

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, 2021 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, 2021	December 31, 2020
Assets			
Current Assets			
Cash and cash equivalents		\$ 9,486	\$ 10,404
Accounts receivable		3,446	2,683
Deposits, government grants and prepaid expenses		1,453	819
		14,385	13,906
Right-of-use assets		209	249
Investments	3	7,999	7,979
Property, plant and equipment	4	46,874	52,484
Exploration and evaluation	5	115,825	114,203
Restricted cash	11	7,417	7,356
		\$ 192,709	\$ 196,177
Liabilities			
Current Liabilities			
Lease liabilities		\$ 51	\$ 50
Accounts payable and accrued liabilities		5,272	6,186
Credit facilities	11	7,415	15,427
		12,738	21,663
Lease liabilities		168	205
Contingent liabilities		1,820	1,820
Asset retirement obligation	6	19,061	20,369
		33,787	44,057
Shareholders' Equity			
Share capital	7	429,878	429,703
Contributed surplus		23,876	23,047
Accumulated other comprehensive loss		(481)	(473)
Deficit		(294,351)	(300,157)
		158,922	152,120
		\$ 192,709	\$ 196,177

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,	
		2021	2020	2021	2020
Revenue					
Petroleum and natural gas sales including royalty revenue		\$ 7,376	\$ 5,391	\$ 21,517	\$ 15,819
Royalties		(517)	(317)	(1,046)	(1,099)
Petroleum and natural gas sales, net of royalties		6,859	5,074	20,471	14,720
Expenses					
Direct operating		2,586	3,151	8,117	8,750
General and administrative		741	360	1,732	1,705
Depletion, depreciation, accretion	4,5,6	1,424	2,137	4,607	7,580
Impairment	4,5	–	–	–	113,019
Lease expiries and farmouts	4,5	–	289	86	717
Share based compensation	8	103	128	396	390
Interest expense		111	146	367	477
Interest and other income		(110)	(165)	(635)	(362)
Net income (loss) before taxes		2,004	(972)	5,801	(117,556)
Deferred tax recovery		(2)	(2)	(5)	(8)
Net income (loss)		2,006	(970)	5,806	(117,548)
Other comprehensive income (loss), net of tax					
<i>Items that may be reclassified subsequently to net income (loss):</i>					
Foreign currency translation adjustment		134	(162)	(12)	71
Gain (loss) on foreign exchange on investments	3	217	(190)	4	230
		351	(352)	(8)	301
Total comprehensive income (loss)		\$ 2,357	\$ (1,322)	\$ 5,798	\$ (117,247)
Net income (loss) per share					
Basic and diluted	7	\$ –	\$ –	\$ 0.01	\$ (0.27)

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

Condensed Consolidated Interim Statements of Changes in Equity

(unaudited)

(\$ thousands)	Note	2021	2020
<i>Nine months ended September 30,</i>			
Share Capital			
Balance, beginning of period		\$ 429,703	\$ 429,703
Options exercised	7	175	–
Balance, end of period		429,878	429,703
Contributed Surplus			
Balance, beginning of period		23,047	21,700
Share based compensation		829	1,099
Balance, end of period		23,876	22,799
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of period		(473)	(213)
Other comprehensive income (loss)		(8)	301
Balance, end of period		(481)	88
Deficit			
Balance, beginning of period		(300,157)	(182,534)
Net income (loss)		5,806	(117,548)
Balance, end of period		(294,351)	(300,082)
Total Shareholders' Equity		\$ 158,922	\$ 152,508

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,	
		2021	2020	2021	2020
Operating Activities					
Net income (loss)		\$ 2,006	\$ (970)	\$ 5,806	\$ (117,548)
Adjustments for:					
Depletion, depreciation, and accretion	4,5,6	1,424	2,137	4,607	7,580
Impairment	4,5	–	–	–	113,019
Lease expiries and farmouts	4,5	–	289	86	717
Share based compensation	8	103	128	396	390
Deferred tax recovery		(2)	(2)	(5)	(8)
Interest expense		111	146	367	477
Interest and other income		(57)	(89)	(510)	(287)
Abandonment expenditures	6	(7)	(16)	(60)	(51)
Adjusted Funds Flow from Operations		3,578	1,623	10,687	4,289
Interest paid		(111)	(146)	(367)	(477)
Interest received		54	89	152	261
Change in non-cash working capital		681	(1,490)	(185)	(227)
Net cash from operating activities		4,202	76	10,287	3,846
Investing Activities					
Property, plant and equipment expenditures	4	(223)	113	(354)	(1,156)
Exploration and evaluation expenditures	5	(318)	(461)	(1,134)	(2,582)
Change in non-cash working capital		125	342	(1,778)	(4,997)
Net cash used in investing activities		(416)	(6)	(3,266)	(8,735)
Financing Activities					
Proceeds from issue of share capital	7	–	–	175	–
Principal portion of lease payments		(13)	(18)	(39)	(72)
Drawdown under credit facilities		3,397	4,551	13,386	20,495
Repayment of credit facilities		(8,000)	(7,700)	(21,400)	(20,700)
Net cash used in financing activities		(4,616)	(3,167)	(7,878)	(277)
Change in cash, cash equivalents and restricted cash		(830)	(3,097)	(857)	(5,166)
Cash, cash equivalents and restricted cash, beginning of period		17,733	20,468	17,760	22,537
Cash, cash equivalents and restricted cash, end of period		\$ 16,903	\$ 17,371	\$ 16,903	\$ 17,371

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, 2021 and 2020 (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, 2021 and 2020 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, 2021.

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.

The Company’s operating segments are as follows:

- 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”).

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
Assets by operating segment				
Exploration and evaluation	\$ 6,710	\$ 103,282	\$ 5,833	\$ 115,825
Property, plant & equipment	46,874	–	–	46,874
Other	4,899	7,417	17,694	30,010
Total assets, September 30, 2021	\$ 58,483	\$ 110,699	\$ 23,527	\$ 192,709
Exploration and evaluation	\$ 6,381	\$ 101,946	\$ 5,876	\$ 114,203
Property, plant & equipment	52,484	–	–	52,484
Other	3,502	7,356	18,632	29,490
Total assets, December 31, 2020	\$ 62,367	\$ 109,302	\$ 24,508	\$ 196,177
Results by operating segment for nine months ended				
Revenue	\$ 20,471	\$ –	\$ –	\$ 20,471
Expenses	(12,139)	(671)	(1,860)	(14,670)
Segmented income (loss), September 30, 2021	\$ 8,332	\$ (671)	\$ (1,860)	\$ 5,801
Deferred tax recovery				5
Total income, September 30, 2021				\$ 5,806
Revenue	\$ 14,720	\$ –	\$ –	\$ 14,720
Expenses	(129,283)	(783)	(2,210)	(132,276)
Segmented loss, September 30, 2020	\$ (114,563)	\$ (783)	\$ (2,210)	\$ (117,556)
Deferred tax recovery				8
Total loss, September 30, 2020				\$ (117,548)

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 impacts of the global pandemic 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, 2020 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 percent wage subsidy to eligible employers subject to the terms and conditions of the program. 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 nine month period ended September 30, 2021, 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, 2020.

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 holds 132,293 common shares, representing approximately 40% of the common share capital of Red Leaf and 288 Series A Preferred Shares of Red Leaf representing less than 16% of the issued and outstanding preferred shares 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\$1.3 million representing the original issue price plus accrued but unpaid dividends of the issued and outstanding Series A Preferred Shares as of September 30, 2021. 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, 2021.

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

<i>(\$ thousands)</i>	September 30, 2021	December 31, 2020
Investment	\$ 12,879	\$ 12,856
Equity loss on investment	(4,880)	(4,877)
	\$ 7,999	\$ 7,979

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

<i>(\$ thousands)</i>	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 7,979	\$ 8,439
Equity gain on dividend	–	(228)
Gain (loss) on foreign exchange	20	(232)
Balance, end of period	\$ 7,999	\$ 7,979

For the nine months ended September 30, 2021, the gain on foreign exchange relating to investments was minimal (December 31, 2020: \$0.3 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, 2019	\$ 285,740
Additions	2,496
Transfer from exploration and evaluation assets	2,687
Balance, December 31, 2020	290,923
Change to asset retirement	(1,196)
Balance, September 30, 2021	\$ 289,727
Accumulated depletion, depreciation and impairment losses:	
Balance, December 31, 2019	\$ 132,946
Depletion and depreciation	9,236
Impairments	96,257
Balance, December 31, 2020	238,439
Depletion and depreciation	4,414
Balance, September 30, 2021	\$ 242,853

<i>(\$ thousands)</i>	Total Assets
Net book value:	
At December 31, 2020	\$ 52,484
At September 30, 2021	\$ 46,874

During the nine months ended September 30, 2021, the Company did not capitalize any administrative overhead or share based compensation expense directly related to development activities (December 31, 2020: nil). Included in the September 30, 2021 depletion calculation are estimated future development costs of \$267.8 million (December 31, 2020: \$267.8 million).

Based on the assessment of the current environment, effective September 30, 2021, no indicators of impairment nor indicators to reverse previously incurred impairment were noted.

Effective March 31, 2020, the Company reviewed the carrying amounts of its oil and natural gas assets following the decrease in forward commodity prices at that time. 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 in aggregate for the period ended March 31, 2020. The amount attributable to the Montney, Antler and Other Alberta CGUs was respectively \$78.2 million, \$17.9 million and \$0.2 million.

5. Exploration and Evaluation

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

<i>(\$ thousands)</i>	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 114,203	\$ 127,081
Acquisition	–	263
Additions	1,848	4,811
Transfers to property, plant and equipment	–	(2,687)
Undeveloped lease impairments	–	(14,416)
Undeveloped lease expiries and farmouts	(86)	(717)
Foreign currency translation adjustment - Jordan	(140)	(132)
Balance, end of period	\$ 115,825	\$ 114,203

During the period ended September 30, 2021, the Company capitalized administrative overhead charges of \$1.4 million (December 31, 2020: \$1.9 million) including \$0.6 million of share based compensation expense (December 31, 2020: \$0.9 million) directly related to exploration and evaluation activities.

The Company determined that there were no impairment indicators for its exploration and evaluation assets as of September 30, 2021.

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.

In October 2021, the Quebec Premier announced the intention of the Government to end production of fossil fuels. To date, the Government has not provided any further clarification on the details of this renunciation and the compensation. The Company will continue to monitor developments relating to these matters and the impact on its Quebec assets. At the present time, the Company remains committed to working with all stakeholders as well as securing social acceptability and regulatory approvals for its Clean Tech Energy project.

6. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be \$19.1 million as at September 30, 2021 (December 31, 2020: \$20.4 million) based on an undiscounted total future liability of \$21.6 million (December 31, 2020: \$22.1 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 1.15% (December 31, 2020: 0.65%). An inflation rate of 2% (June 30, 2020: 2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

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

<i>(\$ thousands)</i>	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 20,369	\$ 19,571
Liabilities settled	(60)	(59)
Revisions due to change in estimates and discount rates	(1,247)	799
Liabilities incurred	(154)	(43)
Accretion	153	101
Balance, end of period	\$ 19,061	\$ 20,369

For the period ended September 30, 2021, the Company was awarded government grants for site rehabilitation totaling \$0.4 million (2020: nil). \$0.1 million in expenditures was incurred in the period and qualified under these grants. The remaining amount under these grants is \$0.3 million as of September 30, 2021, and is recorded under deposits, government grants and prepaid expenses.

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At September 30, 2021, there were no Class "B" Common voting shares or preferred shares outstanding.

a) Issued and outstanding – Common Shares

	Number <i>(thousands)</i>	Amount <i>(\$ thousands)</i>
Balance, December 31, 2019	427,907	\$ 429,703
Shares returned to treasury	(391)	-
Balance, December 31, 2020	427,516	\$ 429,703
Options exercised	1,000	175
Balance, September 30, 2021	428,516	\$ 429,878

b) *Per share amounts*

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

<i>(thousands, except as noted)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2021	2020	2021	2020
Net income (loss)	\$ 2,006	\$ (970)	\$ 5,806	\$ (117,548)
Issued Common Shares at beginning of period	428,516	427,516	427,516	427,646
Issued on exercised of options	–	–	355	–
Weighted average Common Shares outstanding	428,516	427,516	427,871	427,646
Basic net income (loss) per share	\$ –	\$ –	\$ 0.01	\$ (0.27)

<i>(thousands, except as noted)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2021	2020	2021	2020
Net income (loss)	\$ 2,006	\$ (970)	\$ 5,806	\$ (117,548)
Weighted average Common Shares outstanding (basic)	428,516	427,516	427,871	427,646
Effect of outstanding options (diluted)	–	–	121	–
Weighted average Common Shares outstanding	428,516	427,516	427,992	427,646
Diluted net income (loss) per share	\$ –	\$ –	\$ 0.01	\$ (0.27)

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.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date or one year from the grant date. The grants 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, 2021, the Company issued 8.4 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 (%): 104.5, Risk Free Rate (%): 0.42, Expected Life (years): 5.0.

For the nine months ended September 30, 2021, Questerre cash settled 2.34 million expiring options for a payment of \$0.1 million (2020: nil) representing the difference between the exercise and market price on the date of the settlement.

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

	September 30, 2021		December 31, 2020	
	Number of Options (thousands)	Weighted Average Exercise Price	Number of Options (thousands)	Weighted Average Exercise Price
Outstanding, beginning of period	25,351	\$ 0.38	27,087	\$ 0.40
Granted	8,350	0.18	6,475	0.20
Forfeited/cancelled	(2,344)	0.18	(846)	0.43
Expired	(50)	0.18	(7,365)	0.29
Exercised	(1,000)	0.18	–	–
Outstanding, end of period	30,307	\$ 0.35	25,351	\$ 0.38
Exercisable, end of period	19,141	\$ 0.43	16,191	\$ 0.42

9. 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. The Company continues to prioritize financial liquidity over growth.

At September 30, 2021, \$7.4 million (December 31, 2020: \$15.4 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 11.

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

	September 30, 2021	December 31, 2020
<i>(\$ thousands)</i>		
Credit facilities	\$ 7,415	\$ 15,427
Shareholders' equity	158,922	152,120

10. Financial Risk Management and Determination of Fair Values

a) *Overview*

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

b) *Fair value of financial instruments*

The Company's financial instruments as at September 30, 2021 included restricted and unrestricted cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at September 30, 2021, 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, 2021, 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.

11. Credit Facilities

As at September 30, 2021, the credit facilities were renewed at \$16 million, including a revolving operating demand facility of \$16 million ("Facility A"). Facility A can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. The effective interest rate on the facility for the first nine months of 2021 was 3.45% (2020: 3.45%). As at September 30, 2021, \$7.4 million (December 31, 2020: \$15.4 million) was drawn on the facility and the Company held unrestricted cash and term deposits of \$9.5 million. 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, 2021 was 4.32 and the covenant was met.

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 review is scheduled for the second quarter of 2022.

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 \$7.4 million at September 30, 2021 (December 31, 2020: \$7.4 million).