2019 ANNUAL REPORT

QUESTERRE ENERGY CORPORATION

QUESTERRE

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QUESTERRE

QUESTERRE ENERGY CORPORATION 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. We believe we can successfully transition our energy portfolio. With new clean technologies and innovation to responsibly produce and use energy, we can sustain both human progress and our natural environment.

Questerre is a believer that the future success of the oil and gas industry depends on a balance of economics, environment and society. We are committed to being transparent and are respectful that the public must be part of making the important choices for our energy future. Questerre's common shares are traded on the Toronto Stock Exchange and Oslo Stock Exchange under the symbol **QEC**.

President's Message

Our goal last year was to address the growing importance of ESG for energy companies and particularly our project in Quebec. We partnered with Schlumberger and SNC Lavalin and re-established ourselves as a Clean Tech Energy company. We are very proud of our project and our goal to produce natural gas with zero emissions, zero fresh water usage and zero toxic fluids below ground.

This year we are focused on responding to the impact of low oil prices from the Saudi-Russia dispute and the impact of the coronavirus pandemic. We are reviewing any non-essential capital spending and reducing overheads to preserve our balance sheet strength. We will also continue our work to secure social license for our Clean Tech Energy project.

Highlights

- Focus has turned to addressing the impact of the recent production increases by OPEC and non-OPEC member countries, as well as the coronavirus pandemic
- Closed acquisition to regain ownership and operatorship of our natural gas discovery in Quebec
- Quebec resource assessment includes best estimate of risked economic contingent resources of 1.3 Tcf with a before income tax NPV-10% of $1 billion for approximately 20% of our acreage
- Total proved and probable reserves increased over 20% to 35.3 MMBoe with a before income tax NPV-10% of $237.5 million
- Advancing engineering and negotiating concession agreement for oil shale project in Jordan
- Average daily production of 2,121 boe/d with adjusted funds flow from operations of $14.4 million

With a fourth well completed in the year, the results from Kakwa North continue to exceed our expectations. It contributed to another material increase in our reserves at year-end. While the economics here remain among some of the best in the basin, we expect future drilling will be deferred until prices improve. We could see the carrying value of our assets impaired due to these historically low oil prices if they prove to endure beyond the short term.

We were pleased the Government of Jordan invited us to negotiate the terms of a production license for our oil shale project. This follows the submission of our recently completed exploration program which included the resource assessment as well as the feasibility engineering for this 8 billion barrel deposit. Our ultimate decision to move forward with the project will depend on among other things, the fiscal terms of the concession, final detailed engineering and the long term outlook for oil prices.

As we negotiate the fiscal and other commercial terms of this agreement, we have been looking at options to reduce the up front capital costs and our environmental footprint. We are optimistic about reducing costs based on the recent FEL-2 engineering work completed by Red Leaf on the EcoShale process. We were also pleased to see they redeemed the majority of their preferred shares at a substantial discount and now have over US$30 million in cash essentially unencumbered. This materially improved the value of our shares and we reflected this increase on our balance sheet at year-end.

One of our biggest accomplishments this year was closing the Quebec acquisition. We settled our legal claims against the operator in exchange for operatorship and their assets in Quebec. This was a constructive solution that allows us to stay focused on our multi-Tcf gas discovery in Quebec.

We received final approvals in January 2020 and sent out the required notices to over 50,000 landowners in the Lowlands. This was an excellent opportunity to communicate with stakeholders. We have been very pleased overall with the responses we have received.

On the social license front, our plans are well advanced to engage the community and include their input in our project. We hope to be meeting with key stakeholders over the coming year once the travel restrictions due to the pandemic are lifted. Our approach is to work on social license first and apply for permits second. We believe this approach is simply the new way of doing things. Meaningful consultation means ensuring community acceptance and input before applying for permits.

Our financial results including a net profit of $65.7 million reflect several one-time items related to the Quebec acquisition. These include the non-cash consideration we received on the settlement of the legal claims. This was estimated at approximately $60 million and based on an independent report prepared by a valuation firm. We also realized a gain of $6 million on the forgiveness of debt owing to the vendor.

We believe the combination of the dramatic drop in oil prices and the pandemic will have recessionary impacts similar to the downturn after 9/11. We do not see any systemic risks but believe this may take between 12 to 18 months to normalize.

Our main objective during this time is to preserve financial liquidity. We anticipate the operators at Kakwa will materially scale back their programs and we plan to selectively participate, if at all, as market conditions permit. While the travel restrictions may slow down the pace of our consultations in Quebec, we believe the growing acceptability for natural gas in the province is very positive for our Clean Tech Energy project and the development of our discovery.

Michael Binnion
President and Chief Executive Officer

Environmental, Social and Governance

Questerre believes the oil and gas industry can go from laggards to leaders on the global environment.

From today to 2050, the world's population is estimated to grow from 7.5 billion to almost 9.5 billion people who will expect a better standard of living. We believe providing the increased energy needed tomorrow, with lower environmental impacts than today, is the challenge of our times. We refer to this as the '7 to 9 challenge.' Transitioning our energy diet to lower emissions is essential to meet this challenge and we believe the oil and gas industry has the biggest improvements to make.

Our clean tech energy project to deliver the world's first zero emissions natural gas production is an example of meeting this challenge. It will have a dramatic impact on the emissions from production. It will also contribute to reducing the emissions from consumption by providing a cleaner burning alternative domestically and internationally through LNG exports.

It involves a new way of thinking to become leaders on environmental issues. Our industry runs most of today's energy systems. We have the experience, expertise, capital and technology to meet the planet's energy and environmental challenges. Delivering on projects like our zero emissions natural gas project is just one example of how our industry can be leaders on transitioning our global energy systems.

Questerre has also taken leadership in working with communities for local benefits. We have committed to share 3% of our profits with communities. We have also engaged with local First Nations in Quebec to include them in our contracting and benefits program.

We unilaterally made the decision not to work in communities where the plurality of the community does not want development. Our approach of consulting first and applying for permits second is consistent with this approach.

People know they need energy to maintain progress for their families and communities. They want to know the providers of that energy are being responsible and sustainable in the way it is produced. Questerre is an entrepreneurial leader in making the seemingly impossible task of producing more with less impact, possible. Our zero emissions clean tech energy project is our contribution to meeting this '7 to 9 challenge.'

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of March 20, 2020 and should be read in conjunction with the audited consolidated financial statements of Questerre Energy Corporation ("Questerre" or the "Company") as at and for the years ended December 31, 2019 and 2018. Additional information relating to Questerre, including Questerre's Annual Information Form for the year ended December 31, 2019 dated March 20, 2020 ("AIF"), is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is actively involved in the acquisition, exploration and development of oil and gas projects, and, in specific, non-conventional projects such as tight oil, oil shale, shale oil and shale gas. Questerre is committed to the economic development of its resources in an environmentally conscious and socially responsible manner.

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

Basis of Presentation

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

Forward-Looking Statements

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

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

- The elimination of non-essential capital spending during the next 12 to18 months;
- drilling plans and the development and optimization of producing assets;
- future production of oil, natural gas and natural gas liquids and the weighting thereof;
- future commodity prices in light of recent decisions by OPEC and non-OPEC member countries, including Saudi Arabia and Russia on production levels as well as the coronavirus pandemic;
- legislative and regulatory developments in the Province of Quebec;
- requirement of significant additional capital to develop the Company's Quebec assets;

- the timing of the development of the Company's resources in Quebec;
- the Company's focus on engagement with the Government of Quebec to resolve the regulatory uncertainty and secure social acceptability in Quebec;
- liquidity and capital resources;
- integrating the potential environmental improvements into the economic feasibility assessment in Jordan;
- the Company's negotiations for a concession agreement in Jordan;
- the Company's compliance with the terms of its credit facility;
- timing of the next review of the Company's credit facility by its lender;
- identification of additional optimization opportunities for the EcoShale process;
- ability of the Company to meet its foreseeable obligations;
- expectations regarding the Company's liquidity increasing over time;
- capital expenditures and the funding thereof;
- Questerre's reserves and resources;
- impacts of capital expenditures on the Company's reserves and resources;
- the benefits of the joint venture infrastructure in the Kakwa area;
- average royalty rates;
- commitments and Questerre's participation in future capital programs;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness;
- joint venture partner willingness to participate in capital programs;
- flow-through shares and use of proceeds and renunciation and indemnity obligations associated therewith;
- 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;
- counterparty credit risk;
- access to capital;
- the terms and availability of credit facilities;
- changes or fluctuations in oil, natural gas liquids and natural gas production levels;
- liabilities inherent in oil and natural gas operations;
- adverse judicial rulings, 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 passage of applicable hydrocarbon and environmental legislation and regulations and local acceptability;
- 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 resources and reserves 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 and the documents incorporated by reference herein 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 law. 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 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. 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 6:1, utilizing a conversion on a 6:1 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 under 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 the Company'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. The Company'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)	2019	2018
Net cash from operating activities	$ 11,337	$ 13,091
Interest received	(388)	(544)
Interest paid	748	593
Change in non-cash working capital	2,658	2,073
Adjusted funds flow from operations	$ 14,355	$ 15,213

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

The Company considers netbacks a key measure as it demonstrates its profitability relative to current commodity prices. Operating and cash 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. Cash netbacks have been defined as operating netbacks less general and administrative costs. Netbacks are generally discussed and presented on a per boe basis.

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

Select Annual Information

As at/for the years ended December 31,	2019	2018	2017
Financial ($ thousands, except as noted)			
Petroleum and Natural Gas Revenues	32,847	32,969	21,361
Adjusted Funds Flow from Operations	14,355	15,213	6,780
Basic and Diluted ($/share)	0.03	0.04	0.02
Net Income (Loss)	65,704	13,466	(24,821)
Basic and Diluted ($/share)	0.16	0.03	(0.07)
Capital Expenditures	85,429	31,102	27,746
Working Capital Surplus (Deficit)	(8,110)	(9,078)	9,648
Total Non-Current Financial Liabilities	21,409	13,736	15,952
Total Assets	318,062	233,372	217,215
Shareholders' Equity	268,656	187,291	170,739
Common Shares Outstanding (thousands)	427,907	389,007	385,331
Weighted average - basic (thousands)	415,651	388,712	350,055
Weighted average - diluted (thousands)	417,041	395,715	350,055
Operations (units as noted)			
Average Production			
Crude Oil and Natural Gas Liquids (bbls/d)	1,357	1,263	821
Natural Gas (Mcf/d)	4,586	3,635	3,350
Total (boe/d)	2,121	1,869	1,379
Average Sales Price			
Crude Oil and Natural Gas Liquids ($/bbl)	64.12	66.27	61.28
Natural Gas ($/Mcf)	1.92	1.82	2.42
Total ($/boe)	42.43	48.33	42.44
Netback ($/boe)			
Petroleum and Natural Gas Revenues	42.43	48.33	42.44
Royalties Expense	(2.09)	(2.76)	(2.17)
Percentage	5%	6%	5%
Operating Expense	(16.86)	(17.09)	(19.93)
Operating Netback	23.49	28.48	20.34
General and Administrative Expense	(4.93)	(6.50)	(6.24)
Cash Netback	18.57	21.99	14.11
Wells Drilled			
Gross	5.00	3.00	7.00
Net	1.02	0.71	1.60

Highlights

- Focus has turned to addressing the impact of the recent production increases by OPEC and non-OPEC member countries, as well as the coronavirus pandemic
- Closed acquisition to regain ownership and operatorship of natural gas discovery in Quebec
- Quebec resource assessment includes best estimate of risked economic contingent resources of 1.3 Tcf with a before income tax NPV-10% of $1 billion for approximately 20% of our acreage
- Total proved and probable reserves increased over 20% to 35.3 MMBoe with a before income tax NPV-10% of $237.5 million
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2019 Activities

Western Canada

Kakwa, Alberta

Consistent with the prior year, development on both joint ventures at Kakwa Central and Kakwa North targeted the condensate-rich Montney formation.

In 2019, the Company invested $19.8 million (2018: $27.7 million) in Kakwa with daily production averaging 1,707 boe/d (2018: 1,474 boe/d). Total proved and probable reserves at December 31, 2019 were estimated at 33.4 MMBoe with a before income tax NPV-10% of $199.5 million. The Company currently holds 40,800 (17,880 net) acres in the Kakwa area.

The investment and production are largely attributable to the Kakwa Central acreage where Questerre holds an approximate 25% interest in 10,080 acres. Five (1.02 net) wells were drilled and six (1.23 net) wells were completed and tied-in during the year. These included the 103/01-29-63-05W6M and the 100/08-29-63-05W6M wells completed in the fourth quarter. During the first thirty days, gross production from these wells averaged a combined 2.0 MMcf/d and 690 bbls/d of condensate and liquids. Questerre holds a 21% working interest in these wells. Though the initial rates from these wells is encouraging, they are not necessarily indicative of long-term performance or ultimate recovery.

In early 2020, the operator spud two wells at Kakwa Central targeting the Lower and Upper Montney. Considering current commodity prices and the limited well results from the Lower Montney to date, the Company did not participate in that well to preserve capital and did participate in the second well targeting the Upper Montney.

Field infrastructure, particularly gas-lift compression and pipelines were also expanded during the year. This investment totalled $6.7 million (2018: $12.4 million). Questerre holds a 25% interest in these and all field facilities. Following a material infrastructure expansion over the last two years, including a new central water storage facility and an addition to the central processing facility, the Company anticipates a limited investment of approximately $2 million in additional facilities in 2020.

At Kakwa North, the operator drilled and completed two additional wells to earn a 50% interest in Kakwa North and Kakwa South. This follows the first two farm-in wells drilled in 2018. Questerre holds a 5% gross overriding royalty in these four wells converting to a 50% working interest after payout. The results from these wells contributed to the material increase in proved and probable reserves in 2019.

In light of the material decline in oil prices in the first quarter of 2020, Questerre will evaluate its selective participation, if any, in the drilling programs proposed by the operators of Kakwa Central and Kakwa North effective January 1, 2020.

At Kakwa Central, this program was to include up to six (1.05 net) wells and the program at Kakwa North was to include up to 3 (1.5 net) wells. In the current environment, the Company anticipates that it will require additional financial liquidity through potential asset dispositions, equity or debt if it plans to participate in the entire drilling programs. There can be no certainty that such financing will be available or on terms acceptable to the Company.

Antler, Saskatchewan

Activities at Antler focused on optimizing existing production and expanding the pilot secondary recovery scheme to increase recovery of the oil in place.

The Company invested $0.4 million (2018: $1.0 million) at Antler with daily production averaging 356 bbl/d (2018: 359 bbl/d). Total proved and probable reserves as at December 31, 2019 were estimated at 1.8 MMBbls (2018: 1.9 MMBbls) with a before income tax NPV-10% of $38.3 million (2018: $40.7 million). The Company currently holds 11,952 net acres in the area.

In 2020, the Company expects to continue its work to enhance existing production through workovers and repairs plus the pilot secondary recovery scheme.

St. Lawrence Lowlands, Quebec

The Company's main priorities for 2019 were to conclude an agreement to consolidate and regain operatorship of its Quebec acreage and advance its plans to secure social acceptability for its Clean Tech Energy project.

Pursuant to the agreement with a senior exploration and production company, Questerre acquired the exploration rights to 753,000 net acres in the Lowlands, associated wells and equipment, geological and geophysical data and other miscellaneous assets (the "Quebec Acquisition"). Consideration included a mutual release for all claims related to outstanding litigation as described in the Company's press release dated June 4, 2018. Other consideration included cash, a contingent payment to the vendor on receipt of Government approval to complete a well and security for the assumption of abandonment and reclamation liabilities. Prior to closing adjustments, the total consideration was estimated at $67.1 million in accordance with accounting guidelines. With the payment of consideration and transfer of control, the Quebec Acquisition closed in December 2019 and requisite government approvals received in early 2020.

To advance its Clean Tech Energy project, Questerre signed arrangements with SNC Lavalin and Schlumberger to assist with the engineering and design for this project.

SNC Lavalin, the largest construction company in Canada, will be the lead engineering advisor for the project.

Through its partnership with Schlumberger, the Company has secured access to the Schlumberger Stewardship Tool to model and measure the environmental and social impacts of all stages of natural gas production. By modelling development under the Clean Tech Energy approach and comparing this to a more conventional approach, the tool will calculate the significant reduction in emissions, waste and pollution. Questerre intends to make the tool available to all stakeholders to allow them to model and analyze the environmental impacts of its Clean Tech Energy plan for natural gas development.

The Company also engaged Industrial Alliance Securities Inc., a Quebec-based investment firm to provide advisory services with respect to finding Quebec-based strategic investors for its clean-tech energy project.

Discussions with the Government of Quebec regarding the closing of the Quebec Acquisition were constructive. Based on the government cooperation, the Company granted deferrals of its scheduled judicial review on the validity of the new oil and gas regulations. These include a selective prohibition on hydraulic fracturing and the increase in setbacks for oil and gas activities. The Company remains of the view that the regulations imposed by the previous Government are ultra vires, or beyond its legal authority.

Securing the social acceptability for its project and engaging with the government to resolve the regulatory situation remain the Company's priorities for 2020. Should the Company be unsuccessful in its negotiations with the Government or receive an unfavorable ruling for its judicial review, the value of its Quebec assets could be materially impaired.

Following the closing, the Company updated its resource assessment for the acreage as reported on March 16, 2020 (the "Quebec Resource Assessment"). The Quebec Resource Assessment was prepared by GLJ Petroleum Consultants Ltd. effective December 31, 2019. The Quebec Resource Assessment was prepared in accordance with NI 51-101 and the standards contained in the Canadian Oil and Gas Evaluation ("COGE") Handbook.

The best estimate by the Company's independent reserve engineers of risked Contingent Resources in the development on hold sub category, net to Questerre, is 1.3 Tcf (214 million barrels of oil equivalent ("MMboe")) with a before tax NPV-10% of $1 billion. The best estimate of risked Contingent Resources in the development unclarified category, net to Questerre, is 0.4 Tcf (59 MMboe) with a before tax NPV-10% of $0.2 billion. The best estimate of risked Prospective Resources net to Questerre is 6.0 Tcf (1,006 MMboe).

An estimate of risked net present value of future net revenue of contingent resources is preliminary in nature and is provided to assist the reader in reaching an opinion on the merit and likelihood of the Company proceeding with the required investment. It includes contingent resources that are considered too uncertain with respect to the chance of development to be classified as reserves. There is no certainty that the risked net present value of future net revenue will be realized. Estimated values do not represent fair market value.

The Quebec Resource Assessment assigned Contingent Resources for approximately 20% of Questerre's acreage based on the results from several pilot vertical and horizontal wells on Questerre's acreage that have all encountered pay in the Utica. Furthermore, available test data from these wells in conjunction with offset development and analogy examination of the Utica development in the United States provides sufficient evidence that the evaluated resource is capable of commercial production.

The Company's Contingent Resources require additional data gathering, the preparation of firm development plans, and regulatory application and approval for development. Therefore the Contingent Resources have been sub-classified as either development on hold or development unclarified. Those areas classified as development on hold are primarily contingent on government and public approval for development. Remaining areas classified as development unclarified have additional contingency or risk associated with public approval of respective county populations, thereby lowering priority for development by the Company. Additional contingencies include firm development plans, detailed cost estimates and corporate approvals and sanctioning. **There is no certainty that it will be commercially viable to produce any portion of the resources.** Though pilot horizontal development plans have been proposed, the project evaluation scenario for the Contingent Resources is not sufficiently defined by the Company to make an investment decision to proceed to development.

Contingent Resources are evaluated based on the same fiscal conditions used in the assessment of reserves, and as such, are forecasted to be economic. Contingent Resource values are estimated on the basis of established technology, namely multistage hydraulic fracturing recovery technologies that are widely used in the development of the Utica formation in Ohio and in similar plays such as the Marcellus and Western Canadian shale gas plays.

The Contingent Resources have been risked for the chance of commerciality, or commercial development, defined as the product of the chance of discovery and the chance of development. For Contingent Resources, the chance of discovery is equal to one. The chance of development is the estimated probability that once discovered, a known accumulation will be commercially developed. Prospective Resources were also risked for chance of discovery. **There is no certainty that any portion of these resources will be discovered. If discovered there is no certainty that it will be economically viable to produce any portion of the resources.**

Significant positive factors relevant to the estimate of Questerre's resources include the importation of all natural gas consumed in Quebec creating demand for local production, premium realized pricing due to the transportation costs associated with importing natural gas for consumption, production test data from Questerre's existing wells and the development of the analogous Utica natural gas field in the United States. Significant negative factors include the limited number of wells on Questerre's acreage, lack of a developed service sector providing uncertainty regarding estimates of capital and operating costs, hydrocarbon regulations and environmental legislation and the requirement to obtain social acceptability for oil and gas operations.

While Questerre believes it will be able to access sufficient financial capability to fund its share of the costs associated with the development program in the Quebec Resource Assessment, it may not have access to the necessary capital when required.

For more information, please refer to the AIF and the press release dated March 16, 2020 available on the Company's website at www.questerre.com and on SEDAR at www.sedar.com.

Oil Shale Mining

In 2019, Questerre began integrating the goal of minimizing the environmental impacts into the technical and economic feasibility assessment for its oil shale project in Jordan.

The primary objective of the feasibility work is to optimize the processes and improve the economic returns in the current pricing environment. The Company is evaluating several passive drying processes as well as carbon capture and small-scale modular co-generation facilities to achieve these objectives. It is leveraging the engineering work by Hatch Ltd., a global engineering firm, on the EcoShale process to identify additional optimization opportunities.

During the year, Questerre was advised by the Jordanian Ministry of Energy and Mineral Resources it intends to move forward from a Memorandum of Understanding to a Concession Agreement for the Company's acreage. This follows the submission and acceptance of the Company's reports on the exploration work conducted to date. Negotiations on the fiscal and other commercial terms are ongoing. Questerre continues to hold the exclusive exploration rights to the acreage during these negotiations.

Questerre increased its equity interest in Red Leaf Resources Inc., ("Red Leaf") following a capital restructuring completed by the company in the fourth quarter. Red Leaf concluded an agreement to redeem approximately 96% of its outstanding preferred shares at a discount of over 50% of the face value. The agreement includes the resignation of all the Board nominees for the preferred shareholders and the cancellation of approximately 4% of its issued and outstanding capital.

Post closing of the transaction, Questerre holds common shares representing approximately 33% of the common shares and 16% of the preferred shares outstanding. Red Leaf is a private Utah-based company whose principal assets include approximately US$30 million in cash, their proprietary EcoShale process to produce oil from shale and oil shale leases in the state of Utah.

Corporate

The Company completed a private placement for gross proceeds of $14.5 million in the second quarter of 2019. The placement consisted on the issuance of 38.9 million Common Shares at a price of $0.39 per Common Share.

Following a review conducted in the fourth quarter, the Company's credit facilities with a Canadian chartered bank were increased from $18 million to $20 million. The facilities consist primarily of a revolving operating demand loan. Any borrowings under the facilities, except letters of credit, are subject to interest at the Bank's prime rate and applicable basis point margins based on the ratio of debt to cash flow, measured quarterly. The effective interest rate for 2019 was 4.45%. As at December 31, 2019, approximately $16.4 million was drawn on the facility.

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 of the facilities is in the second quarter of 2020.

Drilling Activities

Five (1.02 net) wells were spud at Kakwa Central during the year. Two additional wells were spud at Kakwa North where the Company holds an overriding royalty interest convertible to a 50% working interest after payout.

Production

	2019			2018		
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Total (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Total (boe/d)
Alberta	950	4,586	1,714	879	3,635	1,485
Saskatchewan	356	–	356	359	–	359
Manitoba	51	–	51	25	–	25
	1,357	4,586	2,121	1,263	3,635	1,869

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

Production increased over the prior year with growth in Kakwa from the capital investment and royalty volumes from farm-in wells.

Representing 80% of corporate volumes, Kakwa production increased to 1,707 boe/d from 1,474 boe/d. New royalty volumes at Kakwa North accounted for 189 boe/d or 8% of production over the year. Additionally, at Kakwa Central 6 (1.23 net) wells were brought on production in 2019 with one third at year-end, compared to 5 (1.18 net) wells in the prior year.

Questerre's oil and liquids production is comprised primarily of light crude oil and condensate and nominal volumes of other natural gas liquids. Natural gas production is shale gas from Kakwa. The liquids weighting decreased marginally over the year to 60% from 68% last year due to higher gas production from Kakwa. Combined production from Saskatchewan and Manitoba increased marginally over the prior year as a result of ongoing optimization and workovers. The Company anticipates its liquids weighting to average approximately 60% reflecting the relative weighting of natural gas liquids to natural gas at Kakwa.

Based on current commodity prices and a focus on preserving balance sheet strength, the Company is considering its participation, if any, in the operators' original drilling programs of up to six (1.05 net) wells at Kakwa Central and three (1.5 net) wells at Kakwa North.

2019 Financial Results

Petroleum and Natural Gas Revenue

	2019			2018		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Alberta	$ 19,363	$ 3,119	$ 22,482	$ 20,201	$ 2,414	$ 22,615
Saskatchewan	9,133	–	9,133	9,706	–	9,706
Manitoba	1,232	–	1,232	648	–	648
	$ 29,728	$ 3,119	$ 32,847	$ 30,555	$ 2,414	$ 32,969

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

Year over year, petroleum and natural gas revenue declined by less than 1% to $32.8 million. The increase in total revenue attributable to higher production volumes was almost completely offset by a revenue decrease due to lower realized oil and liquids prices.

Pricing

	2019	2018
Benchmark prices:		
Natural Gas - AECO, daily spot ($/Mcf)	1.68	1.34
Crude Oil - Canadian Light Sweet Blend ($/bbl)	69.25	69.07
Realized prices:		
Natural Gas ($/Mcf)	1.92	1.82
Crude Oil and Natural Gas Liquids ($/bbl)	64.12	66.27

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

While crude oil prices increased over 2019, the North American benchmark declined over the prior year. West Texas Intermediate (“WTI”) averaged US$57/bbl in 2019 compared to US$65/bbl in the prior year.

Prices generally rose in the first half of the year, supported by commitments from OPEC and Russia to maintain production cuts, declining production from Venezuela and Libya and the US government’s sanction policy towards Iran. In the second half of the year, prices declined in part due to concerns about oversupply with record growth in US production, particularly from the Permian, new major discoveries coming onstream and reduced demand arising from the US-China trade dispute.

In Canada, the mandatory production curtailments in Alberta contributed to a material improvement in the differential between WTI and Canadian condensate and light oil prices in the first half of the year. The condensate differential averaged US$4.20/bbl in 2019 compared to US$13.50/bbl in the fourth quarter of 2018.

In early 2020, crude oil prices experienced the largest decline in almost two decades. This followed the announcement by Saudi Arabia and other OPEC and non-OPEC member countries to increase production above their previously agreed levels after Russia’s decision not to participate in future production cuts. The decline was exacerbated by the reduced global demand due to the coronavirus pandemic.

Realized prices for Questerre’s light oil and natural gas liquids track the Canadian light oil MSW benchmark with condensate often receiving a premium to this price. This is offset by materially lower prices for other natural gas liquids which represent approximately 16% of liquids production.

While US domestic demand and exports of natural gas grew to new highs in 2019, they were surpassed by the continued growth in supply. The benchmark Henry Hub averaged US$2.60/MMBtu in 2019, down from US$3.12/MMBtu in 2018.

US domestic supply grew by almost 8 Bcf/d to over 96 Bcf/d, driven by the Appalachian and Permian basins where new pipelines improved takeaway capacity. This was partly offset by the ongoing growth in LNG from export capacity additions on the Gulf Coast and exports to Mexico, particularly from the Permian Basin. It was also offset by growth for power generation where retirement of coal-fired power plants continues for both economic and environmental reasons.

In Canada, the outlook for natural gas prices improved in the last quarter of the year with changes on the main pipeline system now granting access to storage for all shippers. This materially lowered the differential between the AECO and Henry Hub benchmarks which exceeded the realized AECO price for the last two years.

The higher heat content natural gas from Kakwa resulted in realized natural gas prices of $1.92/Mcf (2018: $1.82/Mcf) compared to the benchmark AECO price of $1.68/Mcf (2018: $1.34/Mcf).

Royalties

($ thousands)	2019	2018
Alberta	$ 780	$ 1,223
Saskatchewan	599	568
Manitoba	236	94
	$ 1,615	$ 1,885
% of Revenue:		
Alberta	3%	5%
Saskatchewan	7%	6%
Manitoba	19%	15%
Total Company	5%	6%

Gross royalties declined from $1.9 million to $1.6 million in 2019 due to a royalty credit of $0.4 million received during the year for processing the Crown's share of production through joint facilities at Kakwa.

As a percentage of revenue, royalties decreased to 5% from 6% last year. Royalties on production in Alberta reflect the royalties payable in Kakwa. These include gross overriding royalties and Crown royalties net of the credits for processing the Crown's share of production and incentive programs.

The Company anticipates its royalty rate on production from Alberta to average approximately 7% reflecting the forecast rate on production from this area.

Operating Costs

($ thousands)	2019	2018
Alberta	$ 8,840	$ 8,325
Saskatchewan	3,930	3,129
Manitoba	277	205
	$ 13,047	$ 11,659
$/boe:		
Alberta	14.13	15.36
Saskatchewan	30.25	23.88
Manitoba	15.02	22.56
Total Company	$ 16.86	$ 17.09

Operating costs increased by over 10% to $13.0 million from $11.7 million due to higher costs in Saskatchewan and Kakwa. On a per unit of production basis, these costs decreased marginally to $16.86/boe from $17.09/boe.

With over 80% of the operating costs at Kakwa, including firm transportation and processing commitments, considered fixed, the higher production volumes in the year translated into lower expense on a boe basis. Excluding the effect of royalty production, operating costs on a boe basis remained the same over the prior year.

At Antler, costs increased due to higher maintenance, repair and workover costs. With production volumes relatively unchanged, on a unit of production basis, these costs increased by 26%, commensurate with the increase in gross costs.

General and Administrative Expenses

($ thousands)	2019	2018
General and administrative expenses, gross	$ 5,132	$ 5,742
Capitalized expenses and overhead recoveries	(1,316)	(1,310)
General and administrative expenses, net	$ 3,816	$ 4,432

Gross General & Administrative expenses ("G&A") decreased by over 10% to $5.1 million from $5.7 million in 2018. Approximately one half of this reduction is due to lower payments under the bonus plan with the remainder attributable to lower overall costs. Capitalized expenses are the administrative costs associated with its projects in Quebec and Jordan and remained unchanged from last year.

Quebec Acquisition

On the closing of the Quebec Acquisition, the Company recognized a gain of $58.5 million. This estimate represents the non-cash consideration received by the Company releasing the vendor of the assets from all outstanding litigation. The value of this consideration was based on an independent assessment of its damages related to this litigation. The Company also realized a gain of $6.0 million on the forgiveness of outstanding amounts payable to the vendor as part of the Quebec Acquisition.

Depletion, Depreciation, Impairment, Accretion and Lease Expiries

For the year ended December 31, 2019, Questerre reported depletion, depreciation and accretion expense of $13.1 million (2018: $12.0 million) with depletion accounting for over 90% of this amount. The higher expense reflects the higher production volumes over the prior year. On a per unit basis, depletion decreased to $16.88/boe from $17.20/boe reflecting the increase in reserve additions relative to property, plant and equipment expenditures and future development costs over the prior year.

At December 31, 2019, the Company reviewed the carrying amounts of its property, plant and equipment and exploration and evaluation assets for indicators of impairment such as changes in future prices, future costs, reserves and discount rates. On the basis of lower future prices, the Company's CGUs were tested for impairment in accordance with the Company's accounting policy by comparing the carrying value to the estimated fair value less costs of disposal ("FVLCD") using a discounted cash flow model. As a result a nominal amount of $0.01 million was recorded for the Other Alberta CGU. In 2018, the Company recorded a reversal of $28.0 million of impairment expense incurred in prior years due to the increase in reserves assigned to the Kakwa area.

Equity Investment

Questerre holds approximately one third of the common share capital of Red Leaf. The Company uses the equity method of accounting for its ownership of Red Leaf. Under this method, the Company records its proportionate share of Red Leaf's net loss and any impairment or reversals of previously recorded impairments are recognized through the income statement.

As a result of the redemption by Red Leaf of most of its preferred shares at less than face value, the Company reassessed the fair value of its investment as at December 31, 2019. The redemption reduced the accrued and unpaid dividends for the preferred shares by over 50%, effectively increasing the net asset value. Consequently, the Company recorded a reversal of previous recorded impairment expense of $8.2 million. By comparison in 2018, the Company recorded an expense of $9.3 million representing its share of the net loss realized by Red Leaf for the year and impairment charges. For more information, please see Note 7 to the Financial Statements.

Share Based Compensation

Pursuant to the Company's stock option plan, an optionee may request that the Company purchase all or any part of the then vested options of the optionee, for an amount equal to the market price of the Common Shares less the exercise price of the option shares. Notwithstanding the foregoing, the Company may, at its sole discretion, decline to accept and, accordingly, has no obligations with respect to the exercise of this put right at any time. Once the options are cash settled, the options are cancelled.

The Company recorded stock based compensation expense of $1.0 million (2018: $0.7 million), net of $0.7 million (2018: $0.9 million) capitalized for the year ended December 31, 2019.

Other Income and Expenses

Questerre reported interest expense of $0.7 million for the year ended December 31, 2019 and $0.6 million for the prior year. The expense primarily relates to the interest on its credit facilities with a Canadian chartered bank. The Company also reported interest income of $0.4 million for the year (2018: $0.5 million). The interest was earned on term deposits held with Canadian chartered institutions.

In the current year, included in Other Comprehensive Income, net of deferred tax, is a loss of $0.2 million due to changes in the foreign exchange for its Jordanian dinar denominated investment in Jordan and its US dollar denominated investment in Red Leaf. In 2018, the Company recorded a gain on foreign exchange of $0.7 million primarily relating to its investment in Red Leaf.

Deferred Taxes

The Company reported a deferred tax expense of $7.0 million for 2019 (2018: $6.1 million).

The expense is due to the net income in the current year and a change in the Alberta provincial tax rate announced in the second quarter of this year. In 2019, the Company assessed the recoverability of this asset using the estimate of before tax cash flows associated with its proved reserves using escalating pricing and future development costs as outlined in its independent reserve report, including an estimate of applicable G&A costs associated with these reserves. Questerre had enough tax pools to offset taxable income in 2019.

Total Comprehensive Income

Questerre's total comprehensive income was $65.5 million for 2019 compared to $14.2 million in 2018. The change is attributable to several one-time items related to Quebec Acquisition including the consideration received on the release and the gain on the forgiveness of debt. Additionally in 2019, the Company reversed previously recorded impairment on its investment in Red Leaf. In 2018, the Company's net income was due to the reversal of impairment expense of $28.0 million offset by the loss related to its investment in Red Leaf.

Net Income Per Share

Questerre's basic net income was $0.16 per share compared to income of $0.03 per share in 2018. As a result of the gains associated with the Quebec Acquisition, Questerre reported net income was $65.7 million in 2019 compared to net income of $13.5 million in 2018 which reflected the reversal of previously recorded impairment expense of $28.0 million largely offset by the expenses associated with its investment in Red Leaf.

Cash Flow from Operating Activities

Net cash from operating activities was $11.3 million compared to $13.1 million in 2018. In the current year, this reflects lower adjusted funds flow from operations and a slightly larger reduction in non-cash working capital.

Cash Flow used in Investing Activities

Excluding the Quebec Acquisition, capital expenditures were lower in 2019 compared to 2018. Capital expenditures in both years were predominantly at Kakwa and decreased to $22.1 million in 2019 from $31.1 million in 2018. This resulted in the cash flow used in investing activities decreasing to $24.4 million from $30.4 million in 2018.

Cash Flow provided by Financing Activities

The increase in cash from financing activities in the current year is mainly due to the net proceeds of $14.0 million from the private placement completed in the second quarter. The Company also increased its net borrowing under the credit facility by $2.5 million. In the prior year, the company realized proceeds of $0.8 million from the exercise of convertible securities with no material drawdown under its credit facility.

Capital Expenditures

($ thousands)	2019	2018
Alberta	$ 19,810	$ 27,753
Saskatchewan & Manitoba	509	1,145
Jordan	211	1,335
Quebec	1,531	869
	22,061	31,102
Acquisitions	63,368	–
Total	$ 85,429	$ 31,102

Note: Capital expenditures exclude certain non-cash items such as, stock based compensation and asset retirement obligations.

For the year ended December 31, 2019, the Company incurred capital expenditures of $85.4 million as follows:

- In Alberta, $19.8 million was invested in wells and infrastructure on the Kakwa Central joint venture acreage;
- In Quebec, the Company invested a total of $65 million including $63.4 million for the Quebec Acquisition and the remainder for well maintenance operations and work to secure social acceptability for its Clean Tech Energy project;
- In Saskatchewan, $0.5 million to maintain and upgrade production facilities; and
- In Jordan, $0.2 million was spent on engineering for its oil shale project.

In 2018, Questerre incurred capital expenditures of $31.1 million as follows:

- In Alberta, $27.8 million was to drill, complete and equip wells and expand infrastructure on the Kakwa Central joint venture acreage;
- In Jordan, $1.3 million in the technical and economic feasibility assessment of its oil shale project;
- In Saskatchewan, $1.1 million to workover wells and expand the secondary recovery pilot; and
- In Quebec, $0.9 million to secure social acceptability for its project.

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.

The significant decline in crude oil price in the first quarter due to the production increases by OPEC and non-OPEC members including, Saudi Arabia and Russia and the fallout from the coronavirus pandemic will have a material impact on the Company's liquidity in 2020. The Company is evaluating its selective participation, if at all, in the drilling programs at Kakwa as proposed by the operators in January 2020, with the aim of preserving its financial liquidity.

At December 31, 2019, $16.4 million (December 31, 2018: $13.8 million) was drawn on the credit facility and the Company is in compliance with all of its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with its credit facilities. Under the terms of the credit 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 December 31, 2019 was 2.02 (2018: 1.48) and the covenant was met. See Note 13 to the Financial Statements.

The size of the credit facilities is determined by, among other things, the Company's current reserve report, results of operations and forecasted commodity prices. The decline in crude prices could have a negative impact on the credit facility review. The next scheduled review is expected to be completed in the second quarter of 2020.

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

In the current market, the Company may be unable to secure additional financing on acceptable terms, if at all.

Questerre had a working capital deficit of $8.1 million, including amounts due under its credit facilities, of $16.4 million at December 31, 2019, as compared to a deficit $9.1 million at December 31, 2018.

On the assumption that the recent decline in commodity prices does not persist for more than 12 to 18 months, Management believes that with its expected positive operating cash flows from operations and current credit facilities, the Company should generate sufficient cash flows and have access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations. The Company intends to eliminate any non-essential capital spending during this period to preserve financial liquidity.

On the basis the current decline in commodity prices is short term, a future improvement in commodity prices should improve cash flow and reduce the working capital deficit. This will likely result in additional adjusted funds flow from operations being available to finance planned capital expenditures. On an ongoing basis, the Company will manage where possible future capital expenditures to maintain liquidity (See "Commitments").

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 2019 will remain in the proved undeveloped category.

For a detailed discussion of the risks and uncertainties associated with the Company's business and operations, see the Risk Management section of the MD&A and the AIF.

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At December 31, 2019, there were no Class "B" common voting shares or preferred shares outstanding.

The following table provides a summary of the outstanding Common Shares and options as at the date of the MD&A and the current and preceding year-ends.

(thousands)	March 20, 2020	December 31, 2019	December 31, 2018
Common Shares	427,907	427,907	389,007
Stock Options	33,187	27,087	21,412
Weighted average Common Shares			
Basic		415,651	388,712
Diluted		417,041	395,715

A summary of the Company's stock option activity during the years ended December 31, 2019 and 2018 follows:

	December 31, 2019			December 31, 2018		
	Number of Options *(thousands)*		Weighted Average Exercise Price	Number of Options *(thousands)*		Weighted Average Exercise Price
Outstanding, beginning of period	21,412	$	0.44	21,387	$	0.50
Granted	6,100		0.29	3,288		0.48
Forfeited	(50)		0.29	(150)		0.52
Expired	(375)		1.07	(3,003)		0.88
Exercised	–		–	(110)		0.42
Outstanding, end of period	27,087	$	0.40	21,412	$	0.44
Exercisable, end of period	16,632	$	0.37	10,403	$	0.34

Commitments

A summary of the Company's net commitments at December 31, 2019 follows:

($ thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Transportation, Marketing and Processing	$ 4,084	$ 4,728	$ 3,990	$ 3,990	$ 3,990	$ 7,982	$ 28,764
	$ 4,084	$ 4,728	$ 3,990	$ 3,990	$ 3,990	$ 7,982	$ 28,764

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 the Organization of the Petroleum Exporting Countries ("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 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 the novel coronavirus (COVID-19) pandemic 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 may also impact global energy consumption.

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 projected capital expenditures. However, if adjusted funds flow from operations is lower than expected, or capital costs for these projects exceed current estimates, or if the Company incurs major unanticipated expense related to development or maintenance of its existing properties, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Company's capital expenditure plans may result in a delay in development or production on the Company's properties. 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 controlled.
- Farm-outs of projects may be arranged if management considers that a project requires too much capital or where the project affects the Company's risk profile.

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

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

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

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing and infrastructure companies and the Company has not experienced any credit loss relating to these sales to date. Pursuant to IFRS 9, the Company made a provision of $0.3 million at December 31, 2019 for its expected credit losses related to its accounts receivable.

Receivables from joint venture partners are typically collected within one to three 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 has historically used 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 December 31, 2019, the Company had no outstanding commodity risk management contract in place.

Environmental Regulation and Risk

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

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 alternatives 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 Corporation's operating expenses, each of which may have a material adverse effect on the Corporation's profitability and financial condition. Further, the imposition of carbon taxes puts the Corporation at a disadvantage with the Corporation's 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 for its credit facilities will impact the Company's interest expense. At December 31, 2019, the Company had credit facilities outstanding of $16.4 million (December 31, 2018: $13.8 million) with an effective rate of 4.45% (2018: 4.14%).

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 and Resources

All of Questerre's petroleum and natural gas reserves and resources are evaluated and reported on by independent petroleum engineering consultants in accordance with 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 actually 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 number of the areas, in particular, the valuation of property, plant and equipment, exploration and evaluation assets and the calculation of depletion.

Cash Generating Units

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

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

The Company assesses its oil and natural gas properties, including exploration and evaluation assets, for possible impairment or reversal of previously recognized impairments if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable or indications that previously recognized losses should be reversed. 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 FVLCD. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes, the discount rate, future operating and development costs and recent land transactions. Changes to these assumptions will affect the recoverable amounts of the CGUs and may require a material adjustment to their related carrying value.

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

Asset Retirement Obligation

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

Share Based Compensation

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

Income Tax Accounting

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

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

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

Investment in Red Leaf

Questerre has investments in certain private companies, including Red Leaf, which it classifies as an equity investment and assesses for indicators of impairment at each period end. For the purposes of impairment testing, the Company measures the fair value of Red Leaf by valuation techniques such as the net asset value approach. The net asset value is based on the net current assets of Red Leaf less the face value and accrued dividends for its preferred shares. The primary risk related to the investment in Red Leaf is the decline in the net current assets of the company without a sufficient advancement in the engineering for the EcoShale process.

Accounting Standards Changes

Changes in Accounting Policies for 2019

Along with adoption of both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* effective January 1, 2018, the Company adopted *IFRS 16 Leases ("IFRS 16")* effective January 1, 2019. See Note 19 to the Financial Statements.

Future Accounting Pronouncements

The following standards and interpretations have not been illustrated as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures. The Company is currently evaluating the impact of adopting these standards on its consolidated financial statements.

IFRS 3 Business Combinations, has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 Business Combinations is effective for the years beginning on or after January 1, 2020. The Company is currently assessing the impact of this amendment.

Design and Evaluation of Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Questerre is required to comply with National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*" ("NI 52-109") and is required to make specific disclosures with respect to NI 52-109 as follows:

- The Company has designed and evaluated the effectiveness of Disclosure Controls and Procedures ("DC&P"). The President and Chief Executive Officer and the Chief Financial Officer have concluded that DC&P are designed appropriately and are operating effectively as at December 31, 2019.
- The Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's ICFR as at December 31, 2019 and have concluded that such ICFR have been designed appropriately and are operating effectively.
- The Company reports that no changes were made to ICFR during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

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.

Fourth Quarter 2019 Results

In the last quarter of 2019, petroleum and natural gas revenue increased by 40% to $9.0 million from $6.5 million in the same period in 2018. A nominal increase in production volumes accounted for 20% of the $2.5 million in incremental revenue with materially higher oil and liquids prices account for the remainder.

The increase in production is due to higher volumes from Saskatchewan and Manitoba. Volumes in Kakwa remained relatively flat as the two new wells in 2019 were completed and tied-in late in the quarter. Realized oil prices increased to $61.21/bbl in the current year from $45.96/bbl in the prior year. While benchmark oil prices in the fourth quarter of this year were lower than 2018, the discount between WTI and Canadian condensate prices was materially smaller in 2019, accounting for the higher realized price.

Quarterly operating costs decreased slightly to $3.3 million from $3.5 million, mainly because of lower costs in Saskatchewan while operating costs in Kakwa remained largely flat year over year. On a boe basis the higher volumes resulted in a reduction in operating costs to $16.75/boe from $18.75/boe.

During the quarter the Company reversed previously recorded impairment and realized a gain of $8.2 million (2018: $4.2 million loss) on its investment in Red Leaf. This follows the capital restructuring completed by the company in the quarter which resulted in an increase in the carrying value of Questerre's investment. The Company also recorded a gain of $58.5 million on the Quebec Acquisition and an additional gain of $6.0 million on the forgiveness of outstanding amounts due to the vendor.

The Company reported total quarterly comprehensive income of $67.2 million due to the one time items related to the Quebec Acquisition and the gain on investment in Red Leaf. By comparison in the fourth quarter of 2018, the quarterly comprehensive income was $15.2 million due to the reversal of previously recorded impairment expense in Kakwa of $28.0 million offset by the loss on investment in Red Leaf of $4.2 million.

In the fourth quarter, net cash from operating activities increased to $4.1 million from $1.8 million last year. This reflects higher adjusted funds flow from operations in the current year as well as an increase in non-cash working capital. Capital expenditures in the quarter decreased to $7.9 million in 2019 from $8.9 million in the same period last year.

Quarterly Financial Information

($ thousands, except as noted)	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Production (boe/d)	2,160	2,343	2,035	1,944
Average Realized Price ($/boe)	45.52	40.33	43.30	40.61
Petroleum and Natural Gas Sales	9,033	8,690	8,019	7,105
Adjusted Funds Flow from Operations	4,108	5,038	2,662	2,547
Net Profit (Loss)	67,414	1,331	(2,099)	(934)
Basic and Diluted ($/share)	0.14	–	(0.01)	–
Capital Expenditures, net of acquisitions and dispositions	4,868	6,756	7,496	2,941
Working Capital Surplus (Deficit)	(8,111)	(2,573)	(776)	(9,543)
Total Assets	318,062	251,454	248,070	231,975
Shareholders' Equity	268,656	200,966	199,108	186,812
Weighted Average Common Shares Outstanding				
Basic (thousands)	427,907	427,907	417,220	389,007
Diluted (thousands)	428,022	428,591	417,220	389,007

($ thousands, except as noted)	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Production (boe/d)	2,033	1,414	2,016	2,013
Average Realized Price ($/boe)	34.35	52.98	54.91	52.66
Petroleum and Natural Gas Sales	6,462	6,892	10,074	9,541
Adjusted Funds Flow from Operations	1,929	2,620	6,012	4,652
Net Profit (Loss)	14,858	(2,023)	572	59
Basic and Diluted ($/share)	(0.01)	(0.01)	–	–
Capital Expenditures, net of acquisitions and dispositions	8,785	6,077	7,452	8,663
Working Capital Surplus (Deficit)	(9,077)	(2,374)	1,239	2,804
Total Assets	233,372	218,630	220,043	218,346
Shareholders' Equity	187,291	171,648	173,464	172,123
Weighted Average Common Shares Outstanding				
Basic (thousands)	388,412	388,412	387,862	387,848
Diluted (thousands)	392,612	388,412	395,552	396,285

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

- Petroleum and natural gas revenues and adjusted funds flow from operations have fluctuated with production volumes and realized commodity prices.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. Following increased investment in Kakwa in 2017, production has grown to 2,160 boe/d in the most recent quarter. The Company plans to continue to invest at Kakwa, subject to commodity prices and results, and expects a commensurate increase in production.
- The level of capital expenditure over the quarter has varied largely due to the timing and number of wells drilled and completed for the Kakwa asset as well as the timing of the infrastructure investment.
- The working capital deficit has generally increased when capital expenditures and other investments have been higher than adjusted funds flow from operations and cash from financing activities.
- Shareholders' equity increased in the quarters ended December 31, 2019, June 30, 2019 and December 31, 2018 as a result of increases in net income or as a result of the equity issuances completed by the Company during those periods.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the year ended December 31, 2019, other than commitments as disclosed.

Related Party Transactions

The Company did not engage in any related party transactions during the year ended December 31, 2019, other than key management compensation as disclosed.

Management's Report

The consolidated financial statements of Questerre Energy Corporation were prepared by management in accordance with International Financial Reporting Standards. The financial and operating information presented in this annual report is consistent with that shown in the consolidated financial statements.

Management has designed and maintains a system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the financial statements reliably report the Company's operations and that the Company's assets are safeguarded. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed by a resolution of the shareholders to audit the consolidated financial statements of the Company and provide an independent opinion. They have conducted an independent examination of the Company's accounting records in order to express their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through its Audit Committee. The Audit Committee, which consists of non-management directors, has met with PricewaterhouseCoopers LLP and management in order to determine that management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Audit Committee has reported its findings to the Board of Directors, who have approved the consolidated financial statements.

Michael Binnion
President and Chief Executive Officer

Jason D'Silva
Chief Financial Officer

Calgary, Alberta, Canada
March 20, 2020

Independent Auditor's Report

To the Shareholders of Questerre Energy Corporation

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Questerre Energy Corporation and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of net income and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Alisa Sorochan.

(signed) PricewaterhouseCoopers LLP
Chartered Professional Accountants

Calgary, Alberta
March 20, 2020

Consolidated Balance Sheets

($ thousands)	Note	December 31, 2019	December 31, 2018
Assets			
Current Assets			
Cash and cash equivalents	5	$ 15,037	$ 19,208
Accounts receivable	6	3,868	1,918
Deposits and prepaid expenses		881	2,141
		19,786	23,267
Investments	7	8,439	287
Right-of-use assets	19	116	–
Property, plant and equipment	8	152,794	142,564
Exploration and evaluation assets	9	127,081	58,092
Restricted cash		7,500	–
Goodwill		2,346	2,346
Deferred tax assets	10	–	6,816
		$ 318,062	$ 233,372
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 11,519	$ 18,503
Lease liabilities	19	101	–
Credit Facilities	13	16,377	13,842
		27,997	32,345
Contingent liabilities		1,820	–
Lease liabilities	19	18	–
Asset retirement obligation	12	19,571	13,736
		49,406	46,081
Shareholders' Equity			
Share capital	14	429,703	415,747
Contributed surplus		21,700	19,772
Accumulated other comprehensive income (loss)		(213)	10
Deficit		(182,534)	(248,238)
		268,656	187,291
		$ 318,062	$ 233,372

Commitments (note 20)

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

Signed on behalf of the Board of Directors

Bjorn Inge Tonnessen, Director

Dennis Sykora, Director

Consolidated Statements of Net Income and Comprehensive Income

($ thousands, except per share amounts)	Note		For the year ended December 31, 2019		2018
Revenue					
Petroleum and natural gas revenues	15	$	32,847	$	32,969
Royalties			(1,615)		(1,885)
Petroleum and natural gas revenue, net of royalties			31,232		31,084
Expenses					
Direct operating			13,047		11,659
General and administrative			3,816		4,432
Depletion, depreciation and accretion	8,12		13,093		12,013
(Gain) loss on equity investment	7		(8,162)		9,334
Reversal of previous impairment	8		–		(28,024)
Gain on mutual release of litigation	9		(58,503)		–
Settlement of lawsuit			(5,970)		–
Gain on disposition of assets	8		(65)		(213)
Lease expiries	9		–		1,565
Share based compensation	11		1,029		712
Interest expense			748		609
Interest & other income			(510)		(585)
Income before taxes			72,709		19,582
Deferred tax expense	10		7,005		6,116
Net income			65,704		13,466
Other Comprehensive Income (Loss), Net of Tax					
Items that may be reclassified subsequently to profit or loss:					
Gain (loss) on foreign exchange	7		(13)		421
Foreign currency translation adjustment			(210)		313
			(223)		734
Total Comprehensive Income		$	65,481	$	14,200
Net income per Share					
Basic and diluted	14	$	0.16	$	0.03

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

Consolidated Statements of Changes in Equity

($ thousands)	For the year ended December 31, 2019	2018
Share Capital		
Balance, beginning of year	$ 415,747	$ 414,995
Private Placements	14,474	–
Warrants exercised	-	713
Options exercised	-	47
Share issue costs (net of tax)	(518)	(8)
Balance, end of year	429,703	415,747
Contributed Surplus		
Balance, beginning of year	19,772	18,171
Share based compensation	1,928	1,601
Balance, end of year	21,700	19,772
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of year	10	(724)
Other comprehensive income (loss)	(223)	734
Balance, end of year	(213)	10
Deficit		
Balance, beginning of year	(248,238)	(261,704)
Net income	65,704	13,466
Balance, end of year	(182,534)	(248,238)
Total Shareholders' Equity	$ 268,656	$ 187,291

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

Consolidated Statements of Cash Flows

($ thousands)	Note	For the years ended December 31, 2019	2018
Operating Activities			
Net income		$ 65,704	$ 13,466
Adjustments for:			
Depletion, depreciation and accretion	8,12	13,093	12,013
Reversal of previous impairment		–	(28,024)
Gain on disposition of assets		(65)	(213)
Gain on mutual release of asset	9	(58,503)	–
Lease expiries	9	–	1,565
(Gain) loss on equity investment	7	(8,162)	9,334
Share based compensation	11	1,029	712
Gain on settlement of lawsuit		(5,970)	–
Deferred tax expense	10	7,005	6,116
Interest expense		748	608
Interest income		(388)	(544)
Other items not involving cash		–	313
Abandonment expenditures	12	(136)	(133)
Adjusted funds flow from operations		14,355	15,213
Interest expense		(748)	(593)
Interest income		388	544
Change in non-cash working capital	18	(2,658)	(2,073)
Net cash from operating activities		11,337	13,091
Investing Activities			
Property, plant and equipment expenditures	8	(7,816)	(13,121)
Exploration and evaluation expenditures	9	(14,245)	(17,981)
Acquisition of exploration assets	9	(3,044)	–
Change in non-cash working capital	18	714	690
Net cash used in investing activities		(24,391)	(30,412)
Financing Activities			
Proceeds from issue of share capital		14,474	760
Share issue costs		(518)	(8)
Principal portion of lease payments		(108)	–
Increase in credit facilities		40,035	47,953
Repayment of credit facilities		(37,500)	(48,012)
Net cash from financing activities		16,383	693
Change in cash, cash equivalents and restricted cash		3,329	(16,628)
Cash, cash equivalents and restricted cash, beginning of year		19,208	35,836
Cash, cash equivalents and restricted cash, end of year		$ 22,537	$ 19,208

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

1. Reporting Entity

Questerre Energy Corporation ("Questerre" or the "Company") is a clean tech energy company actively engaged in the acquisition, exploration and development of oil and gas projects, specifically, non-conventional projects such as tight oil, oil shale, shale oil and shale gas. The consolidated financial statements of the Company as at and for the years ended December 31, 2019 and 2018 comprise the Company and its wholly-owned subsidiaries in those periods owned. The Company wholly owns Questerre Energy Corporation/Jordan, which holds interests in the oil shale assets in Jordan.

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 Sixth Avenue SW, Calgary, Alberta.

a) 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 executive management. The operating segments have been aggregated based on several factors including geographic location and stage of development as well as the assignment of reserves and resources.

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

Reorganization of operating segments

In the fourth quarter of 2019, the Company concluded an acquisition to consolidate its ownership and operatorship of acreage in Quebec. Please see Note 9 for additional information. As a result of this transaction, the Company reassessed its operating segments at year end and determined the following operating segments were present:

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

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

Segmented assets are those assets associated with each operating segment as recorded on the consolidated balance sheets. The carrying value of the Company's exploration and evaluation assets have been recorded on the balance sheet at cost as required under IFRS 6 *Exploration for and evaluation of mineral resources*.

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 and comprehensive income.

($ thousands)	Western Canada	Quebec	Corporate & other	Consolidated
Assets by operating segment				
Exploration and Evaluation	$ 23,100	$ 30,009	$ 4,983	$ 58,092
Property, Plant & Equipment	142,564	–	–	142,564
Other	6,405	–	26,311	32,716
Total Assets, December 31, 2018	$ 172,069	$ 30,009	$ 31,294	$ 233,372
Exploration and Evaluation	$ 20,820	$ 100,989	$ 5,272	$ 127,081
Property, Plant & Equipment	152,794	–	–	152,794
Other	7,095	7,500	23,592	38,187
Total Assets, December 31, 2019	**$ 180,709**	**$ 108,489**	**$ 28,864**	**$ 318,062**

Results by operating segment				
Revenues	$ 31,084	$ –	$ –	$ 31,084
Expenses	(23,459)	–	11,957	(11,502)
Other income	–	–	–	–
Segmented Income, December 31, 2018	$ 7,625	$ –	$ 11,957	$ 19,582
Deferred income tax				(6,116)
Total Income, December 31, 2018				$ 13,466
Revenues	$ 31,232	$ –	$ –	$ 31,232
Expenses	(25,943)	(132)	3,079	(22,996)
Other income	–	64,473	–	64,473
Segmented Income, December 31, 2019				$ 72,709
Deferred income tax				(7,005)
Total Income, December 31, 2019				$ 65,704

2. Basis of Preparation

a) Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at March 20, 2020, the date the Board of Directors approved the statements.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets classified as fair value through profit and loss which are measured at fair value with changes in fair value recorded in profit or loss and changes due to foreign exchange recorded through other comprehensive income or loss as disclosed in Note 3.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company has a wholly-owned subsidiary with a functional currency of the Jordanian Dinar.

d) Jointly controlled assets

The Company conducts many of its oil and gas production activities through jointly controlled operations. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangement. The Company recognizes its share of assets, liabilities, revenues and expenses of a joint operation. Joint ventures arise when the Company has rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method.

e) Use of estimates and judgments

The preparation of 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

All of Questerre's petroleum and natural gas reserves are evaluated and reported on by independent reserve engineers in accordance with the COGE Handbook and Canadian Securities Administrators' National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. 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 will change to reflect updated information. Reserve 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 actually 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 estimates impact a number of areas, in particular, the valuation of property, plant and equipment, exploration and evaluation assets and the calculation of depletion.

Refer to Note 8 & 9 for carrying amounts of property, plant and equipment, exploration and evaluation assets.

Cash generating units ("CGU")

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.

Refer to Note 8 for carrying amounts of property, plant and equipment.

Impairment of property, plant and equipment, exploration and evaluation and goodwill

The Company assesses its oil and gas properties, including exploration and evaluation assets, for possible impairment or reversal of previously recognized impairments if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable or indications that previously recognized losses should be reversed. Determining if there are facts and circumstances present that indicate that carrying values of the assets may not be recoverable requires management's judgment and analysis of the facts and circumstances.

The recoverable amounts of CGUs have been determined based on the higher of value in use ("VIU") and the fair value less costs of disposal ("FVLCD"). The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes, the discount rate, future operating and development costs and recent land transactions. Changes to these assumptions will affect the recoverable amounts of 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 at an operating segment level based on the recoverable amount for each CGU of the Company. Therefore, impairment of goodwill uses the same key judgments and assumptions noted above for impairment of assets.

Asset retirement obligation

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

Refer to Note 12 for the carrying amounts related to the asset retirement obligation.

Share based compensation

The Company has a stock option plan enabling employees, officers and directors to receive Class "A" Common voting shares ("Common Shares") or cash at exercise prices equal to the market price or above on the date the option is granted. Notwithstanding, the Company has the right to only equity settle options. While the Company has equity settled options for the past eight years, it may change this in the future at its discretion. 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.

For further detail on carrying amounts and assumptions refer to Note 11.

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.

Refer to Note 10 for the carrying amounts related to deferred taxes.

Investment in Red Leaf

Questerre holds investments in certain private companies including its investment in Red Leaf. For the purposes of testing for impairment, the Company measures the fair market value of Red Leaf by valuation techniques such as net asset value analysis. Considerable judgment is required in measuring the fair value of the Company's investment in Red Leaf, which may result in material adjustments to its related carrying value.

The Company uses the equity method of accounting to reflect its ownership in Red Leaf. Under the equity method, the Company's initial and subsequent investments are recognized at cost and subsequently adjusted for the Company's share of Red Leaf's income or loss, less distributions received. The Company is deemed to have significant influence in Red Leaf on the basis that it holds more than 20% of the voting power and the ability to participate in the decision making process of Red Leaf through its current Board representation.

Refer to Note 7 for the carrying amounts related to the Company's investment in Red Leaf.

Quebec Acquisition

In 2019 Questerre acquired additional exploration assets in Quebec for total consideration including cash and non-monetary items. Judgement was required by the Company in determining the accounting treatment of the transaction as an asset acquisition or business combination and was made based on information available at the date of acquisition and could have a material impact on the amounts recorded.

Considerable judgement is also required in measuring the fair value of non-monetary exchange transactions and the Company's recognition of the Quebec acquisition, which may result in material adjustments to the acquisition recorded. Refer to Note 9 for the accounting for the Quebec Acquisition.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

The acquisition method of accounting is used to account for business combinations that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Contingent consideration is included in the cost of acquisitions at fair value. Directly attributable transaction costs are expensed in the current period and reported within general and administrative expenses. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in profit or loss.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company classifies its financial instruments in the following categories, at initial recognition, depending on the purpose for which the instruments were acquired.

Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if it is held for trading. Derivatives are also included in this category unless they are designated as hedges. The Company has designated its risk management contracts in this category.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include accounts receivable and deposits. These assets are included in current assets due to their short-term nature. They are recognized initially at the amount expected to be received, less, when material, a discount to reduce to fair value. Subsequently, they are measured at amortized cost using the effective interest method less a provision for impairment.

Cash and cash equivalents include deposits held with banks, less outstanding cheques and short-term deposits with original maturities of one year or less.

Financial liabilities at amortized cost

Financial liabilities at amortized cost comprise credit facilities and accounts payable and accrued liabilities. Financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months.

c) Share capital

Common Shares are classified as equity. Incremental costs directly attributable to the issue of Common Shares are recognized as a deduction from equity, net of any tax effects.

d) Property, plant and equipment and exploration and evaluation assets

Recognition and measurement

Exploration and evaluation expenditures

Costs incurred prior to acquiring the legal rights to explore an area are recognized as exploration and evaluation expense in profit or loss.

Exploration and evaluation costs, including the costs of acquiring licenses, exploratory well expenditures, costs to evaluate the commercial potential of underlying resources and directly attributable general and administrative costs, are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by exploration area pending determination of technical feasibility and commercial viability. Gains and losses on exploration and evaluation assets are recognized on disposal through the income statement.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable based on several factors including the assignment of reserves. A review of each exploration license or field is carried out, at each reporting date, to ascertain whether technical feasibility and commercial viability has been achieved. Upon determination of technical feasibility and commercial viability, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

Every reporting period, the Company evaluates individually significant exploration and evaluation wells for impairment, if there are specific impairment indicators evident at the well level. If technical feasibility and commercial viability of the well is not established, the well costs are written off. For insignificant wells, overall exploration and evaluation well indicators are evaluated. If there are indicators of impairment, the wells are tested for impairment at the CGU level.

Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Cost includes all costs required to acquire developed or producing oil and gas properties and to develop oil and gas properties. Development and production assets are grouped into CGUs for impairment testing.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized net within gain (loss) on divestures in profit or loss.

Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. When the exchange is at fair value, a gain or loss is recognized in profit or loss.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and property, plant and equipment acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. Future profit (loss) can be affected as a result of changes in future depletion and depreciation or impairment.

Other property, plant and equipment

Expenditures related to work-overs or betterments that improve the productive capacity or extend the life of an asset are capitalized. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method based on estimated proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. These estimates are evaluated by independent reserve engineers at least annually.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the respective useful lives.

Depreciation methods and useful lives are reviewed at each reporting date.

e) Goodwill

Goodwill arises on the acquisition of businesses, subsidiaries, associates and joint ventures. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

f) Impairment

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated and compared to the carrying amount. For goodwill an impairment test is completed each year, or when any indication of impairment exists.

For the purpose of impairment testing, assets are grouped together into CGUs. Goodwill, for the purpose of impairment testing, is assessed for impairment on an operating segment basis. The Company has three operating segments. Exploration and evaluation assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their reclassification to producing assets.

The recoverable amount of an asset or a CGU is the greater of its VIU and FVLCD. FVLCD is determined using discounted future cash flows of proved and probable reserves using an after tax discount rate for FVLCD. In determining FVLCD, recent market transactions are taken into account, if available. In the absence of such transactions, the discounted cash flow model is used. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. Impairment reversals are recognized in profit or loss.

Impairment of financial assets

Questerre applies the simplified approach to providing for expected credit losses prescribed by IFRS 9 *Financial Instruments* ("IFRS 9") which permits the use of the lifetime expected loss provision for all trade receivables carried at amortized costs.

At each reporting date, the Company measures the lifetime expected loss provision taking into consideration Questerre's historical credit loss experience as well as forward-looking information in order to establish loss rates. The impairment loss (or reversal) is the amount of expected credit losses that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized. Also refer to Note 4.

Share based compensation

The Company has issued options to directors, officers and employees.

The Company accounts for its stock-based compensation awards on the basis that they will be equity settled. Under the equity settled method, compensation costs attributable to stock options granted to employees, officers or directors are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. The exercise of stock options is recorded as an increase in Common Shares with a corresponding reduction in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Asset retirement obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Asset retirement obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. The best estimate of the provision is recorded on a discounted basis using a risk-free interest rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion of the asset retirement obligation whereas increases or decreases due to changes in the estimated future cash flows and risk-free rates are adjusted through property, plant and equipment or exploration and evaluation assets. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

h) Revenue from commodity sales and royalties

Questerre principally generates revenue from the sale of commodities, which include crude oil, natural gas, condensate and natural gas liquids ("NGLs"). Questerre also generates revenue from royalties on production from leases where it owns a working interest. Revenue associated with the sale of commodities is recognized when control is transferred from Questerre to its customers. Questerre's commodity sale contracts represent a series of distinct transactions. Questerre considers its performance obligations to be satisfied and control to be transferred when all of the following conditions are satisfied:

- Questerre has transferred title and physical possession of the commodity to the buyer;
- Questerre has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- Questerre has the present right to payment.

Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners. Questerre sells its production pursuant to variable priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under these contracts, the Company is required to deliver a variable volume of crude oil, natural gas, condensate or NGLs to the contract counterparty.

Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs. Payment terms for Questerre's commodity sales contracts are on the 25th of the month following delivery. Questerre does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year and therefore Questerre does not adjust its revenue transactions for the time value of money. The Company enters into contracts with customers that can have performance obligations that are unsatisfied, or partially unsatisfied, at the reporting date.

Royalty revenue is recognized as it accrues in accordance with the terms of the governing agreement, which is generally in the month when the product is produced with production volumes primarily marketed with the payor's production. Royalty revenue is measured at fair value of the consideration received when Management can reliably estimate the amount pursuant to the terms of the royalty agreement. An accrual is included in revenue and accounts receivable for amounts not received at the reporting date based on historical trends, new wells on stream and current market prices. Differences between the estimates and actual amounts received are adjusted and recorded in the period when the actual amounts are received.

The Company applies a practical expedient of IFRS 15 Revenue from Contracts with Customers ("IFRS 15") and does not disclose quantitative information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to-date. Also refer to Note 4.

i) Income tax

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax asset will be realized.

The effect of a change in enacted or substantively enacted income tax rates on future income tax assets and liabilities is recognized in profit or loss in the period that the change occurs unless the original entry was recorded to equity.

j) Net profit or loss per share

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated using the weighted average number of shares outstanding, adjusted for the potential number of shares which may have a dilutive impact on net profit. Potentially dilutive shares include stock options. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase Common Shares at the average market price.

Since the options may be settled in cash or shares at the Company's discretion and therefore there is no obligation to settle in cash, the share units are accounted for as equity-settled share based payment transactions and included in diluted profit per share if the effect is dilutive.

k) Leases

The Company applied IFRS 16 effective January 1, 2019. IFRS 16 requires lessees to recognize a lease obligation and right-of-use asset for the majority of leases. For leases entered into prior to January 1, 2019, the Company has chosen to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before the date of initial application.

The Company has applied IFRS 16 using the modified retrospective approach on January 1, 2019. Therefore, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of the changes is disclosed in Note 19.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company.

Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. The right-of-use assets recognized are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liabilities.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

The lease liabilities are subsequently measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liabilities are re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to $0. The Company presents right-of-use assets and lease liabilities separately in the balance sheet.

The application of IFRS 16 requires significant judgments and estimations to be made. Areas that require judgment include identifying whether a contract (or part of a contract) includes a lease, determining whether it is reasonably certain that an extension or termination option will be exercised, determining whether variable payments are in substance fixed, establishing whether there are multiple leases in an arrangement and determining the stand-alone amounts for lease and non-lease components. Other sources of estimation uncertainty in the application of IFRS 16 include estimating the lease term, determining the appropriate discount rate to apply to lease payments and assessing whether a right-of-use assets are impaired.

4. Changes in Accounting Policies and Disclosures

a) IFRS 16 Leases

The Company applied IFRS 16 effective January 1, 2019. IFRS 16 requires lessees to recognize a lease obligation and right-of-use asset for the majority of leases. For leases entered into prior to January 1, 2019 the Company has chosen to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before the date of initial application.

The Company has applied IFRS 16 using the modified retrospective approach on January 1, 2019. Therefore, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of the changes is disclosed in Note 19.

On initial adoption, the Company elected to apply the following practical expedients permitted under the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company.

Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. The right-of-use assets recognized are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liabilities.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

The lease liabilities are subsequently measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liabilities are re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to $0. The Company presents right-of-use assets and lease liabilities separately in the balance sheet.

The application of IFRS 16 requires significant judgments and estimations to be made. Areas that require judgment include identifying whether a contract (or part of a contract) includes a lease, determining whether it is reasonably certain that an extension or termination option will be exercised, determining whether variable payments are in substance fixed, establishing whether there are multiple leases in an arrangement and determining the stand-alone amounts for lease and non-lease components. Other sources of estimation uncertainty in the application of IFRS 16 include estimating the lease term, determining the appropriate discount rate to apply to lease payments and assessing whether a right-of-use assets are impaired.

b) IFRS 9 Financial Instruments

Questerre retrospectively applied the requirements of IFRS 9 on January 1, 2018 and the adoption did not result in a change in the carrying value of any of the Company's financial instruments on transition date.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39 Financial Instruments: recognition and measurement ("IAS 39"). The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, and IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not result in a material change on the financial statements of the Company, however, there are additional required disclosures which have been included in Note 6.

IFRS 9 also contains a new hedge accounting model, however, the Company did not apply hedge accounting to any of its commodity price risk management contracts. In addition, IFRS 9 includes amended guidance for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. Questerre does not have any investments in debt instruments for which this guidance is applicable. For the comparative year presented, prior to the adoption of IFRS 9, the previous accounting policy differs as follows:

Cash, Accounts Receivable, Loans and Other Receivables

A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or significant delinquency in payments are considered indicators that a receivable is impaired.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

Financial assets carried at amortized cost

The amount of the impairment is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income.

Financial assets carried at fair value through profit or loss

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of comprehensive income.

c) IFRS 15 Revenue From Contracts With Customers

The Company has applied the practical expedient to recognize revenue in the amount to which the

Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue. Refer to Note 6 for more information including additional disclosures as required under IFRS 15.

Revenue from the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. The Company recognizes revenue when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon.

For the comparative year presented, prior to the adoption of IFRS 15, the previous accounting policy differs as follows:

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when the risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party. Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

d) Future Accounting Pronouncements

IFRS 3 Business Combinations

Business Combinations ("IFRS 3") 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 is effective for the years beginning on or after January 1, 2020. The Company has determined that the amendments to IFRS 3 will have no impact on the Financial Statements.

5. Cash and Cash Equivalents

($ thousands)		December 31, 2019		December 31, 2018
Bank balances	$	30	$	14
Short-term bank deposits		15,007		19,194
	$	15,037	$	19,208

6. 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 December 31, 2019 included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at December 31, 2019, the fair values of the Company's financial assets and liabilities equaled their carrying values due to the short-term maturity.

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.

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.

Level 3 Fair Value Measurements

The fair value of PP&E recognized is based on market values. The market value of PP&E is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) are generally estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on internally and externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of E&E assets is estimated with reference to the market values of current arm's length transactions in comparable locations. Refer to Notes 8 and 9.

c) 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 carrying amounts of accounts receivable and cash and cash equivalents represent the maximum credit exposure.

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

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing companies and the Company has not experienced any credit loss relating to these sales.

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

The Company's accounts receivables are aged as follows:

($ thousands)		December 31, 2019		December 31, 2018
Current	$	3,835	$	1,756
31 - 60 days		2		129
61 - 90 days		2		3
>90 days		181		182
Allowance for doubtful accounts		(152)		(152)
	$	3,868	$	1,918

The Company does not anticipate any material default as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers. There are no material financial assets that the Company considers past due that are considered impaired.

Cash and cash equivalents include cash bank balances and short-term deposits. The Company manages the credit risk exposure by investing in Canadian banks and credit unions. Management does not expect any counterparty to fail to meet its obligations.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and are updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital.

Since the Company operates in the upstream oil and natural gas industry, it requires sufficient cash to fund capital programs necessary to maintain or increase production, develop reserves and to potentially acquire strategic assets. The Company's capital programs are funded principally by cash obtained through its credit facilities, equity issuances and from operating activities. During times of low oil and natural gas prices or when cash resources may be limited, a portion of capital programs can generally be deferred, however, due to the long cycle times and the importance to future cash flow in maintaining the Company's production, it may be necessary to utilize alternative sources of capital to continue the Company's strategic investment plan during periods of low commodity prices. As a result, the Company frequently evaluates the options available with respect to sources of long and short-term capital resources. Occasionally, to the extent possible, the Company will use derivative instruments to manage cash flow in the event of commodity price declines.

The Company's financial obligations relates to amounts due under the credit facilities, including trade and other payables, which consist of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. The Company processes invoices within a normal payment period and all amounts are due within the next 12 months.

e) 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 the 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 not only by the relationship between the Canadian and United States dollar, but also 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 flow on 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 December 31, 2019, the Company had no outstanding commodity risk management contracts.

Currency risk

All of Questerre's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. The Company also incurs expenditures in its Jordanian subsidiary that are denominated in Jordanian Dinar and United States dollars. As at December 31, 2019, the Company had no forward foreign exchange contracts in place.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. At December 31, 2019, the Company had credit facilities outstanding of $16.4 million (December 31, 2018: $13.8 million).

f) Capital management

The Company believes with its expected positive adjusted funds flow from operations and existing credit facilities in the near future it will be able to meet its foreseeable obligations in the normal course of operations. On an ongoing basis, the Company reviews its capital expenditures to ensure that funds flow from operations or access to credit facilities are available to fund these capital expenditures. To execute its current business plan including incurring capital expenditures related to the full participation in the current and future drilling programs it anticipates it will be require access to additional financial liquidity.

The volatility of commodity prices has a material impact on Questerre's adjusted funds flow from operations. Questerre attempts to mitigate the effect of lower prices by entering into risk management contracts, shutting in production in unusually low pricing environments, reallocating capital to more profitable areas and reducing capital spending based on results and other market considerations.

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 risk and its cost of capital through the issuance of shares, securing additional credit facilities and adjusting its capital spending as required. Questerre monitors its capital structure based on the current and projected funds flow from operations.

($ thousands)	December 31, 2019	December 31, 2018
Credit facilities	$ 16,377	$ 13,842
Shareholders' equity	268,656	187,291

7. 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.

As at December 31, 2019, Questerre holds 132,293 common shares, representing approximately 33% 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 measures the fair market value of its investment using a net asset value approach. The net asset value is calculated as the current assets of Red Leaf less the accrued and unpaid dividends associated with the preferred shares.

In 2019, Red Leaf completed a capital restructuring including the redemption of approximately 96% of its outstanding preferred share capital at a discount of over 50% to the face value of the preferred shares which include accrued and unpaid dividends as well as the cancellation of approximately 4% of its issued and outstanding share capital. As a result, the accrued and unpaid dividends on the preferred shares totaled US$2.8 million at December 31, 2019 compared to US$90 million at December 31, 2018.

The material reduction in the accrued and unpaid dividends was an indicator that a portion of the previously recorded impairment expense might need to be reversed. The Company determined that the reversal would be made up to their recoverable amount based on the net asset valuation. As a result, the Company recorded a reversal of previously recorded impairment of $8.2 million to reflect this increase in the net asset value for the lower accrued and unpaid preferred share dividends.

($ thousands)	December 31, 2019	December 31, 2018
Balance, beginning of year	$ 287	$ 9,109
Reversal of impairment	8,162	–
Equity loss on investment	–	(7,631)
Gain (loss) on foreign exchange	(10)	512
Impairment expense	–	(1,703)
Balance, end of the year	$ 8,439	$ 287

The assets, liabilities and net loss of Red Leaf as of December 31, 2019 were comprised as follows:

($ thousands)[(1)]	
Cash and Cash Equivalents	$ 47,564
Other Current Assets	532
Current Liabilities	3,344
Non-current liabilities	1,867
Net Loss[(2)]	(37,492)

[(1)] Converted at an exchange rate of US$1=C$1.2988
[(2)] Converted at an average exchange rate of US$1=C$1.3269

The issued and outstanding share capital of Red Leaf as of December 31, 2019 is comprised of the following:

	Issued and Outstanding	Questerre Ownership
Common Shares	415,524	132,293
Preferred Shares	1,795	288

The Series A Preferred Shares carry voting rights and dividends accrue on a cumulative basis, whether or not declared, at a rate of 8% per annum compounding annually. On the occurrence of a defined liquidation event, including certain reorganizations, takeovers, the sale of all or substantially all the assets of the company, and shareholder distributions, the Series A Preferred shareholders are entitled to an amount representing the original issue price plus any accrued dividends. As of December 31, 2019, this priority amount is approximately US$2.8 million.

8. Property, Plant and Equipment

A reconciliation of the property, plant and equipment assets is detailed below.

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Cost or deemed cost:			
Balance, December 31, 2017	$ 246,806	$ 1,334	$ 248,140
Additions	13,337	–	13,337
Transfer from exploration and evaluation assets	14,071		14,071
Balance, December 31, 2018	274,214	1,334	275,548
Additions	8,041	–	8,041
Disposition of assets	(8,082)	–	(8,082)
Derecognition of fully depreciated assets	(4,721)	–	(4,721)
Transfer from exploration and evaluation assets	14,954	–	14,954
Balance, December 31, 2019	$ 284,406	$ 1,334	$ 285,740
Accumulated depletion, depreciation and impairment losses:			
Balance, December 31, 2017	$ 147,952	$ 1,295	$ 149,247
Depletion and depreciation	11,751	10	11,761
Impairment	(28,024)	–	(28,024)
Balance, December 31, 2018	131,679	1,305	132,984
Depletion and depreciation	13,067	10	13,077
Disposition of assets	(8,082)	–	(8,082)
Derecognition of fully depreciated assets	(4,721)	–	(4,721)
Other impairment	(312)	–	(312)
Balance, December 31, 2019	$ 131,631	$ 1,315	$ 132,946

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Net book value:			
At December 31, 2018	$ 142,535	$ 29	$ 142,564
At December 31, 2019	$ 152,775	$ 19	$ 152,794

During the years ended December 31, 2019 and 2018, the Company did not capitalize any administrative overhead or share based compensation expense directly related to development activities. Included in the December 31, 2019 depletion calculation are future development costs of $341.5 million (December 31, 2018: $318.9 million).

In 2019, the Company derecognized the cost and accumulated depletion of fully depreciated assets of $4.7 million resulting in no impact on the carrying value.

In 2019, the Company reviewed the carrying amounts of its oil and natural gas assets for indicators of impairment caused by the fluctuating commodity prices or a reversal of previously recorded impairment due to changes in future commodity prices, future costs and reserves. Based on this review, the Company tested its CGUs for impairment in accordance with its accounting policy. The recoverable amount of the CGUs was estimated based on the FVLCD using a discounted cash flow model. As a result a reduction in forecast commodity prices, the Company recorded a nominal impairment expense of $0.01 million for its Other Alberta CGU.

The estimates of FVLCD were determined using a range of discount rates from 10% to 12% and forecasted after tax cash flows based on proved plus probable reserves, with escalating prices and future development costs obtained from an independent reserve assessment.

The future prices used to determine cash flows from crude oil and natural gas reserves are as follows:

	2020	2021	2022	2023	2024	Average Annual % Change Thereafter
WTI (US$/barrel)	61.00	63.75	66.18	67.91	69.48	2.00
AECO ($/MMbtu)	2.04	2.32	2.62	2.71	2.81	2.00

Changes to the assumed discount rates or forward price estimates independently would have the following impact on impairment at the Western Canada operating segment level:

($ thousands)	One Percent Decrease in the Discount Rate	One Percent Increase in the Discount Rate	Five Percent Increase in the Forward Price Estimates	Five Percent Decrease in the Forward Price Estimates
Impairment charge (recovery) of property, plant and equipment	$ (7)	$ 6,091	$ (8)	$ 19,811

9. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability. Additions represent the Company's share of costs incurred on exploration and evaluation assets during the period.

A reconciliation of the movements in exploration and evaluation assets is detailed below.

($ thousands)		December 31, 2019		December 31, 2018
Balance, beginning of year	$	58,092	$	53,675
Acquisition		67,278		–
Additions		16,880		19,740
Transfers to property, plant and equipment		(14,954)		(14,071)
Undeveloped lease expiries		–		(1,565)
Foreign currency translation adjustment - Jordan		(215)		313
Balance, end of period	$	127,081	$	58,092

During the year ended December 31, 2019, the Company capitalized administrative overhead charges of $1.8 million including $0.7 million for capitalized stock based compensation expense directly related to exploration and evaluation activities. During the year ended December 31, 2018, the Company capitalized administrative overhead charges of $2.2 million and $0.9 million was recognized for capitalized stock based compensation expense directly related to these activities.

In 2019, Questerre acquired the exploration rights to 753,000 net acres in Quebec, associated wells and equipment, geological and geophysical data and other miscellaneous assets (the "Quebec Acquisition") . Consideration included a mutual release from all outstanding litigation, cash and contingent payments and the security required for the assumption of abandonment and reclamation liabilities ("A&R Liabilities"). Total consideration was $67.3 million as detailed below.

The Company assessed if the transaction qualified as a business combination as defined in IFRS 3, *Business Combinations*. Based on the assets acquired and the current stage of development for the acreage, the Company determined that the acquisition should be accounted for as an asset acquisition. Exploration and evaluation assets have been recorded at the value of the consideration given as part of the transaction, consistent with IFRS 6, *Exploration for and evaluation of mineral resources*.

The following provides a summary of the consideration paid:

($ thousands)		
Cash payment	$	1,400
Contingent payment		1,820
Acquisition of A&R liabilities		5,555
Mutual release of litigation		58,503
Total consideration	$	67,278

The consideration relating to the mutual release was based on an independent assessment of the Company's damages related to its outstanding litigation with the vendor as determined by a third party valuation firm.

In September 2018, the Ministry of Energy and Natural Resources in Quebec (the "Ministry") introduced regulations effectively prohibiting any exploitation of natural gas in the province including the banning of hydraulic fracturing of shale. The Company filed a legal motion requesting a temporary stay and judicial review to have the specific regulations relating to the ban on hydraulic fracturing to be set aside. The Company was granted a hearing date in early 2019. At the request of the Ministry of Justice, Questerre agreed to temporarily defer the judicial review. The Company is engaged in discussions with the Government of Quebec to allow the parties to resolve the issues raised in its legal motion in a constructive manner. Should the Company be unsuccessful in resolving the situation to its satisfaction and the Company's legal motion subsequently denied, the carrying value of its exploration and evaluation assets in Quebec of $101 million as of December 31, 2019, could be materially impaired.

10. Deferred Income Taxes

The tax on the Company's net loss before taxes differs from the amount that would arise using the weighted average tax rate applicable to profits or losses of the consolidated entities as follows:

($ thousands)		December 31, 2019		December 31, 2018
Net income (loss) before taxes	$	72,709	$	19,582
Combined federal and provincial tax rate		26.58%		27.00%
Computed "expected" deferred tax expense (recovery)		19,326		5,287
Increase (decrease) in deferred taxes resulting from:				
Non-deductible differences and permanent items		645		193
Non-taxable portion of capital items		(1,210)		–
Change in deferred tax asset not recognized		(15,020)		157
Rate adjustments and other		3,264		480
Deferred tax expense	$	7,005	$	6,116

In the fourth quarter of 2019, the Company evaluated the recoverability of its deferred tax assets using forecasted before-tax cash flows based on proved reserves, with escalating prices and future development costs obtained from an independent reserve evaluation report and a deduction for estimated general and administrative costs associated with these proved reserves. The combined statutory tax rate was 26.6% in 2019 and 27% in 2018.

The movement of the deferred tax asset is as follows:

($ thousands)		December 31, 2019		December 31, 2018
Balance, beginning of year	$	6,816	$	13,019
Tax recorded to statement of net profit or loss		(7,005)		(6,116)
Tax on share issue costs		199		3
Tax charge relating to components of other comprehensive income or loss		(10)		(90)
Balance, end of year	$	–	$	6,816

The movement in deferred tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

($ thousands)	Petroleum and natural gas properties	Asset retirement obligation	Share issue costs	Non-capital losses
Deferred tax asset:				
Balance, December 31, 2017	$ 3,853	$ 3,365	$ 731	$ 6,679
Credited (charged) to net profit or loss	(3,853)	343	(192)	5,546
Balance, December 31, 2018	–	3,708	539	12,225
Credited (charged) to net profit or loss	32	896	(33)	(2,771)
Balance, December 31, 2019	**$ 32**	**$ 4,604**	**$ 506**	**$ 9,454**

($ thousands)	Petroleum and natural gas properties	Investments and Other
Deferred tax liability:		
Balance, December 31, 2017 & 2018	$ 8,046	$ 1,609
Charged (credited) to net profit or loss	5,114	(173)
Balance, December 31, 2019	**$ 13,160**	**$ 1,436**

The amount and timing of reversals of temporary differences will be dependent upon, among other things, the Company's future operating results, and acquisitions and dispositions of assets and liabilities.

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. It is expected that future cash flows, generated from its existing proved reserves, will be sufficient to provide future taxable profits to utilize the deferred tax assets.

Non-capital loss carry-forwards at December 31, 2019 expire from 2026 to 2039.

The movement in deferred tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	December 31, 2019	December 31, 2018
Petroleum and natural gas properties	**$ –**	$ 219
Investments	**43,119**	50,370
Non-capital losses	**60,849**	101,481
Capital losses	**36,488**	36,481
	$ 140,456	$ 188,551

The Company does not expect to recover or settle its deferred tax assets and liabilities within the next twelve month period.

11. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to purchase Common Shares 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 generally expire five years from the grant date or five years from the commencement of vesting.

Under the Company's option plan, a put right is included that allows the optionee to settle options with cash or equity. Under the put right, the optionee will receive the net cash proceeds that is the excess of the closing price of the Common Shares at the day of the put notice over the exercise price of the option. Once the options are cash settled, the options are cancelled. The Company has the option to decline a put right exercise at any time. The Company does not intend to cash settle options in future periods.

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

	Options Outstanding				Options Exercisable			
	Number of Options *(thousands)*	Weighted Average Years to Expiry		Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Years to Expiry		Weighted Average Exercise Price
$0.175 - $0.30	15,374	2.08	$	0.26	10,245	1.22	$	0.25
$0.31 - $0.70	11,663	2.38		0.58	6,370	2.06		0.55
$0.71 - $1.00	50	2.89		0.71	17	2.89		0.71
	27,087	**2.21**	**$**	**0.40**	**16,632**	**1.54**	**$**	**0.37**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2019:

	December 31, 2019			December 31, 2018		
	Number of Options *(thousands)*		Weighted Average Exercise Price	Number of Options *(thousands)*		Weighted Average Exercise Price
Outstanding, beginning of period	**21,412**	**$**	**0.44**	21,387	$	0.50
Granted	**6,100**		**0.29**	3,288		0.48
Forfeited	**(50)**		**0.29**	(150)		0.52
Expired	**(375)**		**1.07**	(3,003)		0.88
Exercised	**–**		**–**	(110)		0.42
Outstanding, end of period	**27,087**	**$**	**0.40**	21,412	$	0.44
Exercisable, end of period	**16,632**	**$**	**0.37**	10,403	$	0.34

The fair value of the liability was calculated using the Black-Scholes valuation model. The following weighted average assumptions were used in the model for options granted in 2019 and 2018:

	December 31, 2019	December 31, 2018
Weighted average fair value per award ($)	0.20	0.32
Volatility (%)	85.98	82.52
Forfeiture rate (%)	12.60	13.14
Expected life (years)	5.00	5.00
Risk free interest rate (%)	1.85	2.21

This forfeiture rate estimate is adjusted to the actual forfeiture rate. Expected volatility and expected life is based on historical information.

12. 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 $19.6 million as at December 31, 2019 (December 31, 2018: $13.7 million) based on an undiscounted total future liability of $23.2 million (December 31, 2018: $18.5 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 1.74% (December 31, 2018: 1.99%). An inflation rate of 2.2% (December 31, 2018: 2.2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

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

($ thousands)	December 31, 2019	December 31, 2018
Balance, beginning of year	$ 13,736	$ 12,465
Liabilities incurred	–	174
Liabilities settled	(136)	(133)
Revisions due to change in discount rates & estimates	179	978
Liabilities acquired	5,555	–
Accretion	237	252
Balance, end of year	$ 19,571	$ 13,736

13. Credit Facility

As at December 31, 2019, the credit facilities increased to $19.9 million from $17.9 million in the prior year. The credit facilities can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. Any borrowing under the facilities, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The 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 December 31, 2019 was 2.02 (2018: 1.48) and the covenant was met. At December 31, 2019, $16.4 million (December 31, 2018: $13.8 million) was drawn on Credit Facility A with an effective average interest rate of 4.45% for 2019 (2018: 4.14%). As at December 31, 2019, the Company has outstanding letters of credit for $7.5 million with the Quebec government for abandonment costs. The letters of credit are secured by term deposits.

The following table reconciles the movement in the credit facilities during the year.

	December 31,	December 31,
($ thousands)	**2019**	2018
Credit Facilities beginning of year	$ **13,842**	$ 13,901
Drawdown from Credit Facilities	**40,035**	47,953
Repayment of Credit Facilities	**(37,500)**	(48,012)
Credit Facilities end of year	**$ 16,377**	$ 13,842

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, 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.

14. 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 December 31, 2019, there were no Class "B" common voting shares or preferred shares outstanding.

a) Issued and outstanding – Common Shares

	Number (thousands)	Amount ($ thousands)
Balance, December 31, 2017	385,331	$ 414,995
Options exercised	110	47
Warrants exercised	3,566	713
Share issue costs (net of tax effect)	–	(8)
Balance, December 31, 2018	389,007	415,747
Private Placement	38,900	14,474
Share issue costs (net of tax effect)	–	(518)
Balance, December 31, 2019	**427,907**	**$ 429,703**

In 2019, the Company completed a private placement of 38.9 million Common Shares at a price of $0.39 per Common Share for gross proceeds of $14.5 million.

b) Per share amounts

Basic net income per share is calculated as follows:

(thousands, except as noted)	December 31, 2019	December 31, 2018
Net income	$ 65,704	$ 13,466
Issued Common Shares at beginning of year	389,007	388,712
Private Placements	26,644	–
Weighted average number of Common Shares outstanding (basic)	415,651	388,712
Basic net income per share	$ 0.16	$ 0.03

Diluted net income (loss) per share is calculated as follows:

(thousands, except as noted)	December 31, 2019	December 31, 2018
Net income	$ 65,704	$ 13,466
Weighted average number of Common Shares outstanding (basic)	415,651	388,712
Effect of outstanding options	1,390	7,003
Weighted average number of Common Shares outstanding (diluted)	417,041	395,715
Diluted net income per share	$ 0.16	$ 0.03

Under the current stock option plan, options can be exchanged for Common Shares of the Company, or for cash at the Company's discretion. They are considered potentially dilutive and are included in the calculation of diluted net loss per share for the period. The average market value of the Common Shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. At December 31, 2019, 21.7 million options (December 31, 2018: 10.3 million) were excluded from the diluted weighted average number of Common Shares outstanding calculation as their effect would have been anti-dilutive.

15. Petroleum and Natural Gas Revenue

($ thousands)	December 31, 2019	December 31, 2018
Oil and liquids	$ 28,259	$ 30,555
Natural gas	2,748	2,414
Royalty revenue	1,840	–
	$ 32,847	$ 32,969

16. Employee Salaries and Benefits

($ thousands)		December 31, 2019		December 31, 2018
Salaries, bonuses and other short-term benefits	$	2,160	$	2,315
Share based compensation		1,928		1,601
	$	4,088	$	3,916

17. Key Management Compensation

Key management includes directors and officers. The compensation paid or payable to key management is as follows:

($ thousands)		December 31, 2019		December 31, 2018
Salaries, bonuses, director fees and other short-term benefits	$	1,639	$	1,905
Share based compensation		1,687		1,466
	$	3,326	$	3,371

The Company has entered into written executive employment agreements with each of the officers of the Company. Each of these written agreements provides that in the event of a change of control of the Company, each of the officers is entitled to: (i) 18 months of then applicable base salary; and (ii) the vesting of all options to purchase Common Shares. In the event of a change in control, the severance payable to key management would have been $2.1 million at December 31, 2019. This amount does not include accelerated stock based compensation expense.

18. Supplemental Cash Flow Information

Changes in non-cash working capital are detailed below:

($ thousands)		December 31, 2019		December 31, 2018
Accounts receivable	$	(1,949)	$	1,862
Deposits and prepaid expenses		1,258		(1,586)
Accounts payable and accrued liabilities		(1,253)		(1,659)
Change in non-cash working capital	$	(1,944)	$	(1,383)
Related to:				
Operating activities	$	(2,658)	$	(2,073)
Investing activities		714		690
	$	(1,944)	$	(1,383)

Note: Change in accounts payable and accrued liabilities excludes forgiveness of debt related to Quebec Acquisition

19. Right-of-use Assets and Lease Liabilities

a) *Right-of-use assets*

($ thousands)	Real Estate	Other	Total
Cost			
Balance, January 1, 2019	$ 198	$ –	$ 198
Additions	–	25	25
Balance, December 31, 2019	$ 198	$ 25	$ 223
Accumulated Depreciation			
Balance, January 1, 2019	$ –	$ –	$ –
Depreciation	104	4	108
Balance, December 31, 2019	$ 104	$ 4	$ 108
Carrying value			
Balance, January 1, 2019	$ 198	$ –	$ 198
Additions, net of depreciation	(104)	22	(82)
Balance, December 31, 2019	$ 94	$ 22	$ 116

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

b) *Lease liabilities*

A reconciliation of the gross future minimum lease payments on operating lease commitments, as disclosed in Note 19 of the Annual Report for the year ended December 31, 2018, to the lease liabilities as at January 1, 2019 is as follows:

($ thousands)	
Operating lease commitments disclosed as at December 31, 2018	$ 256
Discounted using the incremental borrowing rate as at January 1, 2019	246
(Less): short-term leases recognized on a straight-line basis as expense	(20)
(Less): low-value leases recognized on a straight-line basis as expense	(28)
Lease liability recognized as at January 1, 2019	$ 198
Maturity analysis - undiscounted cash flows as at December 31, 2019:	
Current portion	105
Long term portion	18
Total undiscounted lease liabilities as at December 31, 2019	$ 123

Lease Liabilities		
Balance, January 1, 2019		198
Additional leases during period		25
Interest expense		9
Lease payments		(84)
Balance, December 31, 2019	$	148

Current portion		101
Long term portion		18
Balance, December 31, 2019	$	119

Amounts related to lease liabilities recognized in profit or loss are as follows:		
Interest expense on lease liabilities	$	9

20. Commitments

A summary of the Company's net commitments at December 31, 2019 follows:

($ thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Transportation, Marketing and Processing	$ 4,084	$ 4,728	$ 3,990	$ 3,990	$ 3,990	$ 7,982	$ 28,764
	$ 4,084	$ 4,728	$ 3,990	$ 3,990	$ 3,990	$ 7,982	$ 28,764

21.Related Party Transactions

The Company did not engage in any related party transactions during the year ended December 31, 2019, other than key management compensation as disclosed.

22. Subsequent Events

In the first quarter of 2020, crude oil prices declined materially over the prior year. Should prices remain at these levels, the Company anticipates an impairment in the carrying value of its assets.

CORPORATE INFORMATION

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Earl Hickok
Hans Jacob Holden
Dennis Sykora
Bjorn Inge Tonnessen

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 VP Exploration
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STOCK INFORMATION
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