	1,938	880	1,411	1,943
Basic and Diluted (\$/share)	-	-	-	0.01
Net Profit (Loss)	(2,641)	(3,621)	(523)	3,674
Basic and Diluted (\$/share)	(0.01)	(0.01)	(0.01)	(0.01)
Capital Expenditures, net of acquisitions and dispositions	4,906	2,544	5,320	5,260
Working Capital Surplus (Deficit)	(7,559)	(3,184)	3,274	(17,019)
Total Assets	198,904	205,672	205,640	177,761
Shareholders' Equity	158,204	160,069	163,888	139,660
Weighted Average Common Shares Outstanding				
Basic (thousands)	346,685	345,408	324,426	293,470
Diluted (thousands)	346,685	345,408	324,426	308,017

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

- Petroleum and natural gas revenues and adjusted funds flow from operations have fluctuated with production volumes and realized commodity prices.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. Following increased investment in Kakwa in 2017, with the exception of the most recent quarter, production has grown to approximately 2,000 boe/d. 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 December 31, 2016, March 31, 2017 and December 31, 2017 as a result of the equity issuances completed by the Company during those periods.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended September 30, 2018, other than commitments as disclosed.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended September 30, 2018.