

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of November 10, 2020. 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, 2020 and for the three and nine month periods ended September 30, 2020 and 2019 (the "Q3 Statements"), and the audited annual consolidated financial statements of the Company for the year ended December 31, 2019 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, 2019, 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.

Management has not adjusted or revised any forward-looking statements in this MD&A to account for the potential disruption to the Company's business from the coronavirus ("COVID-19") pandemic, the impact of which is not immediately known or quantifiable.

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

- The elimination of non-essential capital spending until commodity prices improve;

- future commodity prices in light of recent decisions by the Organization of the Petroleum Exporting Countries (“OPEC”) and non-OPEC member countries, including Saudi Arabia and Russia on production levels as well as the COVID-19 pandemic;
- the outlook for natural gas demand growth;
- drilling and completion plans and the potential curtailment or suspension thereof;
- further capital investment requiring additional financial liquidity through potential asset dispositions, equity or debt;
- future production of oil, natural gas and natural gas liquids and the weighting thereof;
- the potential shut-in of production, including when realized prices fall materially below break-even prices;
- production declines;
- the anticipated decrease in the Company’s processing and transportation expenses;
- development plans for the Company’s Kakwa assets;
- the targeting of cost reductions at Antler, Saskatchewan;
- the assessment of future development costs;
- requirement of significant additional capital to develop the Company’s Quebec assets;
- the prioritization of consultation ahead of permitting and regulatory approvals for the Company’s Clean Tech Energy project in Quebec;
- the partnering with groups in Quebec to gain support for the Company’s Clean Tech Energy project;
- legislative and regulatory developments in the Province of Quebec;
- the Red Leaf restructuring and issuer bid plans, including the impact on non-tendering shareholders;
- liquidity and capital resources;
- internal engineering goals for the Company’s oil shale project in Jordan;
- the suspension of third-party engineering in Jordan;
- the reduction in the upfront capital costs to improve project economics for its oil shale project in Jordan;
- the Company’s compliance with the terms of its credit facility;
- execution of the amending agreement for its credit facility;
- the 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 due to, among other things, the production increases by OPEC and non-OPEC member countries, including Saudi Arabia and Russia, on production levels as well as the impact of the coronavirus pandemic;
- access to capital;
- the terms and availability of credit facilities;
- counterparty credit risk;
- 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,	
	2020	2019	2020	2019
Net cash from operating activities	\$ 76	\$ 4,017	\$ 3,846	\$ 6,616
Interest received	(89)	(293)	(261)	(328)
Interest paid	146	181	477	536
Change in non-cash operating working capital	1,490	1,133	227	3,423
Adjusted Funds Flow from Operations	\$ 1,623	\$ 5,038	\$ 4,289	\$ 10,247

This document also contains the terms “operating netbacks” and “working capital 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 deficit”. Working capital 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 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>	
	2020	2019	2020	2019
Financial (\$ thousands, except as noted)				
Petroleum and Natural Gas Sales	5,391	8,690	15,819	23,814
Net Income (Loss)	(970)	1,331	(117,548)	(1,702)
Basic and diluted (\$/share)	–	–	(0.27)	–
Adjusted Funds Flow from Operations	1,623	5,038	4,289	10,247
Basic and diluted (\$/share)	–	0.01	0.01	0.02
Capital Expenditures	348	6,756	3,738	17,193
Working Capital Deficit	(8,096)	(2,574)	(8,096)	(2,574)
Total Assets	195,925	251,454	195,925	251,454
Shareholders' Equity	152,508	200,966	152,508	200,966
Common Shares Outstanding (thousands)	427,516	427,907	427,516	427,907
Weighted average - basic (thousands)	427,516	427,907	427,646	411,521
Weighted average - diluted (thousands)	427,516	428,591	427,646	411,521
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	1,187	1,475	1,308	1,340
Natural Gas (Mcf/d)	4,127	5,205	4,168	4,608
Total (boe/d)	1,875	2,343	2,003	2,108
Average Sales Price				
Crude Oil and Natural Gas Liquids (\$/bbl)	40.95	60.17	39.54	59.63
Natural Gas (\$/Mcf)	2.42	1.10	2.32	1.58
Total (\$/boe)	31.26	40.33	28.82	41.38
Netback (\$/boe)				
Petroleum and Natural Gas Sales	31.26	40.33	28.82	41.38
Royalties Expense	(1.83)	0.68	(2.00)	(1.60)
Percentage	6%	3%	7%	4%
Direct Operating Expense	(18.27)	(14.98)	(15.94)	(16.89)
Operating Netback	11.15	26.03	10.88	22.90
Wells Drilled				
Gross	–	2.00	1.00	4.00
Net	–	0.42	0.25	0.80

- (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

- Executed final agreement for the credit facilities at \$20 million
- Increased representation of Questerre and significant shareholders on Red Leaf Board
- Adjusted funds flow from operations of \$1.6 million and average daily production of approximately 1,900 boe/d

Third Quarter 2020 Activities

Kakwa, Alberta

Despite a partial recovery from the collapse in crude oil prices earlier this year, field activity remained muted at both joint ventures in the third quarter.

At Kakwa Central, work focused on optimizing production from existing wells. Completion operations began on the two wells drilled in the first quarter. Questerre participated in one (0.25 net) well that targeted the Upper Montney and went penalty on a second well that targeted the Lower Montney. The Company anticipates the completed wells will be placed on production prior to year-end.

The operators have not advised Questerre of their drilling programs for the coming year. The Company's participation in any future wells will depend on among other things, a material improvement in the outlook for oil prices. Should the Company participate, it will require additional financial liquidity through potential asset dispositions, equity or debt issuances. There is no certainty that such liquidity will be available when required on terms acceptable to Questerre.

St. Lawrence Lowlands, Quebec

Recognizing the growing importance of social acceptability for energy projects, the Company is prioritizing consultation ahead of permitting and regulatory approvals for its Clean Tech Energy project in Quebec. In the third quarter, Questerre engaged with additional stakeholders, including commercial gas consumers in the province.

These consumers expressed interest in the benefits of local gas supplies with zero emissions, including lower supply costs, security of supply and reducing dependence on imports. Discussions are ongoing with local communities, farmers, and First Nations about their participation in the Clean Tech Energy project. Based on the progress to date, Questerre remains optimistic about partnering with these groups to gain their support.

Oil Shale Mining

The Company reported on the recent corporate restructuring at Red Leaf Resources Inc. ("Red Leaf").

Red Leaf is a private Utah-based company whose principal assets include its proprietary EcoShale technology to produce oil from shale, oil shale leases in the state of Utah and approximately US\$25 million in unrestricted cash. Questerre owns approximately 30% of the equity capital of Red Leaf.

The corporate restructuring follows the change in market conditions due to the COVID-19 pandemic and the fallout from the OPEC+ disagreement on production cuts. The company has materially reduced overheads to preserve cash and the value of its other assets while it evaluates strategic alternatives. Following the end of the quarter, the company announced its plans for an issuer bid of up to US\$10 million. Questerre Management estimates that the issuer bid will be accretive on a cash basis to the non-tendering shareholders, including Questerre. As part of the restructuring,

Questerre, along with a significant long-term shareholder of Red Leaf, also increased their representation on the company's Board during this quarter.

Consistent with the first half of this year, all third-party engineering for its oil shale project in Jordan has been suspended. The Company continues its internal engineering with the goal of reducing the up-front capital investment to improve project economics.

Corporate

The Company's credit facilities with a Canadian chartered bank were renewed at \$20 million during the quarter. The renewed facilities will consist of a revolving operating demand loan of \$17 million and an uncommitted demand non-conforming revolving facility for \$3 million. Any borrowing under the facilities, except letters of credit, are subject to the Bank's prime rate and applicable basis point margin. The effective interest rate on the facilities for the year to date was 3.45% (2019: 4.45%). As of September 30, 2020, \$16.2 million was drawn on the facilities and the Company held unrestricted cash and term deposits of \$9.7 million.

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

Production

<i>Three months ended September 30,</i>	2020			2019		
	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	861	4,127	1,549	1,019	5,205	1,887
Saskatchewan	297	–	297	408	–	408
Manitoba	29	–	29	48	–	48
	1,187	4,127	1,875	1,475	5,205	2,343

<i>Nine months ended September 30,</i>	2020			2019		
	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	941	4,168	1,636	954	4,608	1,722
Saskatchewan	332	–	332	337	–	337
Manitoba	35	–	35	49	–	49
	1,308	4,168	2,003	1,340	4,608	2,108

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

Production decreased both on a quarterly and year to date period over the prior year. The variance is due to natural declines and the lack of new Kakwa wells brought on-stream in the current year. Furthermore, the limited workovers at Antler, Saskatchewan this year also contributed to lower volumes.

Consistent with prior periods, Kakwa accounted for over 80% of corporate volumes with royalty production at Kakwa North accounting for 13% of these volumes (2019: 81% and 10% respectively). The natural declines were partially offset by the production optimization work at Kakwa Central that also improved uptime.

In Saskatchewan and Manitoba, production also declined because more wells remained shut-in during the period. The number of shut-in wells increased by almost two and a half times over the first quarter of this year as the Company deferred workovers due to low oil prices. This work has since resumed in the fourth quarter.

The Company's oil and liquids weighting remained at just over 60% for the quarter and year to date periods, unchanged from the prior year.

The elimination of non-essential capital spending, including new wells, to preserve financial liquidity will result in production volumes declining further over the next year. Questerre may partially or completely shut-in production if realized prices fall materially below break-even levels.

Third Quarter 2020 Financial Results

Petroleum and Natural Gas Sales

<i>Three months ended September 30,</i>	2020			2019		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 2,949	\$ 919	\$ 3,868	\$ 5,269	\$ 528	\$ 5,797
Saskatchewan	1,395	–	1,395	2,605	–	2,605
Manitoba	128	–	128	288	–	288
	\$ 4,472	\$ 919	\$ 5,391	\$ 8,162	\$ 528	\$ 8,690

<i>Nine months ended September 30,</i>	2020			2019		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 8,737	\$ 2,578	\$ 11,315	\$ 14,396	\$ 1,991	\$ 16,387
Saskatchewan	4,105	–	4,105	6,523	–	6,523
Manitoba	399	–	399	904	–	904
	\$ 13,241	\$ 2,578	\$ 15,819	\$ 21,823	\$ 1,991	\$ 23,814

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

Sales revenue declined over the prior year, both for the quarter and the nine month period ended September 30.

For the quarter, the nearly 40% drop in revenue was attributable equally to the lower production volumes and commodity prices. The material improvement in natural gas prices and increased contribution to revenue did not offset the decline in crude oil and liquids prices as crude oil and liquids accounts for over 80% (2019: 94%) compared to less than 20% of revenue for natural gas (2019: 6%).

For the year to date, revenue declined by over 30% with the variance mainly due to the drop in crude oil prices, particularly in the second and third quarter. With crude oil and liquids accounting for most of the sales revenue, the improvement in natural gas prices was not sufficient to materially offset the fall in crude oil prices.

Pricing

	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2020	2019	2020	2019
Benchmark prices:				
Natural Gas - AECO, daily spot (\$/Mcf)	2.12	0.97	1.98	1.45
Crude Oil - Mixed Sweet Blend (\$/bbl)	49.31	68.43	45.02	69.50
Realized prices:				
Natural Gas (\$/Mcf)	2.42	1.10	2.32	1.58
Crude Oil and Natural Gas Liquids (\$/bbl)	40.95	60.17	39.54	59.63

Crude oil prices rose from their historic lows in the second quarter of this year but remained well below prices last year. The North American benchmark West Texas Intermediate (“WTI”) averaged US\$40.43/bbl for the quarter (2019: US\$56.45/bbl) compared to US\$27/bbl in the second quarter and US\$37.86/bbl (2019: US\$57.06/bbl) year to date.

Prices stabilized on optimism that the curtailments in supply were being met by improving demand. The reduced capital spending on shale oil drilling in the United States and the OPEC+ members’ compliance with supply cuts contributed to a reduction in global inventories. While the majority of demand has recovered from the lows of the first half of the year, concerns still remain about the strength of recovery with a resurgence of the COVID-19 pandemic. In Canada supply increased over the quarter and the differential between WTI and Canadian condensate prices improved from US\$5.55/bbl to US\$3.38/bbl (2019: US\$4.44/bbl).

With liquids production from Kakwa consisting primarily of condensate, which receives a premium to the Canadian Light Sweet Blend (“MSW”), and other liquids, namely propane and butane that receive a significant discount, Questerre’s realized price for oil and liquids averaged \$40.95/bbl (2019: \$60.17/bbl) compared to the MSW price of \$49.31/bbl (2019: \$68.43/bbl).

Natural gas prices also increased during the quarter. The Henry Hub benchmark averaged US\$1.98/MMBtu compared to US\$1.75/MMBtu in the second quarter and US\$2.23/MMBtu in the third quarter last year.

The outlook for natural gas prices improved in the quarter. Reduced drilling for crude oil and liquids is expected to materially lower growth in associated gas volumes. These volumes have increased two thirds over the last four years and now account for more than one third of US supply estimated at 91 Bcf/d. Additionally, growth is also expected to moderate in the Marcellus and Utica, accounting for another one third of US supply, as operators become more disciplined in the current financial environment.

Natural gas demand rebounded in the third quarter with the loosening of pandemic related lockdowns. The outlook for demand growth also improved with an anticipated increase for power generation as retirement of coal plants continues and LNG exports from the United States resume. In Canada, prices reflect this improvement in the supply demand balance and, more importantly, the changes made to the regional system last fall granting all shippers access to storage.

Realized natural gas prices reflect the higher heat content of production from Kakwa. During the quarter, they averaged \$2.42/Mcf (2019: \$1.10/Mcf) compared to the benchmark of \$2.12/Mcf (2019: \$0.97/Mcf).

Royalties

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Alberta	\$ 198	\$ (365)	\$ 720	\$ 332
Saskatchewan	87	182	283	422
Manitoba	32	37	96	166
	\$ 317	\$ (146)	\$ 1,099	\$ 920
% of Revenue:				
Alberta	5%	-	6%	2%
Saskatchewan	6%	7%	7%	6%
Manitoba	25%	13%	24%	18%
Total Company	6%	3%	7%	4%

With the exception of Alberta, gross royalties for the nine months ended September 30, 2020 decreased over last year, following the decline in petroleum and natural gas sales in 2020. As a percentage of revenue, this increased to 7% year to date (2019: 4%) and 6% in the quarter (2019: 3%).

In Alberta, royalties in the prior year reflect a credit of \$0.4 million from the Crown for processing its share of production through the joint facilities at Kakwa. Excluding this amount for the nine months ended September 30, 2019, royalties as a percentage of revenue represented 5%, compared to 7% in the current year.

Operating Costs

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Alberta	\$ 2,473	\$ 1,898	\$ 6,288	\$ 6,398
Saskatchewan	409	1,247	1,955	3,144
Manitoba	42	82	123	180
Quebec	227	-	384	-
	\$ 3,151	\$ 3,227	\$ 8,750	\$ 9,722
\$/boe:				
Alberta	17.35	10.93	14.03	13.61
Saskatchewan	15.00	33.23	21.49	34.15
Manitoba	15.39	18.63	12.67	13.45
Total Company	18.27	14.97	15.94	16.89

For both the three and nine months ended September 30, 2020, operating costs declined in aggregate. For the quarter, the increase in costs related to Alberta were offset by decrease in costs related to Saskatchewan. Additionally, the Company incurred costs in Quebec where it consolidated its ownership and acquired operatorship of non-producing assets in the first quarter of this year.

On a unit of production basis, the higher proportion of fixed costs in Alberta, specifically Kakwa, and lower production volumes translated to an increase in costs for the quarter and year to date. Additionally, higher costs were incurred at

Kakwa for firm transportation and processing commitments. The Company anticipates these costs to decrease over next year as a result of the restructuring completed in the second quarter.

In Saskatchewan, operating costs declined over the prior year due to a deferral in workovers and the associated consulting expenses in the last two quarters. As noted previously, these activities were suspended due to the volatility in crude oil prices. Although production volumes declined and costs are mainly fixed, the significant decrease in gross costs resulted in lower costs on a boe basis. The Company continues to target further cost reductions at Antler.

General and Administrative Expenses

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2020	2019	2020	2019
General and administrative expenses, gross	\$ 599	\$ 1,009	\$ 2,484	\$ 3,836
Capitalized expenses and overhead recoveries	(239)	(407)	(779)	(938)
General and administrative expenses, net	\$ 360	\$ 602	\$ 1,705	\$ 2,898

For the quarter ended September 30, 2020, gross general and administrative expenses (“G&A”) decreased by approximately 40% from the prior year. Year to date, these amounts decreased by just over 35%. The lower costs in the current year reflect overhead reductions in response to the collapse in oil prices and the impacts of the pandemic. G&A expenses are recorded net of \$0.4 million (2019: nil) in qualifying credits under the Canada Emergency Wage Subsidy, as part of the pandemic financial assistance program.

Depletion, Depreciation, Accretion and Impairment

For the quarter ended September 30, 2020, Questerre recorded depletion, depreciation and accretion expense of \$2.1 million (2019: \$3.6 million) with depletion accounting for over 90% of this amount. On a unit of production basis this decreased to \$12.15/boe from \$17.11/boe last year. This reflects the lower carrying value of the producing assets in the third quarter after a \$96.3 million impairment expense in the first quarter as a result of lower future commodity prices. The lower carrying value of its producing assets also accounted for the smaller expense for the nine month period ended September 30, 2020 of \$7.6 million compared to \$9.9 million last year.

The Company recorded no further impairment expense in the third quarter of this year. In the first quarter, in addition to the impairment expense above, the Company also recorded an expense of \$14 million related to its exploration and evaluation assets where it has no further plans to pursue development.

Interest expense, interest income and share based compensation expense

During the nine months ended September 30, 2020, the Company incurred interest expense of \$0.5 million, unchanged from the prior year related to its credit facilities with a Canadian chartered bank. As at September 30, 2020, the amount drawn on the facilities was \$16.2 million (2019: \$16.4 million) and the effective interest rate was 3.45% (2019: 4.45%). The Company also earned interest income of \$0.4 million (2019: \$0.5 million) on its cash and term deposits for the period.

Year to date, the Company recorded share based compensation expense of \$0.4 million (2019: \$0.9 million) net of \$0.7 million in expense capitalized during the period (2019: \$0.7 million).

Other Comprehensive Income and Expenses

In 2020, the Company recorded other comprehensive loss of \$0.4 million for the quarter (2019: \$0.2 million income) and income of \$0.3 million for the year to date period (2019: nil). These amounts relate to the impact of changes in foreign exchange for the respective periods. The appreciation in the Jordanian dinar resulted in income of \$0.07 million (2019: nil) on the Company's dinar denominated assets in the country for the year to date period. For the same period, the appreciation in the US dollar resulted in a gain of \$0.2 million (2019: nil) on its US dollar denominated investment in Red Leaf.

Total Comprehensive Loss

Questerre's total comprehensive loss for the third quarter of 2020 was \$1.3 million (2019: \$1.5 million income) and for the year to date, the loss was \$117 million (2019: \$1.7 million). The loss in the current quarter is due to the significantly lower petroleum revenue offset partly by lower operating, G&A and depletion, depreciation and accretion expense. For the nine month period, the variance largely relates to the \$113 million impairment expense incurred in the first quarter of 2020.

Cash Flow from Operating Activities

For the three months ended September 30, 2020, net cash from operating activities was \$0.08 million (2019: \$4.0 million) and for the nine months then ended, it was \$3.8 million (2019: \$6.6 million). The materially lower revenue and the reduction in non-cash working capital in the current quarter account for the variance over the prior year. Similarly, the reduction over the nine month period this year is attributable to the lower petroleum partly offset by the smaller change in the non-cash working capital.

Cash Flow used in Investing Activities

Cash flow used in investing activities for the third quarter decreased substantially with the reduced capital spending compared to the same period last year. This was partly offset by the increase in non-cash working capital this year compared to the decrease last year. For the year to date period, lower capital expenditures offset by the reduction in non-cash working capital decreased the cash used in investing activities to \$8.7 million from \$15.5 million last year.

Cash Flow from Financing Activities

For the third quarter of 2020, net cash used in financing activities reflects the net repayment under the credit facilities. In the same period last year, the company incurred a net drawdown under its credit facilities. The year to date period in 2019 includes the net proceeds from an equity placement of \$14 million and increased drawdowns under its facilities. By comparison in the current year, the company only recorded a net repayment on its credit facilities of \$0.3 million.

Capital Expenditures

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Alberta	\$ 133	\$ 6,123	\$ 2,219	\$ 15,444
Saskatchewan & Manitoba	11	45	340	220
Quebec, Jordan & Other	204	588	1,179	1,529
Total Company	\$ 348	\$ 6,756	\$ 3,738	\$ 17,193

For the nine months ended September 30, 2020, the Company incurred capital expenditures of \$3.7 million as follows:

- In Alberta, \$2.2 million was invested to drill a well and expand gas-lift infrastructure on the Kakwa Central joint venture acreage with negligible spending in the last six months;
- In Quebec, \$1.2 million for well monitoring and capitalized overhead related to engineering and securing social acceptability for its Clean Tech Energy project; and
- In Saskatchewan, the Company invested \$0.3 million for infrastructure for its pressure maintenance pilot.

For the same period in 2019, the Company incurred capital expenditures of \$17.2 million as follows:

- In Alberta, \$15.4 million was invested to primarily expand infrastructure and drill and complete wells at its Kakwa Central joint venture acreage;
- In Quebec, \$1.1 million was incurred to secure social acceptability for its Clean Tech Energy project, and to advance its legal claim with the remainder in Jordan to assess the feasibility of its oil shale project; and
- In Saskatchewan, the Company invested \$0.2 million to maintain and upgrade production facilities.

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, 2020, 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.

(thousands)	November 10, 2020	September 30, 2020	December 31, 2019
Common Shares	427,516	427,516	427,907
Stock Options	27,153	27,153	27,087
Weighted average common shares			
Basic		427,646	388,712
Diluted		427,646	395,715

A summary of the Company's stock option activity for the nine months ended September 30, 2020 and the year ended December 31, 2019 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

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.

Although crude oil prices have partially recovered, 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). The Adjusted Working Capital Ratio at September 30, 2020 was 3.52 and the covenant was met. See Note 12 of the Financial Statements.

While the credit facilities were renewed in the third quarter at \$20 million, the uncertainty in the outlook for commodity prices could result in the facilities being reduced at their next review scheduled for the second quarter of 2021. 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. In the current market the Company may be unable to secure additional financing on acceptable terms, if at all.

On the assumption that commodity prices stabilize and improve over the next 12 to 18 months, the Company believes that it should have access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations.

In light of current market conditions, the Company is assessing its investment in the 2020 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2019. It anticipates that, as a result, reserves associated with wells not drilled in 2020 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 MD&A and the AIF.

Commitments

A summary of the Company's net commitments at September 30, 2020 follows:

<i>(\$ thousands)</i>	2020	2021	2022	2023	2024	Thereafter	Total
Transportation and Processing	\$ 1,170	\$ 2,988	\$ 2,791	\$ 2,791	\$ 2,791	\$ 3,255	\$ 15,786

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 commodity prices, exploration and development drilling as well as production operations, foreign 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, 2019.

Volatility in the oil and gas industry is a major risk facing the Company. Market events and conditions, including global oil and natural gas supply and demand, actions taken by OPEC and non-OPEC member countries' decisions, including recent decisions by Saudi Arabia and Russia, on production growth and spare capacity, market volatility and disruptions, weakening global relationships, conflict between the U.S. and Iran, isolationist and punitive trade policies, U.S. shale production, sovereign debt levels and political upheavals in various countries including growing anti-fossil fuel sentiment, have caused significant volatility in commodity prices. These events and conditions have been a factor in the decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax and royalty changes and other environmental regulations.

In addition, the difficulties in obtaining the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil and gas industry in Western Canada has led to additional uncertainty and reduced confidence in the oil and gas industry in Western Canada. Lower commodity prices may also affect the volume and

value of the Company's reserves especially as certain reserves become uneconomic. In addition, lower commodity prices have reduced the Company's cash flow leading to a reduction in funds available for capital expenditures. As a result, the Company may not be able to replace its production with additional reserves and both the Company's production and reserves could be reduced on a year over year basis. Any decrease in value of the Company's reserves may reduce the borrowing base under its credit facilities, which, depending on the level of the Company's indebtedness, could result in the Company having to repay all or a portion of its indebtedness. Given the current market conditions and the lack of confidence in the Canadian oil and natural gas industry, the Company may have difficulty raising additional funds in the future or have to raise funds on unfavourable and highly dilutive terms.

In addition, the global market is also currently volatile due to the uncertainty around how severely COVID-19 will affect global energy consumption. The global economy is reliant on the manufacturing and trade of products and the movement of people, and any slowdown in this process has a chain reaction that impacts energy consumption by both manufacturers and consumers. As a result of the pandemic's impact on the global economy, commodity prices declined prior to the production announcements by members of OPEC and non-OPEC members, including Saudi Arabia and Russia, there may be a further weakening as the effects move through the supply chain. Travel restrictions announced by various countries as a measure to reduce the spread of COVID-19 have impacted and continued to impact global energy consumption.

The COVID-19 pandemic and efforts to contain it may have a significant effect on commodity prices, demand and potentially broader impacts on the global economy. A prolonged period of low and/or volatile oil and natural gas prices could have a significant adverse effect on the Company's operations, business and financial condition. If commodity prices should decline below cash costs of production and remain at such levels for any sustained period, the Company could determine that it is not economically feasible to continue commercial production at any or all of its operations. The Company may also curtail or suspend some or all of its exploration activities, with the result that depleted reserves are not replaced.

Another 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 essential 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. The Company anticipates that future

development of its Quebec assets will require significant additional capital to be financed by potential future equity issuances, asset dispositions or other means.

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. Management does not expect any counterparty to fail to meet its obligations. 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.

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, to a much lesser extent, 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 \$0.02 million at September 30, 2020 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. In 2017, the Federal Government amended the law regarding what expenses

constitute CEE. Generally, oil and gas drilling expenses are now Canadian Development Expense rather than CEE. In the event that the Company has CEE expenditures reclassified under audit by the Canada Revenue Agency or fails to incur expenditures required under a flow-through share agreement, the Company may be required to liquidate certain of its assets in order to meet the indemnity obligations under 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, 2020, the Company had no outstanding commodity risk management contracts.

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.

Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. The federal and certain provincial Governments have implemented legislation aimed at incentivizing the use of alternative fuels and in turn reducing carbon emissions. The taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Company's operating expenses, each of which may have a material adverse effect on the Company's profitability and financial condition. Further, the imposition of carbon taxes puts the Company at a disadvantage with the counterparts who operate in jurisdictions where there are less costly carbon regulations.

Interest Rate Risk

Interest rate risk is the risk that changes in the applicable interest rates will impact the Company's interest expense related to its credit facilities. At September 30, 2020, the Company had credit facilities outstanding of \$16.2 million (December 31, 2019: \$16.4 million) with an effective rate of 3.45% (2019: 4.45%).

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 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 cost 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. Following the reduction in the recoverable amounts of the Company's CGUs as of March 31, 2020, goodwill was assessed and fully impaired. This impairment cannot be reversed should the recoverable amount of the Company's CGUs increase in the future.

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 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

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 adoption of this amendment did not have a material impact on its financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on July 1, 2020 and ended on September 30, 2020 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, 2020	June 30, 2020	March 31, 2020	Dec 31, 2019
<i>(\$ thousands, except as noted)</i>				
Production (boe/d)	1,875	2,058	2,078	2,160
Average Realized Price (\$/boe)	31.26	18.20	37.12	45.52
Petroleum and Natural Gas Sales	5,391	3,410	7,018	9,033
Adjusted Funds Flow from Operations	1,623	206	2,460	4,108
Net Profit (Loss)	(970)	(2,701)	(113,876)	67,414
Basic and Diluted (\$/share)	–	(0.01)	(0.27)	0.14
Capital Expenditures, net of acquisitions and dispositions	348	515	2,875	4,868
Working Capital Deficit	(8,095)	(9,272)	(8,603)	(8,111)
Total Assets	195,925	201,255	204,782	318,062
Shareholders' Equity	152,508	153,509	156,263	268,656
Weighted Average Common Shares Outstanding				
Basic (thousands)	427,516	427,516	427,907	427,907
Diluted (thousands)	427,516	427,516	427,907	428,022

	Sept 30, 2019	June 30, 2019	March 31, 2019	Dec 31, 2018
<i>(\$ thousands, except as noted)</i>				
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 Surplus (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

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. They declined materially in the last two quarters of this year following the collapse in oil prices.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. In 2020, the Company plans to suspend any non-essential capital spending including any additional drilling at Kakwa pending an improvement in commodity prices. It anticipates production volumes will decline over the remainder of this year.

- The level of capital expenditures over the quarters 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 decreased significantly in the first quarter of 2020 with materially lower commodity prices resulting in an impairment expense of \$113 million. In the preceding quarter, shareholder's equity increased due to the \$58.5 million gain realized by the Company on the release of litigation related to the acquisition of the assets in Quebec. In the quarter ended June 30, 2019, shareholder equity increased as a result of a private placement completed during the period. In previous quarters, shareholder equity has generally fluctuated with the changes in net income (loss).

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended September 30, 2020.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended September 30, 2020.