

## Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

Pursuant to National Instrument 51-102 *Continuous Disclosure Obligations*, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of Questerre Energy Corporation for the interim reporting period ended September 30, 2020 have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the International Accounting Standards Board, and are the responsibility of the Company's management.

The Corporation's independent auditors, PricewaterhouseCoopers LLP, Chartered Professional Accountants, have not performed a review of these unaudited consolidated interim financial statements in accordance with the standards established by Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

## Condensed Consolidated Interim Balance Sheets *(unaudited)*

<i>(\$ thousands)</i>	Note	September 30, 2020	December 31, 2019
<b>Assets</b>			
Current Assets			
Cash and cash equivalents		\$ 9,651	\$ 15,037
Accounts receivable		2,031	3,868
Deposits and prepaid expenses		1,012	881
		<b>12,694</b>	<b>19,786</b>
Right-of-use assets	13	261	116
Investments	3	8,702	8,439
Property, plant and equipment	4	51,251	152,794
Exploration and evaluation	5	115,297	127,081
Restricted cash	12	7,720	7,500
Goodwill	6	–	2,346
		<b>\$ 195,925</b>	<b>\$ 318,062</b>
<b>Liabilities</b>			
Current Liabilities			
Lease liabilities	13	\$ 50	\$ 101
Accounts payable and accrued liabilities		4,616	11,519
Credit facilities	12	16,172	16,377
		<b>20,838</b>	<b>27,997</b>
Lease liabilities	13	217	18
Contingent liabilities		1,820	1,820
Asset retirement obligation	7	20,542	19,571
		<b>43,417</b>	<b>49,406</b>
<b>Shareholders' Equity</b>			
Share capital	8	429,703	429,703
Contributed surplus		22,799	21,700
Accumulated other comprehensive income		88	(213)
Deficit		(300,082)	(182,534)
		<b>152,508</b>	<b>268,656</b>
		<b>\$ 195,925</b>	<b>\$ 318,062</b>

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

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

(\$ thousands)	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>Revenue</b>					
Petroleum and natural gas sales including royalty revenue		\$ 5,391	\$ 8,690	\$ 15,819	\$ 23,814
Royalties		(317)	146	(1,099)	(920)
Petroleum and natural gas revenue, net of royalties		<b>5,074</b>	<b>8,836</b>	<b>14,720</b>	<b>22,894</b>
<b>Expenses</b>					
Direct operating		3,151	3,227	8,750	9,722
General and administrative		360	602	1,705	2,898
Depletion, depreciation, accretion	4,5,7,13	2,137	3,766	7,580	9,867
Impairment (recovery)	4,5,6	–	(157)	113,019	(11)
Lease expiries and farmouts	4,5	289	–	717	–
Share based compensation	9	128	169	390	896
Interest expense		146	182	477	536
Interest and other income		(165)	(284)	(362)	(502)
Net income (loss) before taxes		(972)	1,331	(117,556)	(512)
Deferred tax expense (recovery)		(2)	–	(8)	1,190
<b>Net income (loss)</b>		<b>(970)</b>	<b>1,331</b>	<b>(117,548)</b>	<b>(1,702)</b>
<b>Other comprehensive income (loss), net of tax</b>					
<i>Items that may be reclassified subsequently to net income (loss):</i>					
Foreign currency translation adjustment		(162)	180	71	1
Gain (loss) on foreign exchange on investments	3	(190)	4	230	(8)
		(352)	184	301	(7)
<b>Total comprehensive income (loss)</b>		<b>\$ (1,322)</b>	<b>\$ 1,515</b>	<b>\$ (117,247)</b>	<b>\$ (1,709)</b>
<b>Net loss per share</b>					
Basic and diluted	8	\$ –	\$ –	\$ (0.27)	\$ –

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

# Condensed Consolidated Interim Statements of Changes in Equity

(unaudited)

<i>(\$ thousands)</i>	Note	<i>Nine months ended September 30,</i>	
		<b>2020</b>	2019
<b>Share Capital</b>			
Balance, beginning of period	8	\$ 429,703	\$ 415,747
Private placement		-	14,474
Share issue costs (net of tax)		-	(518)
Balance, end of period		<b>429,703</b>	429,703
<b>Contributed Surplus</b>			
Balance, beginning of period		<b>21,700</b>	19,772
Share based compensation		<b>1,099</b>	1,429
Balance, end of period		<b>22,799</b>	21,201
<b>Accumulated Other Comprehensive Income (Loss)</b>			
Balance, beginning of period		<b>(213)</b>	10
Other comprehensive income (loss)		<b>301</b>	(7)
Balance, end of period		<b>88</b>	3
<b>Deficit</b>			
Balance, beginning of period		<b>(182,534)</b>	(248,239)
Net loss		<b>(117,548)</b>	(1,702)
Balance, end of period		<b>(300,082)</b>	(249,941)
<b>Total Shareholders' Equity</b>		<b>\$ 152,508</b>	\$ 200,966

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

# Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(\$ thousands)	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>Operating Activities</b>					
Net income (loss)		\$ (970)	\$ 1,331	\$ (117,548)	\$ (1,702)
Adjustments for:					
Depletion, depreciation, and accretion	4,5,7,13	2,137	3,766	7,580	9,867
Impairment (recovery)	4,5,6	–	(157)	113,019	(11)
Lease expiries and farmouts	4,5	289	–	717	–
Share based compensation	9	128	169	390	896
Deferred tax expense (recovery)		(2)	–	(8)	1,190
Interest expense		146	181	477	536
Interest and other income		(89)	(242)	(287)	(438)
Abandonment expenditures	7	(16)	(10)	(51)	(91)
Adjusted Funds Flow from Operations		1,623	5,038	4,289	10,247
Interest paid		(146)	(181)	(477)	(536)
Interest received		89	293	261	328
Change in non-cash working capital		(1,490)	(1,133)	(227)	(3,423)
Net cash from operating activities		76	4,017	3,846	6,616
<b>Investing Activities</b>					
Property, plant and equipment expenditures	4	113	(3,515)	(1,156)	(5,781)
Exploration and evaluation expenditures	5	(461)	(3,241)	(2,582)	(11,412)
Change in non-cash working capital		342	(761)	(4,997)	1,702
Net cash used in investing activities		(6)	(7,517)	(8,735)	(15,491)
<b>Financing Activities</b>					
Proceeds from issue of share capital	8	–	–	–	14,474
Share issue costs	8	–	20	–	(518)
Principal portion of lease payments	13	(18)	(27)	(72)	(80)
Drawdown under credit facilities		4,551	11,678	20,495	28,724
Repayment of credit facilities		(7,700)	(9,400)	(20,700)	(25,600)
Net cash from (used in) financing activities		(3,167)	2,271	(277)	17,000
Change in cash, cash equivalents and restricted cash		(3,097)	(1,229)	(5,166)	8,125
Cash, cash equivalents and restricted cash, beginning of period		20,468	28,562	22,537	19,208
<b>Cash, cash equivalents and restricted cash, end of period</b>		<b>\$ 17,371</b>	<b>\$ 27,333</b>	<b>\$ 17,371</b>	<b>\$ 27,333</b>

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

# Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

## 1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation (“Questerre” or the “Company”) 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. These condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2020 and 2019 comprise the Company and its wholly-owned subsidiaries.

Questerre is incorporated under the laws of the Province of Alberta and is domiciled in Canada. The address of its registered office is 1650, 801 – 6 Avenue SW, Calgary, Alberta.

These unaudited condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on November 10, 2020.

### *Segmented Disclosure*

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by Questerre’s chief operating decision makers comprising of the Chief Executive Officer and other members of Management. The operating segments have been aggregated based on several factors including geographic location and stage of development as well as the assignment of reserves and resources.

The accounting policies applied by the segments are the same as those applied by the Company.

### *Reorganization of operating segments*

The Company reassessed its operating segments at December 31, 2019 and determined the following operating segments were present:

- Western Canada – Exploration and development activities in Western Canada including Alberta, Saskatchewan and Manitoba with existing production of natural gas, crude oil and natural gas liquids.
- Quebec – Development of a significant natural gas discovery in the province with a focus on securing social acceptability and regulatory approvals for a clean technology energy project.
- Corporate & other – General and administrative resources to manage the respective operating segments. Includes exploration activities in the Kingdom of Jordan and an investment in Red Leaf Resources Inc. (“Red Leaf”).

Comparative amounts for prior periods have been restated in this note to reflect the reorganized segments.

Segmented assets are those assets associated with each operating segment as recorded on the consolidated balance sheets.

The table below details the breakdown of assets by operating segment to the consolidated balance sheets and the reconciliation of income by operating segment to the consolidated statements of net income (loss) and comprehensive income (loss).

<i>(\$ thousands)</i>	Western Canada	Quebec	Corporate & other	Consolidated
<b>Assets by operating segment</b>				
Exploration and evaluation	\$ 7,655	\$ 101,784	\$ 5,858	\$ 115,297
Property, plant & equipment	51,251	–	–	51,251
Other	3,043	7,720	18,614	29,377
<b>Total assets, September 30, 2020</b>	<b>\$ 61,949</b>	<b>\$ 109,504</b>	<b>\$ 24,472</b>	<b>\$ 195,925</b>
Exploration and evaluation	\$ 20,820	\$ 100,989	\$ 5,272	\$ 127,081
Property, plant & equipment	152,794	–	–	152,794
Other	7,095	7,500	23,592	38,187
<b>Total assets, December 31, 2019</b>	<b>\$ 180,709</b>	<b>\$ 108,489</b>	<b>\$ 28,864</b>	<b>\$ 318,062</b>
<b>Results by operating segment for nine months ended</b>				
Revenues	\$ 14,720	\$ –	\$ –	\$ 14,720
Expenses	(129,283)	(783)	(2,210)	(132,276)
<b>Segmented loss, September 30, 2020</b>	<b>\$ (114,563)</b>	<b>\$ (783)</b>	<b>\$ (2,210)</b>	<b>\$ (117,556)</b>
Deferred tax recovery				8
<b>Total loss, September 30, 2020</b>				<b>\$ (117,548)</b>
Revenues	\$ 22,894	\$ –	\$ –	\$ 22,894
Expenses	(19,578)	–	(3,828)	(23,406)
<b>Segmented income (loss), September 30, 2019</b>	<b>\$ 3,316</b>	<b>\$ –</b>	<b>\$ (3,828)</b>	<b>\$ (512)</b>
Deferred tax expense				(1,190)
<b>Total loss, September 30, 2019</b>				<b>\$ (1,702)</b>

## 2. Significant Accounting Policies

The preparation of financial statements requires Management to use judgment in applying its accounting policies and estimates and assumptions about the future that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The compound risks of the global pandemic and the collapse in oil prices as a result of the actions of OPEC and non-OPEC members create significant risks and uncertainties for the Company, its operations and financial performance. These known and unknown risks may materially impact the estimates and assumptions used by Management in preparing these financial statements.

The unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual audited consolidated financial statements. The interim consolidated financial statements note disclosures do not include all of those required by IFRS applicable for annual consolidated financial statements. Accordingly, these interim

consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2019 which have been prepared in accordance with IFRS as issued by the IASB with the exception of deferred taxes. Taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual net income (loss). The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only.

The Company has qualified for the Canada Emergency Wage Subsidy ("CEWS") announced by the Federal Government as part of its COVID-19 Economic Response Plan. CEWS provides a 75 per cent wage subsidy to eligible employers. The amounts received were deducted from the gross expenses incurred by the Company.

#### *Future Accounting Pronouncements*

There were no new or amended accounting standards or interpretations issued during the three month period ended September 30, 2020, 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, 2019.

### **3. Investment in Red Leaf**

Red Leaf is a private Utah-based oil shale and technology company whose principal assets are its proprietary EcoShale technology to recover oil from shale and its oil shale leases in the state of Utah.

Questerre currently holds 132,293 common shares, representing approximately 30% of the common share capital of Red Leaf and 288 Series A Preferred Shares, representing 16% of the issued and outstanding preferred share capital of Red Leaf.

Questerre has determined its investment in Red Leaf will be accounted for using the equity method. This is based on several criteria including its current equity interest in Red Leaf and ability to participate in the decision making process of Red Leaf through its current Board representation.

The Company measured the fair market value of its equity investment using a net asset valuation approach. The net assets are estimated as the net current assets of Red Leaf less US\$2.9 million representing the original issue price plus accrued but unpaid dividends of the issued and outstanding Series A Preferred Shares as of September 30, 2020. No value was assigned to the non-current assets of Red Leaf for the purposes of determining the fair value of the Company's investment. The Company also evaluated the fair value of the preferred shares held based on the face value including accrued but unpaid dividends as of September 30, 2020.

The investment balance in Red Leaf is comprised of the following:

<i>(\$ thousands)</i>	<b>September 30, 2020</b>	December 31, 2019
Investment	<b>\$ 13,812</b>	\$ 13,604
Equity loss on investment	<b>(5,110)</b>	(5,165)
	<b>\$ 8,702</b>	\$ 8,439

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

<i>(\$ thousands)</i>	<b>September 30, 2020</b>	December 31, 2019
Balance, beginning of year	<b>\$ 8,439</b>	\$ 287
Reversal of impairment	–	8,162
Gain (loss) on foreign exchange	<b>263</b>	(10)
Balance, end of period	<b>\$ 8,702</b>	\$ 8,439

For the nine months ended September 30, 2020, the gain on foreign exchange relating to investments was \$0.3 million (December 31, 2019: \$0.01 million loss) which was recorded in other comprehensive income (loss) net of a deferred tax recovery.

#### 4. Property, Plant and Equipment

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

<i>(\$ thousands)</i>	Total Assets	
Cost or deemed cost:		
Balance, December 31, 2018	\$	275,548
Additions		8,041
Disposition of assets		(8,082)
Derecognition of fully depreciated assets		(4,721)
Transfer from exploration and evaluation assets		14,954
Balance, December 31, 2019		285,740
Additions		2,140
Balance, September 30, 2020	<b>\$</b>	<b>287,880</b>

Accumulated depletion, depreciation and impairment losses:

Balance, December 31, 2018	\$	132,984
Depletion and depreciation		13,077
Disposition of assets		(8,082)
Derecognition of fully depreciated assets		(4,721)
Other impairments		(312)
Balance, December 31, 2019		132,946
Depletion and depreciation		7,426
Impairment		96,257
Balance, September 30, 2020	<b>\$</b>	<b>236,629</b>

<i>(\$ thousands)</i>	Total Assets	
Net book value:		
At December 31, 2019	\$	152,794
At September 30, 2020	<b>\$</b>	<b>51,251</b>

During the nine months ended September 30, 2020, the Company capitalized \$0.05 million of administrative overhead related to development activities (2019: \$0.05 million). Included in the September 30, 2020 depletion calculation are estimated future development costs of \$334.5 million (December 31, 2019: \$341.5 million).

Effective March 31, 2020, the Company reviewed the carrying amounts of its oil and natural gas assets following the decrease in forward commodity prices. Based on this indicator of impairment, the Company tested its CGUs for impairment in accordance with its accounting policy.

The recoverable amount of the CGUs was estimated based on the fair value less cost of disposal ("FVLCD") using a discounted cash flow model. The impairment testing concluded that the carrying amounts of Montney, Antler and Other Alberta CGUs exceeded their FVLCD. As a result, the Company recorded an impairment expense of \$96.3 million for the period ended March 31, 2020. For more information, please refer to the Notes to the Financial Statements for the three months ended March 31, 2020.

Effective September 30, 2020, no indicators of impairment nor indicators to reverse previously incurred impairment were noted.

## 5. Exploration and Evaluation Assets

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

<i>(\$ thousands)</i>	<b>September 30, 2020</b>	December 31, 2019
Balance, beginning of year	<b>\$ 127,081</b>	\$ 58,092
Acquisition	–	67,278
Additions	<b>3,349</b>	16,880
Transfers to property, plant and equipment	–	(14,954)
Undeveloped lease impairments	<b>(14,415)</b>	–
Undeveloped lease expiries and farmouts	<b>(717)</b>	–
Foreign currency translation adjustment - Jordan	<b>(1)</b>	(215)
Balance, end of period	<b>\$ 115,297</b>	\$ 127,081

During the period ended September 30, 2020, the Company capitalized administrative overhead charges of \$0.8 million (December 31, 2019: \$1.8 million) and \$0.7 million of share based compensation expense (December 31, 2019: \$0.7 million) directly related to exploration and evaluation activities.

Effective March 31, 2020, as a result of the decline in commodity prices and no future plans to pursue development of its wholly-owned and operated exploration and evaluation assets in Kakwa, the Company impaired exploration and evaluation assets in Kakwa totaling \$14.4 million.

The Company determined that there were no impairment indicators for its exploration and evaluation assets as of September 30, 2020.

In September 2018, the Ministry of Energy and Natural Resources in Quebec (the "Ministry") introduced regulations effectively prohibiting any exploitation of natural gas in the province including the banning of hydraulic fracturing of

shale. The Company filed a legal motion requesting a temporary stay and judicial review to have the specific regulations relating to the ban on hydraulic fracturing to be set aside. The Company has since granted deferrals for the hearing date to allow the parties to resolve the issues raised in its legal motion in a constructive manner. Should the Company be unsuccessful in resolving the situation to its satisfaction and the Company's legal motion subsequently denied, the carrying value of its exploration and evaluation assets in Quebec of \$101 million as of September 30, 2020, could be materially impaired.

## 6. Goodwill

At September 30, 2020, the Company had a goodwill balance of nil (2019: \$2.3 million). The recoverable amount of goodwill is determined as the FVLCD using a discounted cash flow method and is assessed at the corporate level.

The Company determined that the corporate carrying amount of its property, plant, and equipment assets along with goodwill exceeded the recoverable amount due to lower forecast commodity prices as of March 31, 2020. As a result, the Company incurred an impairment expense of \$2.3 million related to goodwill in the first quarter. For more information, please refer to Note 4 and 5 of the Financial Statements for the three months ended March 31, 2020.

## 7. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be \$20.5 million as at September 30, 2020 (December 31, 2019: \$19.6 million) based on an undiscounted total future liability of \$22.7 million (December 31, 2019: \$23.2 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 0.69% (December 31, 2019: 1.74%). An inflation rate of 2% (December 31, 2019: 2.2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

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

<i>(\$ thousands)</i>	<b>September 30, 2020</b>	December 31, 2019
Balance, beginning of year	<b>\$ 19,571</b>	\$ 13,736
Liabilities settled	<b>(51)</b>	(136)
Revisions due to change in estimates and discount rates	<b>968</b>	179
Liabilities incurred	<b>(27)</b>	5,555
Accretion	<b>81</b>	237
Balance, end of period	<b>\$ 20,542</b>	\$ 19,571

## 8. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited

number of preferred shares, issuable in one or more series. At September 30, 2020, there were no Class “B” Common voting shares or preferred shares outstanding.

a) *Issued and outstanding – Common Shares*

	Number (thousands)	Amount (\$ thousands)
Balance, December 31, 2018	389,007	\$ 415,747
Private placement	38,900	14,474
Share issue costs (net of tax effect)	-	(518)
Balance, December 31, 2019	<b>427,907</b>	<b>\$ 429,703</b>
Shares returned to treasury	(391)	-
Balance, September 30, 2020	<b>427,516</b>	<b>\$ 429,703</b>

In the first quarter of 2020, the Company returned 0.4 million unclaimed Common Shares related to prior corporate acquisitions to treasury for no associated monetary consideration.

b) *Per share amounts*

Basic and diluted net loss per share is calculated as follows:

<i>(thousands, except as noted)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	<b>2020</b>	2019	<b>2020</b>	2019
Net income (loss)	\$ <b>(970)</b>	\$ 1,331	\$ <b>(117,548)</b>	\$ (1,702)
Issued Common Shares at beginning of period	<b>427,516</b>	427,907	<b>427,646</b>	389,007
Effect of shares issued pursuant to:				
Private placements and other	-	-		22,514
Weighted average Common Shares outstanding (basic & diluted)	<b>427,516</b>	427,907	<b>427,646</b>	411,521
Basic net loss per share	\$ <b>-</b>	\$ -	\$ <b>(0.27)</b>	\$ -

<i>(thousands, except as noted)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	<b>2020</b>	2019	<b>2020</b>	2019
Net income (loss)	\$ <b>(970)</b>	\$ 1,331	\$ <b>(117,548)</b>	\$ (1,702)
Weighted average Common Shares outstanding (basic)	<b>427,516</b>	427,907	<b>427,646</b>	411,521
Effect of outstanding options (diluted)	-	684		
Weighted average Common Shares outstanding	<b>427,516</b>	428,591	<b>427,646</b>	411,521
Diluted net loss per share	\$ <b>-</b>	\$ -	\$ <b>(0.27)</b>	\$ -

Under the current stock option plan, options can be exchanged for Common Shares, or for cash at the Company’s discretion. The average market value of the Company’s shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. For the year to date period, no options were potentially dilutive.

## 9. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date or one year from the grant date. The grants expire five years from the grant date. The Company accounts for its share based compensation awards on the basis that the options will be equity settled.

For the nine months ending September 30, 2020, the Company issued 6.5 million options with a weighted estimated fair value of \$0.14 per option. The options were valued using the Black-Scholes option pricing model. The assumptions used by the Company in this pricing model were as follows: Volatility (%): 90.43, Risk Free Rate (%): 1.31, Expected Life (years): 5.0.

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

	September 30, 2020		December 31, 2019	
	Number of Options (thousands)	Weighted Average Exercise Price	Number of Options (thousands)	Weighted Average Exercise Price
Outstanding, beginning of period	27,087	\$ 0.40	21,412	\$ 0.44
Granted	6,475	0.20	6,100	0.29
Forfeited	(846)	0.43	(50)	0.29
Expired	(5,563)	0.30	(375)	1.07
Outstanding, end of period	27,153	\$ 0.37	27,087	\$ 0.40
Exercisable, end of period	16,163	\$ 0.40	16,632	\$ 0.37

## 10. Liquidity and Capital Management

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.

Although crude oil prices have partially recovered in the second quarter of this year, the volatility arising from the actions of OPEC+ and the fallout from the COVID-19 pandemic will have a material impact on the Company's liquidity in 2020. To manage its liquidity, the Company has eliminated all non-essential capital spending and has instituted a 20% reduction in salaries and directors' fees with the goal of eliminating up to \$1.5 million in total overhead. The Company also plans to partially or completely shut-in production when realized prices fall materially below break-even prices.

At September 30, 2020, \$16.2 million (December 31, 2019: \$16.4 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 the covenants for 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). See Note 12.

The Company considers its capital structure to include shareholders' equity and any outstanding amounts under its credit facilities. The Company will adjust its capital structure to minimize its cost of capital through the issuance of shares, securing credit facilities and adjusting its capital spending. Questerre monitors its capital structure based on the current and projected adjusted funds flow from operations.

<i>(\$ thousands)</i>	<b>September 30, 2020</b>	December 31, 2019
Credit facilities	<b>\$ 16,172</b>	\$ 16,377
Shareholders' equity	<b>152,508</b>	268,656

## 11. Financial Risk Management and Determination of Fair Values

### a) *Overview*

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

### b) *Fair value of financial instruments*

The Company's financial instruments as at September 30, 2020 included restricted and unrestricted cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at September 30, 2020, the fair values of the Company's financial assets and liabilities approximate their carrying values due to the short-term maturity, with the exception of the Company's investments which are recorded at fair value.

Disclosures about the inputs to fair value measurements are required, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

#### Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

The Company does not hold any Level 1 financial instruments.

#### Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

The Company's risk management contracts when held are considered a Level 2 instrument. The Company's derivative instruments are carried at fair value as determined by reference to independent monthly forward settlement prices and currency rates. As of the date of the financial statements the Company does not hold any risk management contracts.

#### Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

The Company's fair value measurements included in the impairment calculations for its capital assets and Red Leaf investment are considered Level 3 instruments. The fair values are determined using a discounted cash flow approach.

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

#### *c) Market risk*

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's profit or loss or the value of its financial instruments. The objective of the Company is to mitigate exposure to these risks while maximizing returns to the Company.

#### Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted both by the relationship between the Canadian and United States dollar and world economic events that dictate the levels of supply and demand. The Company may enter into oil and natural gas contracts to protect, to the extent possible, its cash flows from future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas.

As at September 30, 2020, the Company holds no risk management contracts.

#### *d) Credit risk*

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises principally from the Company's receivables from joint venture partners and oil and gas marketers. The Company manages the credit risk associated with its oil and gas marketers by transacting with high quality counterparties, establishing concentration limits, monitoring credit ratings and if required the posting of guarantees.

## **12. Credit Facilities**

As at September 30, 2020, the credit facilities include a revolving operating demand facility of \$17 million and a uncommitted demand non-conforming revolving facility of \$3 million. The revolving facility can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. Any borrowing under the credit facilities, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The bank's prime rate currently is 3.45% per annum and the effective interest rate for the quarter was 3.20%. The credit facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the credit facility, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at September 30, 2020 was 3.52 and the covenant was met. At September 30, 2020, \$16.2 million (December 31, 2019: \$16.4 million) was drawn on the facility.

In addition to the credit facilities, the lender has issued letters of credit on the Company's behalf to support its operating activities. These letters of credit are secured by restricted cash deposits of \$7.7 million at September 30, 2020 (2019: \$7.5 million).

The current commodity price environment has resulted in tighter capital markets. The credit facilities are demand facilities and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity.

The next scheduled review is in the second quarter of 2021.

### 13. Right-of-use Assets and Lease Liabilities

#### a) *Right-of-use assets*

<i>(\$ thousands)</i>	Real Estate	Other	Total
<b>Cost</b>			
Balance, January 1, 2019	\$ 198	\$ –	\$ 198
Additions (net of prior lease termination)	218	25	243
<b>Balance, September 30, 2020</b>	<b>\$ 416</b>	<b>\$ 25</b>	<b>\$ 441</b>
<b>Accumulated Depreciation</b>			
Balance, January 1, 2019	\$ –	\$ –	\$ –
Depreciation	172	8	180
<b>Balance, September 30, 2020</b>	<b>\$ 172</b>	<b>\$ 8</b>	<b>\$ 180</b>
<b>Carrying value</b>			
Balance, January 1, 2019	\$ 198	\$ –	\$ 198
Additions, net of depreciation	46	17	63
<b>Balance, September 30, 2020</b>	<b>\$ 244</b>	<b>\$ 17</b>	<b>\$ 261</b>

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

b) *Lease liabilities*

A reconciliation of the gross future minimum lease payments on operating lease commitments, as disclosed in Note 19 of the Annual Report for the year ended December 31, 2019, to the lease liabilities as at September 30, 2020 is as follows:

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

Maturity analysis - undiscounted cash flows as at December 31, 2019:

Current portion	105
Long term portion	18
Total undiscounted lease liabilities as at December 31, 2019	<b>\$ 123</b>

<b>Lease Liabilities</b>	
Balance, January 1, 2019	198
Additional leases acquired during period	243
Interest expense	13
Lease payments	(187)
Balance, September 30, 2020	<b>\$ 267</b>
Current portion	50
Long term portion	217
Balance, September 30, 2020	<b>\$ 267</b>

Amounts related to lease liabilities recognized in profit or loss are as follows:

Interest expense on lease liabilities	<b>\$ 13</b>
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On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, "Leases" ("IAS 17"). Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates at January 1, 2019 estimated at 4.14%. Leases with a remaining term of less than twelve months and low-value leases were excluded. Interest expense related to leases are included in "Interest paid" under Operating Activities on the Statements of Cash Flow.