

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of November 13, 2019. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") as at September 30, 2019 and for the three and nine month periods ended September 30, 2019 and 2018 (the "Q3 Statements"), and the audited annual consolidated financial statements of the Company for the year ended December 31, 2018 and the MD&A prepared in connection therewith. Additional information relating to Questerre, including Questerre's Annual Information Form ("AIF") for the year ended December 31, 2018, is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high quality resources. Questerre is committed to the economic development of its resources in an environmentally conscious and socially responsible manner.

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

Basis of Presentation

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

Forward-Looking Statements

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

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

- drilling plans and the development and optimization of producing assets;
- future production of oil, natural gas and natural gas liquids and the weighting thereof;
- future commodity prices;
- prospectivity of the Lower Montney on the Company's acreage;

- the Company's goal to produce energy with zero emissions using safe processes that do not affect drinking water;
- deferral of its judicial review of the validity of the Regulations;
- the Clean Tech Energy project in Quebec;
- the timing of submissions and Government approvals for its acquisition of assets in Quebec;
- the timing of the closing of the acquisition of assets in Quebec;
- the utilization of the Schlumberger Stewardship tool to model and measure the benefits of clean technology;
- legislative and regulatory developments in the Province of Quebec;
- the Company's engagement with the Government of Quebec;
- liquidity and capital resources;
- the timing of the negotiation of the concession agreement in Jordan;
- the engineering and optimization of processes and technologies to improve economic returns on the Company's Jordan assets, including use of the EcoShale process;
- increased oil production in the US, North Sea and Guyana;
- the Company's expectations with respect to any further losses pursuant to its Red Leaf investment;
- ability of the Company to meet its foreseeable obligations;
- the Company's compliance with the terms of its credit facility;
- timing of the next review of the Company's credit facility by its lender;
- ability of the Company to meet its foreseeable obligations;
- capital expenditures and the funding thereof;
- the Company's objectives when managing its capital;
- the Company's methods to address financial exposure;
- Questerre's reserves and resources;
- impacts of capital expenditures on the Company's reserves and resources;
- average royalty rates;
- commitments and Questerre's participation in future capital programs;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness, related provisions for credit losses and the fulfillment of obligations by counterparties;
- joint venture partner willingness to participate in capital programs;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

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

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net cash from operating activities	\$ 4,017	\$ 4,729	\$ 6,616	\$ 11,252
Interest received	(293)	–	(328)	–
Interest paid	181	30	536	158
Change in non-cash operating working capital	1,133	(2,139)	3,423	1,874
Adjusted Funds Flow from Operations	\$ 5,038	\$ 2,620	\$ 10,247	\$ 13,284

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

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

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

current assets less current liabilities excluding any current portion of risk management contracts and lease liabilities.

Select Information

<i>As at/for the period ended September 30,</i>	<i>Three months ended</i>		<i>Nine months ended</i>	
	2019	2018	2019	2018
Financial (\$ thousands, except as noted)				
Petroleum and Natural Gas Sales	8,690	6,892	23,814	26,507
Net Profit (Loss)	1,331	(2,023)	(1,702)	(1,392)
Adjusted Funds Flow from Operations	5,038	2,620	10,247	13,284
Basic and diluted (\$/share)	0.01	0.01	0.02	0.03
Capital Expenditures, net of acquisitions and dispositions	6,756	6,077	17,193	22,192
Working Capital Deficit	(2,574)	(2,374)	(2,574)	(2,374)
Total Assets	251,454	218,630	251,454	218,630
Shareholders' Equity	200,966	171,648	200,966	171,648
Common Shares Outstanding (thousands)	427,907	389,007	427,907	389,007
Weighted average - basic (thousands)	427,907	388,412	411,521	388,613
Weighted average - diluted (thousands)	428,591	388,412	411,521	388,613
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	1,475	982	1,340	1,230
Natural Gas (Mcf/d)	5,205	2,592	4,608	3,490
Total (boe/d)	2,343	1,414	2,108	1,812
Average Sales Price				
Crude Oil and Natural Gas Liquids (\$/bbl)	60.17	72.69	59.63	73.84
Natural Gas (\$/Mcf)	1.10	1.38	1.58	1.79
Total (\$/boe)	40.33	52.98	41.38	53.58
Netback (\$/boe)				
Petroleum and Natural Gas Sales	40.33	52.98	41.38	53.58
Royalties Expense	0.68	(1.73)	(1.60)	(3.21)
Percentage	0%	3%	4%	6%
Direct Operating Expense	(14.98)	(23.77)	(16.89)	(16.46)
Operating Netback	26.03	27.48	22.90	33.91
Wells Drilled				
Gross	2.00	1.00	4.00	2.00
Net	0.42	0.25	0.80	0.50

(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 and received.

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

(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

- Average daily production of 2,343 boe/d for the quarter with adjusted funds flow from operations of \$5.04 million and net profit of \$1.33 million
- Operator spuds fourth farm-in well at Kakwa North
- Baseline study of 'business as usual' environmental impacts of Ohio Utica development underway to assess impacts of Clean Tech Energy project in Quebec
- Commissioned mining feed preparation study for Jordan to reduce emissions and improve efficiencies

Third Quarter 2019 Activities

Kakwa, Alberta

Three wells were spud at Kakwa during the period.

At Kakwa Central, the operator drilled the 103/01-29-63-05W6M and the 100/08-29-63-05W6M wells. Questerre holds an average 21% working interest in these wells. The wells are scheduled to be completed in the fourth quarter.

Two additional wells, 02/11-12-63-06W6M and 103/11-12-63-06W6M were tied-in to the local gathering system. Questerre holds an average 20% working interest in these wells. During the first thirty days, gross production from these wells averaged 2.9 MMcf/d and 737 bbls/d (1,220 boe/d). Although the initial results from these wells are encouraging, they are not necessarily indicative of long-term performance. During the quarter, the operator also finalized the installation of centralized compression for its gas lift infrastructure.

Subject to commodity prices and the operator's plans, Questerre expects to participate in up to 6 (1.25 net) wells at Kakwa Central next year. One of these wells may test the Lower Montney and will follow a successful test of this interval immediately offsetting its acreage to the east.

At Kakwa North, the operator spud its fourth and final farm-in well, 102/01-04-63-06W6M (the "02/01-04 Well"). The well, with a lateral of 3000m will be completed in the fourth quarter. Questerre holds a gross overriding royalty interest in this well convertible into a 50% working interest after payout. Upon completion and tie-in of the 02/01-04 Well, the operator and the Company will each hold a 50% interest in Kakwa North and Kakwa South. The Company anticipates a joint drilling program could commence in the first quarter of 2020.

St. Lawrence Lowlands, Quebec

Questerre's main priorities are closing its agreement to acquire acreage and regain operatorship and advancing its Clean Tech Energy project.

During the quarter, the Company submitted the requisite license and well transfer applications for review by the Ministry of Energy and Mineral Resources in Quebec. Final applications, along with the necessary deposits for abandonment and reclamation liabilities, are scheduled to be submitted prior to year-end. Subject to final ministerial approval, Questerre anticipates the transaction should close in early 2020.

The Company continues to progress the engineering for its Clean Tech Energy project.

The goal is to produce natural gas with near-zero emissions, zero freshwater usage and zero toxic chemicals below ground. A detailed plan is being developed to implement new and existing technologies to achieve these objectives. The Company intends to utilize the Schlumberger Stewardship tool to model and measure the environmental benefits of the clean technology approach compared to a baseline using current practices.

On the basis of its ongoing discussions with the Government, the Company has agreed to a further deferral of its scheduled judicial review on the validity of new oil and gas regulations including the prohibition of hydraulic fracturing and the increased setbacks for oil and gas activities. These actions are to allow the parties to resolve the issues raised in Questerre's legal brief on the matter in a constructive manner.

Oil Shale Mining

Early in the fourth quarter, the Company received a draft of the concession agreement from the Ministry of Energy and Mineral Resources in Jordan for the Company's oil shale project. Negotiations on the fiscal and other commercial terms of this agreement are expected to commence later this year. Questerre continues to hold the exclusive exploration rights to the acreage during these negotiations.

Questerre is integrating the goal of minimizing its environmental footprint into the technical and economic feasibility assessment for this project. The primary objective of this work is to identify opportunities to optimize the processes and improve the economic returns for the project. To this end, the Company is evaluating several technologies including carbon capture and small-scale modular cogeneration facilities. The Company also plans to leverage the engineering work by Hatch Ltd., a global engineering firm, on the EcoShale process to identify additional optimization opportunities.

Corporate

Based on discussions with the lender in the fourth quarter, the Company anticipates its credit facilities with a Canadian chartered bank will increase from \$18 million to \$20 million. The facilities consist primarily of a revolving operating demand loan. Any borrowings under the facilities, except letters of credit, are subject to interest at the Bank's prime interest rate and applicable basis point margins based on the ratio of debt to cash flow, measured quarterly. The effective interest rate for the third quarter of 2019 was 4.45%.

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, 2019, \$16.97 million was drawn under the facility. The next scheduled review of these facilities is in the second quarter of 2020.

Drilling Activities

Two (0.42 net) wells were spud at Kakwa Central during the third quarter of the year. One additional well was spud at Kakwa North. Questerre holds an overriding royalty interest in this well, convertible to a 50% working interest after payout.

Production

<i>Three months ended September 30,</i>	2019			2018		
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Alberta	1,019	5,205	1,887	621	2,592	1,053
Saskatchewan	408	–	408	338	–	338
Manitoba	48	–	48	23	–	23
	1,475	5,205	2,343	982	2,592	1,414

<i>Nine months ended September 30,</i>	2019			2018		
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Alberta	954	4,608	1,722	836	3,490	1,418
Saskatchewan	337	–	337	368	–	368
Manitoba	49	–	49	26	–	26
	1,340	4,608	2,108	1,230	3,490	1,812

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

Production increased over the third quarter and year to date period last year. In part, this is attributable to royalty volumes from the Kakwa North farm-in wells.

In 2019, new royalty volumes at Kakwa North accounted for 255 boe/d or 11% of production in the current quarter and 172 boe/d or 8% of production year to date. By comparison, in the third quarter of 2018, production from Kakwa was materially lower, reflecting a shut-in for field work, including the expansion of central facilities and a plant turnaround. In the current quarter, production from Saskatchewan increased over the prior quarter and same quarter last year due to a field optimization program. For the nine months ended September 30, 2019, production in the current year increased overall due to higher volumes from Kakwa, Alberta and Pierson, Manitoba, partly offset by lower volumes at Antler, Saskatchewan.

The light oil volumes from Saskatchewan and Manitoba contributed to an oil and liquids weighting of approximately 63% for the quarter and year to date periods, relatively unchanged from last year. With Kakwa continuing to represent over 75% of corporate volumes, the Company anticipates its weighting will average closer to 60%, reflecting the approximate split between condensate and other liquids to natural gas at Kakwa.

Subject to the timing of additional wells at Kakwa Central, the Company anticipates its production volumes to remain relatively flat for the first half of 2020. Production is anticipated to increase later next year following the commencement of a joint drilling program at Kakwa North.

Third Quarter 2019 Financial Results

Petroleum and Natural Gas Sales

<i>Three months ended September 30,</i>	2019			2018		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 5,269	\$ 528	\$ 5,797	\$ 3,779	\$ 330	\$ 4,109
Saskatchewan	2,605	–	2,605	2,614	–	2,614
Manitoba	288	–	288	169	–	169
	\$ 8,162	\$ 528	\$ 8,690	\$ 6,562	\$ 330	\$ 6,892

<i>Nine months ended September 30,</i>	2019			2018		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 14,396	\$ 1,991	\$ 16,387	\$ 16,369	\$ 1,699	\$ 18,068
Saskatchewan	6,523	–	6,523	7,902	–	7,902
Manitoba	904	–	904	537	–	537
	\$ 21,823	\$ 1,991	\$ 23,814	\$ 24,808	\$ 1,699	\$ 26,507

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

For the quarter ended September 30, 2019, petroleum and natural gas sales increased by 26% or \$1.8 million with higher production volumes being partly offset by lower commodity prices. For the nine months ended September 30, 2019, revenue decreased from \$26.5 million last year to \$23.8 million due to materially lower oil prices that offset increased production.

Pricing

	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2019	2018	2019	2018
Benchmark prices:				
Natural Gas - AECO, daily spot (\$/Mcf)	0.97	1.34	1.45	1.24
Crude Oil - Mixed Sweet Blend (\$/bbl)	68.43	81.78	69.50	77.89
Realized prices:				
Natural Gas (\$/Mcf)	1.10	1.38	1.58	1.79
Crude Oil and Natural Gas Liquids (\$/bbl)	60.17	72.69	59.63	73.84

Despite volatile pricing in the quarter, crude oil prices decreased both over the prior quarter and over the same period last year. The benchmark West Texas Intermediate ("WTI") averaged US\$56.45/bbl for the quarter (2018: US\$69.50/bbl) compared to US\$59.82/bbl in the second quarter and US\$57.06/bbl for the nine months ended September 30, 2019 (2018: US\$66.75/bbl).

While prices spiked late in the third quarter following the attack on Saudi oil infrastructure, oil markets remained generally bearish. This was supported by a weak outlook for demand growth, due in part to the US-China trade dispute, and increasing supply from the US, where production is expected to grow by over 1.1 million barrels in 2019. Adding to supply are new major discoveries coming onstream in the next six months including Johan Sverdrup in the North Sea and Liza in Guyana. In Canada, the differential between WTI and Canadian condensate prices remained volatile and increased marginally in the quarter to US\$4.44/bbl from US\$3.96/bbl in the prior quarter. Generally pricing is weaker in the third quarter due to seasonal refinery turnarounds in the United States in the following quarter. Though mandatory production curtailments in Alberta have generally improved pricing, the growing domestic supply and imports of condensate exceeded demand for the product as diluent for heavy oil production during the quarter.

With liquids production from Kakwa consisting primarily of condensate, which generally receives a premium to the Canadian Light Sweet Blend ("MSW"), Questerre's realized price for oil and liquids averaged \$60.17/bbl for the quarter (2018: \$72.69/bbl) compared to the MSW price of \$68.43/bbl (2018: \$81.78/bbl).

Consistent with the prior quarter, natural gas prices declined over the prior quarter and same period last year. The Henry Hub benchmark averaged US\$2.23/MMBtu compared to US\$2.64/MMBtu in the second quarter and US\$2.86/MMBtu in the third quarter of last year.

Although US supply growth is declining and demand and exports increasing, natural gas prices remain under pressure due to the persistent supply increases. US dry gas production is over 90 Bcf/d, up from 80 Bcf/d last year. This has, in part, been offset by the increase in LNG export capacity estimated to exceed 9 Bcf/d by year-end and Mexican exports which currently exceed Canadian imports. Domestically, the outlook for natural gas prices improved in the fourth quarter with changes on the main pipeline system now granting access to storage to all shippers. This is expected to materially reduce the differential between AECO and NYMEX which has exceeded the realized AECO price over the last two years.

The higher heat content natural gas from Kakwa resulted in realized natural gas prices of \$1.10/Mcf (2018: \$1.38/Mcf) compared to the benchmark AECO price of \$0.97/Mcf in the quarter (2018: \$1.34/Mcf).

Royalties

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Alberta	\$ (365)	\$ 104	\$ 332	\$ 1,102
Saskatchewan	182	97	422	407
Manitoba	37	24	166	79
	\$ (146)	\$ 225	\$ 920	\$ 1,588
% of Revenue:				
Alberta	-	3%	2%	6%
Saskatchewan	7%	4%	6%	5%
Manitoba	13%	14%	18%	15%
Total Company	-	3%	4%	6%

Royalties in the third quarter reflect a credit of \$0.41 million from the Crown for processing its share of production through the Company's facilities at Kakwa. On a year to date basis, excluding this adjustment resulted in gross royalties declining by about 10% over the prior year, consistent with the decline in gross revenue. On a percentage of revenue basis, excluding this adjustment resulted in royalties as a percentage of revenue representing 5% of revenue compared to 6% in the prior year.

Notwithstanding the credit received in the third quarter, the Company anticipates its royalty rate on production from Alberta to average approximately 7%, reflecting the forecast rate on production from Kakwa.

Operating Costs

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Alberta	\$ 1,898	\$ 2,271	\$ 6,398	\$ 5,824
Saskatchewan	1,247	791	3,144	2,174
Manitoba	82	30	180	144
	\$ 3,227	\$ 3,092	\$ 9,722	\$ 8,142
\$/boe:				
Alberta	10.93	23.45	13.61	15.04
Saskatchewan	33.23	25.42	34.15	21.64
Manitoba	18.63	14.45	13.45	20.48
Total Company	14.97	23.77	16.89	16.46

For the quarter ended September 30, 2019, operating costs increased marginally over the same period last year with lower costs at Kakwa partly offset by higher costs at Antler and Pierson. For the nine months ended September 30, 2019, higher expenditures in all areas resulted in an increase in operating costs.

With fixed cost representing approximately 80% of total operating costs at Kakwa, on a boe basis, costs declined significantly with the higher production volumes in the current year. Excluding the effect of the royalty volumes, which accounted for 14% of Kakwa production in the period, translated into a reduction from \$23.45/boe to \$13.18/boe.

At Antler, operating costs grew due to higher maintenance and repair costs and workover costs. Excluding the incremental expenses of \$0.33 million in the quarter, operating costs on a boe basis declined slightly to approximately \$24.56/boe from \$25.42/boe last year.

General and Administrative Expenses

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
General and administrative expenses, gross	\$ 1,009	\$ 1,114	\$ 3,836	\$ 4,356
Capitalized expenses and overhead recoveries	(407)	(296)	(938)	(927)
General and administrative expenses, net	\$ 602	\$ 818	\$ 2,898	\$ 3,429

For the quarter ended September 30, 2019, gross general and administrative expenses (“G&A”) decreased by about 10% from the prior year or approximately \$0.1 million. For the year to date, gross costs decreased by \$0.52 million largely representing payments made under the bonus plan in the prior year.

Depletion, Depreciation, Impairment and Accretion

For the quarter and nine months ended September 30, 2019, Questerre recorded depletion, depreciation, impairment and accretion expense of \$3.61 million (2018: \$2.38 million) and \$9.86 million (2018: \$9.05 million) respectively. Depletion represents over 95% of these expenses in all periods. The depletion increase in the current quarter is due to higher production volumes partly offset by reserve additions in 2018 with lower finding and development costs. On a per unit of production basis, depletion decreased year to date to \$16.71/boe from \$17.81/boe last year.

Loss on Equity Investment

Questerre currently holds approximately 25% of the equity capital of Red Leaf Resources Inc. (“Red Leaf”). Red Leaf’s primary assets are its EcoShale process to produce oil from shale and oil shale leases in the state of Utah. The Company uses the equity method of accounting for its ownership in Red Leaf. Under the equity method, the Company’s investment is recognized at cost with any changes to fair value being recognized through the income statement. The Company also records its proportionate share of Red Leaf’s income or loss.

In 2018, the Company reduced the carrying value of its Red Leaf investment as it recorded its proportionate share of Red Leaf’s net losses and cumulative preferred share dividends. As a result, the Company does not expect to record any further losses with respect to this investment for the foreseeable future.

By comparison for the quarter and nine months ended September 30, 2018, the Company incurred a loss of \$2.02 million and \$5.09 million respectively representing its share of the net loss realized by Red Leaf during the quarter and the impact of the preferred share dividends accruing during the quarter. For more information, please see Note 3 of the Q3 2019 Statements.

Deferred Taxes

For the first nine months of 2019, the Company recorded a deferred tax expense of \$1.19 million (2018: \$0.05 recovery). This is due to the changes in the Alberta provincial tax rate announced in the second quarter of this year. This proportionately reduced the estimated deferred tax asset to \$5.82 million as at September 30, 2019 (December 31, 2018: \$6.82 million).

Other Comprehensive Income and Expenses

In 2019, the Company recorded income of \$0.18 million for the quarter ended September 30, 2019 through other comprehensive income. The gain is due to foreign exchange relating to its investment in Jordan and the decrease in value of the US dollar impacting its US dollar denominated investment in Red Leaf. In 2018, changes in the value of the US dollar and the Jordanian dinar impacted the carrying value of these investments and resulted in a loss of

\$0.25 million for the same period. Year to date, the higher income in 2018 represents the appreciation of the US dollar increased the value of its Red Leaf investment.

Total Comprehensive Income (Loss)

Questerre's total comprehensive income for the third quarter of 2019 was \$1.52 million (2018: loss \$2.28 million) and the loss for the nine months ended September 30, 2019 was \$1.71 million (2018: loss \$0.97 million). The income in the quarter is due to the higher petroleum and natural gas revenue offset by higher depletion, depreciation, impairment and accretion expenses and no loss related to its investment in Red Leaf. For the nine month period, the loss in 2019 was higher due to the deferred tax expense.

Cash Flow from Operating Activities

Net cash from operating activities for the three months ended September 30, 2019 was \$4.01 million (2018: \$4.73 million) and for the nine months ended September 30, 2019 was \$6.61 million (2018: \$11.25 million). These amounts declined over the prior year due to a reduction in non-cash working capital in the current quarter offset by higher net income relative to the prior year.

Cash Flow used in Investing Activities

Cash flow used in investing activities was \$7.52 million for the quarter ended September 30, 2019 and \$7.83 million for the same period in 2018. While capital expenditures during the period increased marginally over last year, this was offset by the smaller change in non-cash working capital in the current year compared to the prior year.

Capital expenditures in both years were incurred predominantly at Kakwa and decreased to \$17.19 million from \$22.19 million in 2018 for the first nine months of the year. Year to date, the changes in non-cash working capital in both years reflects the increase in accounts payable related to these capital expenditures.

Cash Flow from Financing Activities

Cash flow provided by financing activities was \$2.27 million in the current quarter and \$0.65 million in the same quarter last year. The variance is attributable to higher net drawdowns under the credit facilities in the current year.

On a year to date basis, the variance with the prior year is primarily due to the net proceeds of \$13.9 million from the equity placement completed in the second quarter of the year with a higher net drawdown under the credit facilities.

Capital Expenditures

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Alberta	\$ 6,123	\$ 5,330	\$ 15,444	\$ 19,997
Saskatchewan	45	123	220	442
Quebec, Jordan & Other	588	499	1,529	1,628
Total	\$ 6,756	\$ 5,952	\$ 17,193	\$ 22,067
Acquisitions/Dispositions	–	125	–	125
Net Capital Expenditures	\$ 6,756	\$ 6,077	\$ 17,193	\$ 22,192

For the nine months ended September 30, 2019, the Company incurred capital expenditures of \$17.19 million as follows:

- In Alberta, \$15.44 million was invested to drill, complete and equip wells and expand infrastructure on the Kakwa Central joint venture acreage;
- In Quebec, \$1.11 million to secure social acceptability and advance its legal claim with the remainder in Jordan to assess the feasibility of its oil shale project; and
- In Saskatchewan, the Company invested \$0.22 million to maintain and upgrade production facilities.

For the same period in 2018, the Company incurred capital expenditures of \$22.19 million as follows:

- In Alberta, \$20 million was invested to primarily expand infrastructure and drill and complete wells at its Kakwa Central joint venture acreage; and
- In Jordan, \$1.0 million was invested in the technical and economic feasibility assessment for its oil shale project with the remainder invested in Quebec.

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, 2019, \$16.97 million (December 31, 2018: \$13.84 million) was drawn on the credit facilities and the Company is compliant with all its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with its credit facilities. Under the terms of the credit facilities, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at September 30, 2019 was 1.81 and the covenant was met. See Note 11 to the Q3 Statements.

The size of the credit facilities is determined by, among other things, the Company's current reserve report, results of operations and forecasted commodity prices. Based on discussions with the lender in the fourth quarter, the

Company anticipates its credit facilities with a Canadian chartered bank will increase from \$18 million to \$20 million. The next scheduled review of these facilities is in the second quarter of 2020.

The credit facilities are a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. Management believes that with its expected positive operating cash flows from operations, its recently completed private placement for gross proceeds of \$14.47 million and current credit facilities, the Company should generate sufficient cash flows and have access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations.

Questerre anticipates an increase in production, based on its drilling activity at Kakwa, which is expected to improve operating cash flow and increase the contribution to finance planned capital expenditures. On an ongoing basis, the Company will manage where possible future capital expenditures to maintain liquidity (See "Commitments"). However, it does not expect that sufficient cash flows will be generated from operating activities alone to independently finance planned capital expenditure program. Subject to the operators plans at Kakwa, the Company intends to invest up to 67% of the 2019 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2018.

It anticipates that, as a result, reserves associated with wells not drilled in 2019 will remain in the proved undeveloped category. For a detailed discussion of the risks and uncertainties associated with the Company's business and operations, see the Risk Management section of the Company's 2018 Annual MD&A and the AIF.

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At September 30, 2019, there were no Class "B" Common voting shares or preferred shares outstanding. The following table provides a summary of the outstanding Common Shares and options as at the date of the MD&A, the current quarter-end and the preceding year-end.

<i>(thousands)</i>	November 13, 2019	September 30, 2019	December 31, 2018
Common Shares	427,907	427,907	389,007
Stock Options	27,262	27,262	21,412
Weighted average common shares			
Basic		411,521	388,712
Diluted		411,521	395,715

A summary of the Company's stock option activity during the nine months ended September 30, 2019 and the year ended December 31, 2018 follows:

	September 30, 2019		December 31, 2018	
	Number of Options (thousands)	Weighted Average Exercise Price	Number of Options (thousands)	Weighted Average Exercise Price
Outstanding, beginning of period	21,412	\$ 0.44	21,387	\$ 0.50
Granted	6,100	0.29	3,288	0.48
Forfeited	–	–	(150)	0.52
Expired	(250)	1.40	(3,003)	0.88
Exercised	–	–	(110)	0.42
Outstanding, end of period	27,262	\$ 0.40	21,412	\$ 0.44
Exercisable, end of period	15,124	\$ 0.36	10,403	\$ 0.34

Commitments

A summary of the Company's net commitments at September 30, 2019 follows:

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

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

Risk Management

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

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

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

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

The Company uses the following guidelines to address financial exposure:

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

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

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

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

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing and infrastructure companies and the Company has not experienced any credit loss relating to these sales to date. Pursuant to IFRS 9 Financial Instruments, the Company made a provision of \$0.04 million at September 30, 2019 for its expected credit losses related to its accounts receivable.

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

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

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

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

As at September 30, 2019, the Company held a risk management contract for 200 bbls/d of oil production at US\$58.50/bbl for the three months ending December 31, 2019. The realized gain on risk management contracts for the quarter ended September 30, 2019 was \$0.04 million and the unrealized gain was \$0.11 million.

Environmental Regulation and Risk

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

responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures, and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders. The Company mitigates the potential financial exposure of environmental risks by complying with the existing regulations and maintaining adequate insurance. For more information, please refer to the “Risk Factors” and “Industry Conditions” sections of the AIF.

Critical Accounting Estimates

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

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

Petroleum and Natural Gas Reserves

Questerre’s petroleum and natural gas reserves and resources are evaluated and reported on by independent petroleum engineering consultants in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators (“NI 51-101”) and the COGE Handbook. For further information, please refer to “Statement of Reserves Data and Other Oil and Gas Information” in the AIF.

The estimation of reserves and resources is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves and resources will change to reflect updated information. Reserve and resource estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices. These estimates are evaluated by independent reserve engineers at least annually.

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

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

Cash Generating Units

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

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

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

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

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

Asset Retirement Obligation

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

Share Based Compensation

The Company has a stock option plan enabling employees, officers and directors to receive Common Shares or cash at exercise prices equal to the market price or above on the date the option is granted. Under the equity settled method, compensation costs attributable to stock options granted to employees, officers or directors are measured at fair value using the Black-Scholes option pricing model. The assumptions used in the calculation are: the volatility of the stock price, risk-free rates of return and the expected lives of the options. A forfeiture rate is

estimated on the grant date and is adjusted to reflect the actual number of options that vest. Changes to assumptions may have a material impact on the amounts presented.

Income Tax Accounting

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

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

The determination of the Company's income and other tax assets or liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax asset or liability may differ significantly from that estimated and recorded by management.

Investment in Red Leaf

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

Accounting Policy Changes

Changes in Accounting Policies for 2019

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

Future Accounting Pronouncements

Other than as disclosed below, there were no new or amended accounting standards or interpretations issued during the three months ended September 30, 2019 that are applicable to the Company in future periods. A detailed description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2018.

IFRS 3 Business Combinations has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS

3 Business Combinations is effective for the years beginning on or after January 1, 2020. The Company is currently assessing the impact of this amendment.

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, 2019 and ended on September 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Quarterly Financial Information

	September 30,	June 30,	Mar 31,	Dec 31,
<i>(\$ thousands, except as noted)</i>	2019	2019	2019	2018
Production (boe/d)	2,343	2,035	1,944	2,033
Average Realized Price (\$/boe)	40.33	43.30	40.61	34.35
Petroleum and Natural Gas Sales	8,690	8,019	7,105	6,492
Adjusted Funds Flow from Operations	5,038	2,662	2,547	1,929
Net Profit (Loss)	1,331	(2,099)	(934)	14,858
Basic and Diluted (\$/share)	–	(0.01)	–	(0.01)
Capital Expenditures, net of acquisitions and dispositions	6,756	7,496	2,941	8,785
Working Capital Deficit	(2,573)	(776)	(9,543)	(9,078)
Total Assets	251,454	248,070	231,975	233,372
Shareholders' Equity	200,966	199,108	186,812	187,291
Weighted Average Common Shares Outstanding				
Basic (thousands)	427,907	417,220	389,007	388,412
Diluted (thousands)	428,591	417,220	389,007	392,612

	September 30,	June 30,	Mar 31,	Dec 31,
<i>(\$ thousands, except as noted)</i>	2018	2018	2018	2017
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

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

- Petroleum and natural gas revenues and adjusted funds flow from operations have fluctuated with production volumes and realized commodity prices.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. The Company plans to continue to invest at Kakwa, subject to the operator's plans, commodity prices and results, and expects a commensurate increase in production.
- The level of capital expenditure over the quarter has varied largely due to the timing and number of wells drilled and completed as well as the timing of the infrastructure investment at Kakwa.

- The working capital deficit has generally increased when capital expenditures and other investments have been higher than adjusted funds flow from operations and cash from financing activities.
- Shareholders' equity increased in the quarters ended in the quarters ended June 30, 2019, June 30, 2018 and March 31, 2018 as a result of private placements, warrant and option exercises.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended September 30, 2019.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended September 30, 2019.