

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of November 10, 2017. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") as at September 30, 2017 and for the three and nine month periods ended September 30, 2017 and 2016 (the "Q3 Statements"), and the audited annual consolidated financial statements of the Company for the year ended December 31, 2016 and the Management's discussion and analysis prepared in connection therewith. Additional information relating to Questerre, including Questerre's Annual Information Form ("AIF") for the year ended December 31, 2016 is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an independent energy company actively engaged 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 Oslo Stock Exchange under the symbol "QEC".

Basis of Presentation

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

Forward-Looking Statements

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

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

- drilling and completion plans;
- the development and optimization of producing assets;
- future production of oil, natural gas and natural gas liquids;
- the construction of facilities and other associated infrastructure;
- the reduction of fixed costs on a boe basis at Kakwa;
- future commodity prices;
- legislative and regulatory developments in the Province of Quebec;
- liquidity and capital resources;
- the Company's compliance with the terms of its credit facilities;

- timing of the next review of the Company's credit facilities by its lender;
- ability of the Company to meet its foreseeable obligations;
- expectations regarding the Company's liquidity increasing over time;
- capital expenditures and the funding thereof;
- impacts of capital expenditures on the Company's reserves;
- improved economics resulting from Red Leaf optimization of Ecoshale process for Questerre's project in Jordan;
- the timing of an independent engineering study of the use of reusable capsules in Jordan;
- usage and expansion of 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 program;
- insurance;
- use of financial instruments;
- critical accounting estimates; and
- timing and type of economic feasibility studies.

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 and in the AIF:

- volatility in market prices for oil, natural gas liquids and natural gas;
- counterparty credit risk;
- access to capital;
- the terms and availability of credit facilities;
- changes or fluctuations in oil, natural gas liquids and natural gas production levels;
- liabilities inherent in oil and natural gas operations;
- adverse regulatory rulings, orders and decisions;
- attracting, retaining and motivating skilled personnel;
- uncertainties associated with estimating oil and natural gas reserves and resources;
- competition for, cost and availability of, among other things, capital, acquisitions of reserves, undeveloped lands, equipment, skilled personnel and services;
- incorrect assessments of the value of acquisitions and targeted exploration and development assets;
- fluctuations in foreign exchange or interest rates;
- stock market volatility, market valuations and the market value of the securities of Questerre;
- failure to realize the anticipated benefits of acquisitions;
- actions by governmental or regulatory authorities including changes in royalty structures and programs, and income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry;
- limitations on insurance;
- changes in environmental, tax, or other legislation applicable to the Company's operations, and its ability to comply with current and future environmental and other laws; and
- geological, technical, drilling and processing problems, and other difficulties in producing oil, natural gas liquids

and natural gas reserves.

Statements relating to “reserves” or “resources” are by their nature deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in the future. The discounted and undiscounted net present values of future net revenue attributable to reserves and resources do not represent the fair market value thereof.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws. Certain information set out herein with respect to forecasted results is “financial outlook” within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding the Company’s reasonable expectations as to the anticipated results of its proposed business activities. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

BOE Conversions

Barrel of oil equivalent (“boe”) amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas (“Mcf”) to one barrel of oil (“bbl”), and the conversion ratio of one barrel to six thousand cubic feet is based on an energy equivalent conversion method application at the burner tip, and does not necessarily represent an economic value equivalent at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalent of six to one, utilizing a conversion on a six to one basis may be misleading as an indication of value.

Non-GAAP Measures

This document contains certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. As these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

This document contains the term “adjusted funds flow from operations”, which is an additional non-GAAP measure. The Company uses this measure to help evaluate its performance.

As an indicator of Questerre’s performance, adjusted funds flow from operations should not be considered as an alternative to, or more meaningful than, net cash from operating activities as determined in accordance with GAAP. Questerre’s determination of adjusted funds flow from operations may not be comparable to that reported by other companies. Questerre considers adjusted funds flow from operations to be a key measure as it demonstrates the Company’s ability to generate the cash necessary to fund operations and support activities related to its major assets.

Adjusted Funds Flow From Operations Reconciliation

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net cash from operating activities	\$ 7,983	\$ 1,591	\$ 9,904	\$ 4,018
Interest paid	226	231	634	585
Change in non-cash operating working capital	(6,271)	(375)	(6,309)	499
Adjusted Funds Flow from Operations	\$ 1,938	\$ 1,447	\$ 4,229	\$ 5,102

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

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

Select Information

<i>As at/for the period ended September 30,</i>	<i>Three months ended</i>		<i>Nine months ended</i>	
	2017	2016	2017	2016
Financial (\$ thousands, except as noted)				
Petroleum and Natural Gas Sales	5,446	4,095	14,059	12,546
Adjusted Funds Flow from Operations	1,938	1,447	4,229	5,102
Basic and diluted (\$/share)	0.01	0.01	0.01	0.02
Net Loss	(2,641)	(1,007)	(6,785)	(3,505)
Basic and diluted (\$/share)	(0.01)	(0.00)	(0.02)	(0.01)
Capital Expenditures, net of acquisitions and dispositions	4,906	4,060	12,767	8,957
Working Capital Deficit	(7,558)	(21,250)	(7,558)	(21,250)
Total Assets	198,904	165,109	198,904	165,109
Shareholders' Equity	158,204	127,895	158,204	127,895
Common Shares Outstanding (thousands)	349,933	291,324	349,933	291,324
Weighted average - basic (thousands)	346,685	283,494	338,921	271,097
Weighted average - diluted (thousands)	346,685	283,494	338,921	271,097
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	963	705	738	816
Natural Gas (Mcf/d)	4,080	3,420	3,189	3,571
Total (boe/d)	1,643	1,275	1,270	1,411
Average Sales Price				
Crude Oil and Natural Gas Liquids (\$/bbl)	54.14	50.15	58.49	46.38
Natural Gas (\$/Mcf)	1.72	2.67	2.61	2.22
Total (\$/boe)	36.03	34.91	40.55	32.45
Netback (\$/boe)				
Petroleum and Natural Gas Sales	36.03	34.91	40.55	32.45
Royalties Expense	(2.26)	(1.68)	(1.93)	(1.92)
Percentage	6%	5%	5%	6%
Direct Operating Expense	(14.78)	(17.66)	(18.94)	(15.48)
Operating Netback	18.99	15.57	19.68	15.05
Wells Drilled				
Gross	2.00	-	5.00	2.00
Net	0.46	-	1.13	0.50

Highlights

- Kakwa joint venture development continues with additional drilling and completions
- Government of Quebec releases draft oil and gas regulations
- Red Leaf begins feasibility study for Jordan oil shale project
- Private placement for gross proceeds of \$31 million fully subscribed and closed early in the fourth quarter
- Average daily production of 1,643 boe/d for the quarter and adjusted funds flow from operations of \$1.94 million

Third Quarter 2017 Activities

Kakwa, Alberta

In the third quarter, drilling and completion operations continued on Questerre's joint venture acreage.

Questerre participated in the completion and tie-in of two wells, the 102/16-29-63-5W6M ("102/16-29 Well") and the 100/16-29-63-5W6M (the "100/16-29 Well"). Questerre holds an average 21.29% working interest in these wells.

The two wells were completed with an average of 78 frac stages per well. Initial production over thirty days from the Montney formation for each of these wells averaged 2.54 MMcf/d and 715 bbls/d of condensate and other liquids (1,138 boe/d). Although the initial results from these wells are encouraging, they are not necessarily indicative of long term performance of ultimate recovery.

Drilling operations were completed on the 100/01-20-63-6W6M Well ("01-20 Well") and commenced on the 100/09-29-63-5W6M ("100/09-29 Well") during the quarter. The 01-20 Well was completed in the fourth quarter. It is anticipated the 100/09-29 Well will be completed and tied-in to the existing infrastructure once drilling is completed on the adjacent 102/09-29-63-5W6M ("102/09-29 Well") that spud in the fourth quarter. Questerre holds an average working interest of 22.22% in these three wells.

The Company also participated in the expansion of field infrastructure, including the installation of gas lift facilities and the construction of a central water storage facility.

The gas lift has improved uptime and is assisting with the lifting of produced liquids. Based on the results, the operator plans to install gas lift on the remaining wells. The first phase of the central water storage facility was completed and put into service early in the fourth quarter. The facility will temporarily store produced water for future completion operations. For the nine months ended September 30, 2017, Questerre's investment in facilities and other associated infrastructure represented \$5.17 million or 35% of the total capital investment in Kakwa.

The Company plans to participate in the operator's planned expansion of the central processing facility from its current operating capacity of approximately 23 MMcf/d to 45 MMcf/d. The plans contemplate a future expansion to 60 MMcf/d. The estimated cost of the expansion is \$24 million. Questerre holds a 25% working interest in this facility.

For the remainder of 2017, including the 01-20 Well and the 102/16-29 Well, the Company expects to participate in the drilling of three (0.71 net) additional wells.

St. Lawrence Lowlands, Quebec

In September 2017, the Quebec Ministry of Energy and Natural Resources published the proposed regulations to govern oil and gas activities in the province. The draft regulations are required for the implementation of the *Petroleum Resources Act*.

The purpose of the *Petroleum Resources Act* is: (i) to replace the current oil & gas statutory framework set by the *Quebec Mining Act*; and (ii) to govern the development of petroleum resources while ensuring the safety of persons and property, environmental protection and optimal recovery of the resource, in compliance with the greenhouse gas emission reduction targets set by the Quebec Government. The *Petroleum Resources Act* will come into force on a date to be set by the Quebec Government, which is expected to be on or about the same time as the adoption of the final version of the draft regulations.

The Ministry recently extended the consultation period on the draft regulations to December 9, 2017. The Company anticipates the final regulations may be issued in early 2018.

Along with social acceptability, hydrocarbon and environmental regulations are prerequisites to the resumption of field activities on the Company's acreage to assess its Utica gas discovery in the province.

Oil Shale Mining

Questerre continued to evaluate the feasibility of commercially developing its oil shale project in the Kingdom of Jordan ("Jordan").

This includes assessing multiple retorting technologies, including the EcoShale process developed by Red Leaf Resources Inc. ("Red Leaf"). Red Leaf has recently been optimizing the EcoShale process for Questerre's project in Jordan by focusing on reusable capsules. By utilizing steel vessels similar to those used in coker facilities in refineries, it is anticipated this change from single use earthen capsules could improve economics.

During the quarter, Red Leaf commissioned a third party engineering study to assess the economics of reusable capsules for Questerre's project in Jordan. The Company expects to have the final results from the study in early 2018.

During the second quarter, Questerre entered into agreements to acquire an additional 25% of the common shares of Red Leaf for US\$7.52 million. The final tranche of the acquisition closed in the third quarter of 2017. Questerre currently holds 132,293 common shares, representing approximately 30% of the common share capital of Red Leaf. During the quarter, Questerre also acquired 288 Series A Preferred Shares, representing less than 0.5% of the issued and outstanding preferred share capital of Red Leaf, for US\$0.16 million. For more information, see Note 3 to the Q3 Statements.

In addition to its EcoShale process and its oil shale leases in Utah, Red Leaf holds US\$100 million in cash and no debt. In addition to common shares, Red Leaf's equity capital includes convertible preferred shares with dividends accruing at 8% per annum compounded annually. As at September 30, 2017, the preferred shares are entitled to a priority amount of US\$82 million 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.

Corporate

Effective August 2017, the Company's credit facilities with a Canadian chartered bank were reduced to \$18 million from \$23 million as established in the first quarter of 2017. The credit facilities consist of a revolving operating demand loan and corporate credit card. Any borrowings under the facilities, except letters of credit, are subject to

interest at the bank's prime interest rate and applicable basis point margins based on the ratio of debt to cash flow, measured quarterly.

The 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 these credit facilities is in the fourth quarter of 2017.

Early in the fourth quarter, the Company completed a private placement for gross proceeds of approximately \$31 million. The placement consisted of the issuance of 34.9 million Common Shares at \$0.89 per Common Share.

Drilling Activities

For the quarter, Questerre participated in the drilling of two (0.46 net) wells and the completion of one (0.21 net) well in the Kakwa area.

Production

<i>Three months ended September 30,</i>	2017			2016		
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Alberta	762	4,014	1,431	468	3,348	1,026
Saskatchewan	155	-	155	196	-	196
Manitoba	46	-	46	41	-	41
British Columbia	-	66	11	-	72	12
	963	4,080	1,643	705	3,420	1,275

<i>Nine months ended September 30,</i>	2017			2016		
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Alberta	541	3,117	1,061	552	3,495	1,135
Saskatchewan	152	-	152	217	-	217
Manitoba	45	-	45	47	-	47
British Columbia	-	72	12	-	76	13
	738	3,189	1,270	816	3,571	1,412

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

The increased capital investment in Kakwa this year resulted in higher production volumes over the prior year and prior quarter.

Representing almost 85% of production in the third quarter of 2017 (2016: 75%), growth at Kakwa contributed to average volumes of 1,643 boe/d compared to 1,275 boe/d for the same period last year. Volumes this quarter were higher due to the two (0.42 net) wells that were placed on production in this area compared to one (0.25 net) well in 2016. By comparison, production in the preceding quarter of 2017 of 1,037 boe/d reflected natural declines in Kakwa offset by production from two (0.50 net) wells in the quarter.

During the nine months ended September 30, 2017, four (0.92 net) wells have been placed on production at Kakwa. This resulted in average production of 1,270 boe/d for this period. During the same period last year, production averaged 1,412 boe/d and reflected the production from six (1.50 net) wells that were completed and tied-in at

Kakwa in late 2015.

Consistent with prior periods, Questerre's oil and liquids weighting remained approximately 60%. This mirrors the equal weighting of liquids and natural gas from Kakwa coupled with the light oil production from Saskatchewan and Manitoba. The 20% decline over the prior year in these areas is attributable to natural declines partially mitigated by the results from an ongoing workover program.

With additional drilling expected on the joint venture acreage at Kakwa, Questerre anticipates production will increase over the next six to nine months subject to the timing of well completions and facility expansions to accommodate the higher volumes.

Third Quarter 2017 Financial Results

Petroleum and Natural Gas Sales

<i>Three months ended September 30,</i>	2017			2016		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 3,759	\$ 639	\$ 4,398	\$ 2,066	\$ 826	\$ 2,892
Saskatchewan	813	-	813	993	-	993
Manitoba	225	-	225	194	-	194
British Columbia	2	8	10	-	16	16
	\$ 4,799	\$ 647	\$ 5,446	\$ 3,253	\$ 842	\$ 4,095

<i>Nine months ended September 30,</i>	2017			2016		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 8,586	\$ 2,206	\$ 10,792	\$ 6,863	\$ 2,142	\$ 9,005
Saskatchewan	2,521	-	2,521	2,914	-	2,914
Manitoba	703	-	703	589	-	589
British Columbia	4	39	43	-	38	38
	\$ 11,814	\$ 2,245	\$ 14,059	\$ 10,366	\$ 2,180	\$ 12,546

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

Increased production volumes and marginally higher prices contributed to higher revenue in the third quarter of 2017 relative to the same period in 2016. For the nine months ended September 30, 2017, revenue increased by 12% reflecting a 10% decrease due to volumes offset by a 22% increase due to higher pricing.

Pricing

	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2017	2016	2017	2016
Benchmark prices:				
Natural Gas - AECO, daily spot (\$/Mcf)	1.74	2.32	2.36	1.85
Crude Oil - Mixed Sweet Blend (\$/bbl)	60.32	55.80	64.74	51.31
Realized prices:				
Natural Gas (\$/Mcf)	1.72	2.67	2.61	2.22
Crude Oil and Natural Gas Liquids (\$/bbl)	54.14	50.15	58.49	46.38

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

In the third quarter of 2017, crude oil prices improved over the same period last year but remained relatively flat in comparison to the preceding quarter this year. The benchmark West Texas Intermediate (“WTI”) averaged US\$48.21/bbl in the third quarter compared to US\$48.15/bbl in the second quarter of 2017 and US\$45/bbl in the third quarter of 2016.

Prices in the quarter were supported by an improving global demand outlook and a reduction in petroleum inventories. This was partially offset by concerns about growing production from non-OPEC sources, particularly the United States. In Canada, prices were affected by a stronger exchange rate and an increasing differential. In 2017, the differential between the Canadian Light Sweet blend (“MSW”) and WTI averaged US\$0.76/bbl for the third quarter (2016: US\$0.10/bbl) and US\$0.66/bbl for the nine months ended September 30, 2017 (2016: US\$0.21/bbl).

Realized prices for Questerre’s liquids and oil production track the MSW benchmark with condensate generally receiving a premium and other liquids receiving a discount. Prices for these liquids have improved materially in 2017. For the third quarter, the realized price for oil, condensate and other liquids averaged \$54.14/bbl (2016: \$50.15/bbl) with the average MSW price of \$60.32/bbl (2016: \$55.80/bbl).

Natural gas prices remained relatively unchanged, decreasing slightly over the prior quarter and increasing slightly over the prior year. The reference Henry Hub averaged US\$2.95/MMBtu compared to US\$3.14/MMBtu in the second quarter and US\$2.85/Mcf in the third quarter of 2016.

While US dry gas production remained relatively stable in the first half of the year and demand for exports is increasing, declining demand for power generation in the US due to growth in renewables coupled with concerns about increased supply from the northeast US kept prices relatively stable. In Canada, prices were affected by maintenance issues on the main pipeline and a lack of storage that resulted in negative prices during the quarter.

Realized natural gas prices reflect the higher heat content of the Company’s natural gas production, particularly from the Kakwa area. Natural gas prices were \$1.72/Mcf (2016: \$2.67/Mcf) compared to the AECO reference price of \$1.74/Mcf (2016: \$2.32/Mcf).

Royalties

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2017	2016	2017	2016
Alberta	\$ 240	\$ 107	\$ 387	\$ 492
Saskatchewan	60	65	157	180
Manitoba	42	25	125	71
British Columbia	-	-	-	-
	\$ 342	\$ 197	\$ 669	\$ 743
% of Revenue:				
Alberta	5%	4%	4%	5%
Saskatchewan	7%	7%	6%	6%
Manitoba	19%	13%	18%	12%
British Columbia	3%	0%	1%	0%
Total Company	6%	5%	5%	6%

Royalties as a percentage of revenue in the third quarter remained relatively consistent, increasing to 6% in 2017 from 5% in 2016. In the prior period, royalties averaged 2% reflecting credits received on processing the Crown's share of production in Alberta. On an aggregate basis, due to the lower rate in 2017, royalties decreased year over year to \$0.67 million from \$0.74 million in 2016.

Royalties on production in Manitoba increased over the prior year due to a higher proportion of volumes from freehold lands that attract a higher rate compared to Crown lands as well as the freehold mineral tax payable to the Crown.

Operating Costs

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2017	2016	2017	2016
Alberta	\$ 1,729	\$ 1,576	\$ 5,351	\$ 4,847
Saskatchewan	415	388	949	818
Manitoba	61	74	196	233
British Columbia	30	33	71	86
	\$ 2,235	\$ 2,071	\$ 6,567	\$ 5,984
<i>\$/boe:</i>				
Alberta	13.13	16.69	18.46	15.59
Saskatchewan	29.13	21.54	22.86	13.76
Manitoba	14.30	19.61	15.96	18.10
British Columbia	29.60	29.92	23.71	26.15
Total Company	14.78	17.66	18.94	15.48

For the quarter ended September 30, 2017, gross operating costs increased over the prior year due to higher production volumes. For the nine month period ended September 30, 2017, higher operating costs at Kakwa and Antler resulted in an increase in the current year over the prior year.

On a boe basis, operating costs in Alberta in the current quarter decreased over the prior quarter and same period last year due to the higher production volumes at Kakwa. With approximately 74% of the operating costs in this area fixed, the allocation over higher volumes resulted in lower costs on a unit of production basis. On a year to date basis, higher fixed costs relating to chemical sweetening and firm transportation and processing commitments resulted in an increase over the prior year.

Similarly in Saskatchewan, fixed costs represent the majority of operating costs. With lower production volumes, operating costs on a boe basis increased over the prior year and the prior quarter. Additionally, costs in 2017 were higher than last year due to workovers and one time lease cleanup costs.

General and Administrative Expenses

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2017	2016	2017	2016
General and administrative expenses, gross	\$ 930	\$ 863	\$ 2,839	\$ 2,724
Capitalized expenses and overhead recoveries	(207)	(207)	(565)	(770)
General and administrative expenses, net	\$ 723	\$ 656	\$ 2,274	\$ 1,954

For the quarter ended September 30, 2017, gross general and administrative expenses (“G&A”) increased marginally over the prior year due a partial reversal of the salary reductions implemented in prior years. This also contributed to the increase in G&A on a year to date basis for the current year over the prior year.

Capitalized expenses and overhead recoveries as a percentage of gross G&A decreased in 2017 due to fewer staff employed to develop the Company’s Kakwa area.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded \$3 million in depletion and depreciation expense for the quarter ended September 30, 2017 (2016: \$2.19 million). This translates into a depletion rate, on a unit of production basis, of \$19.91/boe for the quarter (2016: \$17.42/boe). The increase is attributable to production from cash generating units with higher finding and development costs compared to the prior year. For the nine months ended September 30, 2017, this expense totaled \$6.90 million, relatively unchanged from \$6.92 million in the same period last year.

Other Income and Expenses

The Company recorded a gain on risk management contracts of \$0.06 million for the quarter ended September 30, 2017 (2016: \$0.36 million) and a gain of \$1.04 million (2016: \$0.40 million) for the nine months ended September 30, 2017. The gains reflect changes to the fair value of the Company’s risk management contracts.

For the nine months ended September 30, 2017, the Company recorded an expense of \$8.02 million (2016: \$0.09 million) primarily relating to expiring acreage in the Wapiti area where the Company has no future plans for development. For the same period, the Company recorded a gain of \$3.66 million (2016: nil) on the disposition of shallow exploration rights in the Kakwa area.

In relation to its investment in Red Leaf, during the nine months ended September 30, 2017, the Company reversed a previously recorded impairment charge of \$2.34 million (2016: nil). The reversal relates to the increase in fair value of the Red Leaf common shares held by Questerre prior to the acquisition. The Company also recorded an expense of \$1.62 million for the quarter (2016: nil) and \$2.4 million year to date (2016: nil) representing its proportionate share of the net loss realized by Red Leaf during the quarter and the period commencing from its initial acquisition this year to the end of the most recent quarter. The expense also relates to the reduction in the estimated net asset value of Red Leaf for the dividends accruing to the preferred shareholders during the third quarter of 2017.

The Company recorded a loss on foreign exchange, net of deferred tax, through other comprehensive income (loss) of \$0.35 million (2016: nil) for the quarter and \$0.82 million for the year to date (2016: \$0.03 million loss). The change is due to fluctuations in the exchange rate related to the Company’s US dollar investment.

Total Comprehensive Loss

Questerre’s total comprehensive loss for the third quarter of 2017 was \$3.06 million (2016: \$1.0 million) and for the year to date was \$7.73 million (2016: \$3.58 million). The increase in the loss for the year to date period was due to the higher lease expiry expense in the current year offset by the gain on sale of exploration and evaluation assets and the reversal of the impairment charge associated with its investment in Red Leaf.

Capital Expenditures

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Alberta	\$ 3,915	\$ 3,291	\$ 15,203	\$ 7,360
Saskatchewan	771	219	1,171	342
Jordan	126	337	403	903
Other	94	213	440	354
Total	\$ 4,906	\$ 4,060	\$ 17,217	\$ 8,959
Dispositions (Alberta)	-	-	(4,450)	-
Net Capital Expenditures	\$ 4,906	\$ 4,060	\$ 12,767	\$ 8,959

For the nine months ended September 30, 2017, the Company incurred capital expenditures of \$12.77 million, net of dispositions, as follows:

- In Alberta, \$15.20 million was invested to drill, complete and equip wells and expand infrastructure at its joint venture acreage at Kakwa;
- In Saskatchewan, \$1.17 million was invested to workover wells at Antler; and
- In Jordan, \$0.40 million to evaluate its oil shale assets.

In the second quarter, the Company disposed of exploration and evaluation assets in the Kakwa area for gross proceeds of \$4.45 million.

For the nine months ended September 30, 2016, the Company incurred capital expenditures of \$8.96 million as follows:

- In Alberta, the Company spent \$7.36 million to drill, complete, equip and tie-in wells and invest in infrastructure expansion at Kakwa; and
- In Jordan, the Company spent \$0.9 million on the evaluation of its oil shale assets.

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.

Effective August 2017, the Company's credit facilities were renewed at \$18 million from \$23 million at the last scheduled review. At September 30, 2017, \$12.31 million (December 31, 2016: \$22.89 million) was drawn on the credit facilities and the Company is in compliance with all its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with its credit facilities. Under the terms of the credit facilities, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability (See Note 11 to the Q3 Statements)) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at September 30, 2017 was 1.63 and the covenant was met.

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 next scheduled review is expected to be completed by the end of the fourth quarter of 2017.

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.

Questerre had a working capital deficit, including amounts due under its credit facilities, of \$7.56 million at September 30, 2017, as compared to a deficit of \$17.02 million at December 31, 2016. Management believes that with its equity issuances completed in the year for gross proceeds of \$57.7 million, including \$31 million in the fourth quarter, 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.

Questerre anticipates an increase in production, based on additional drilling at Kakwa, which is expected to improve cash flow and increase the contribution to finance planned capital expenditures. On an ongoing basis, the Company will manage where possible future capital expenditures to maintain liquidity (See "Commitments"). However, it cannot provide any assurance that sufficient cash flows will be generated from operating activities alone to independently finance planned capital expenditure program. The Company intends to invest up to 90% of the 2017 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2016. It anticipates that, as a result, reserves associated with wells not drilled in 2017 will remain in the proved undeveloped category.

For a detailed discussion of the risks and uncertainties associated with the Company's business and operations, see the Risk Management section of the Company's 2016 Annual MD&A and the AIF.

Cash Flow from Operating Activities

Adjusted funds flow from operations for the third quarter of 2017 was \$1.94 million and \$1.45 million for the same period in 2016. Net cash from operating activities for the three months ended September 30, 2017 and 2016 was \$7.98 million and \$1.59 million, respectively. The Company's net cash from operating activities increased from 2016 due to the change in non-cash working capital in 2017.

Adjusted funds flow from operations was \$4.23 million for the nine months ended September 30, 2017 and \$5.10 million for the same period in 2016. Net cash from operating activities for the nine months ended September 30, 2017 and 2016 was \$9.90 million and \$4.02 million respectively. The Company's net cash from operating activities increased largely due to change in non-cash working capital in 2017.

Cash Flow used in Investing Activities

Cash flow used in investing activities was \$12.36 million for the quarter ended September 30, 2017 (2016: \$4.06 million). During the quarter, the Company invested a net \$4.90 million in its assets, primarily in Kakwa, and \$2.18 million to acquire common and preferred shares of Red Leaf.

For the nine months ended September 30, 2017, capital expenditures of \$17.22 million were incurred mainly for drilling, completion and infrastructure expansion in the Kakwa area. By comparison in the prior year, capital expenditures of \$8.96 million were also made primarily in Kakwa and reflected the Company's restricted capital spending to preserve liquidity. The change in non-cash working capital in 2017 reflects the decrease in accounts

payable for capital investment while the increase in 2016 reflects an increase in working capital for investing activities.

Cash Flow from Financing Activities

Cash flow used by financing activities was \$3.21 million for the quarter ended September 30, 2017. The amount primarily reflects the net reduction the credit facilities during the quarter partially offset by the increase in cash of \$0.91 million for equity issuances in the quarter. During the same period last year, cash flow provided by financing activities was \$2.39 million.

For the nine months ended September 30, the net cash from financing activities for 2017 was \$18.21 million and for the same period in 2016 was \$9.03 million. In addition to the amounts detailed above for the third quarter of the year, the amounts in 2017 reflect the equity issuances for gross proceeds of \$26.66 million, net of share issue costs of \$1.35 million, and the net decrease in the utilization of credit facilities. For the same period in 2016, in addition to the equity issuance, the cash reflects the net drawn down under the credit facilities.

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" common voting shares and an unlimited number of preferred shares, issuable in one or more series. At September 30, 2017, there were no Class "B" common voting shares or preferred shares outstanding. The following table provides a summary of the outstanding Common Shares, options and warrants as at the date of the MD&A, the current quarter-end and the preceding year-end.

<i>(thousands)</i>	November 10, 2017	September 30, 2017	December 31, 2016
Common Shares	384,832	349,932	308,274
Stock Options	21,427	21,427	14,856
Warrants	4,065	4,065	13,124
Weighted average common shares			
Basic		338,921	278,662
Diluted		338,921	280,410

A summary of the Company's stock option activity during the nine months ended September 30, 2017 and the year ended December 31, 2016 follows:

	September 30, 2017		December 31, 2016	
	Number of Options <i>(thousands)</i>	Weighted Average Exercise Price	Number of Options <i>(thousands)</i>	Weighted Average Exercise Price
Outstanding, beginning of period	14,856	\$0.41	19,982	\$0.72
Granted	6,850	0.69	4,100	0.18
Forfeited	(232)	0.52	(4,289)	0.47
Expired	-	-	(3,260)	1.85
Exercised	(47)	0.62	(1,677)	0.60
Outstanding, end of period	21,427	\$0.50	14,856	\$0.41
Exercisable, end of period	8,476	\$0.52	5,939	\$0.55

Commitments

A summary of the Company's net commitments at September 30, 2017 follows:

<i>(\$ thousands)</i>	2017	2018	2019	2020	2021	Thereafter	Total
Transportation, Marketing and Processing	\$ 1,182	\$ 4,728	\$ 3,990	\$ 3,990	\$ 3,990	\$ 19,952	\$ 37,832
Office Leases	32	107	99	90	-	-	328
	\$ 1,214	\$ 4,835	\$ 4,089	\$ 4,080	\$ 3,990	\$ 19,952	\$ 38,161

In the fall of 2013, the Company entered into a series of take or pay agreements for the processing, transportation, fractionating and marketing of 20 MMcf/d of raw gas and associated liquids production in the Kakwa area (the "Infrastructure Contracts"). In December 2014, the Company assigned a 57.5% interest in the Infrastructure Contracts on a permanent basis to third parties.

Questerre has no capital commitments in 2017. In order to maintain its capacity to execute its business strategy, the Company expects that it will need to continue the development of its producing assets. There will also be expenditures in relation to G&A and other operational expenses. These expenditures are not yet commitments, but Questerre expects to fund such amounts primarily out of adjusted funds flow from operations and its existing credit facilities.

Risk Management

Companies engaged in the petroleum and natural gas industry face a variety of risks. For Questerre, these include risks associated with exploration and development drilling as well as production operations, commodity prices, exchange and interest rate fluctuations. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates and government regulations could have an impact on the Company's future operating results and/or financial condition. While management realizes that all the risks may not be controllable, Questerre believes that they can be monitored and managed. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF and Note 6 to the audited consolidated financial statements for the year ended December 31, 2016.

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

As future capital expenditures will be financed out of adjusted funds flow from operations, borrowings and possible future equity sales, the Company's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and the Company's securities in particular. To the extent that external sources of capital become limited or unavailable or available but on onerous terms, the Company's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result. 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 through among other sources, future equity issuances or asset dispositions.

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

The Company uses the following guidelines to address financial exposure:

- Internally generated cash flow provides the initial source of funding on which the Company's annual capital expenditure program is based.
- Equity, including flow-through shares, if available on acceptable terms, may be raised to fund acquisitions and capital expenditures.
- Debt may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be 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 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 are paid in the following month from major oil and natural gas marketing and infrastructure companies. The Company has not experienced any credit loss relating to these sales to date.

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

Exploration and development drilling risks are managed through the use of geological and geophysical interpretation technology, employing technical professionals and working in areas where those individuals have experience. For its non-operated properties, the Company strives to develop a good working relationship with the operator, and monitors the operational activity on the property. The Company believes it 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. At September 30, 2017, Questerre had the following commodity risk management contracts in place:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Liability (\$ thousands)
AECO - call option sale	3,000 GJ/d	\$2.70/GJ	Oct 1, 2017 - Dec. 31, 2017	8
WTI NYMEX - call option sale	200 bbls/d	\$80/bbl	Oct 1, 2017 - Dec. 31, 2017	1

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 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 believes that it mitigates the potential financial exposure of environmental risks by complying with the existing regulations and maintaining adequate insurance. For more information, please refer to the “Risk Factors” and “Industry Conditions” sections of the AIF.

Critical Accounting Estimates

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

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

Petroleum and Natural Gas Reserves

All of Questerre’s petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with National Instruments 51-101-Standards of Disclosure for Oil and Gas Activities 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 that 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 gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Determining if there are facts and circumstances present that indicate that carrying values of the assets may not be recoverable requires management's judgment and analysis of the facts and circumstances.

The recoverable amounts of CGUs have been determined based on the higher of value in use ("VIU") and the 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. As at December 31, 2016, the recoverability of deferred tax assets was assessed using proved reserves including an estimate of G&A associated

with these 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 purpose of impairment testing, the Company measures the fair value of Red Leaf by valuation techniques such as the net asset value approach.

Accounting Policy Changes

Changes in Accounting Policies for 2017

There were no new or amended accounting standards or interpretations adopted during the three months ended September 30, 2017.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three months ended September 30, 2017 that are applicable to the Company in future periods. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the audited annual consolidated financial statements for the year ended December 31, 2016.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on July 1, 2017 and ended on September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Quarterly Financial Information

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
<i>(\$ thousands, except as noted)</i>				
Production (boe/d)	1,643	1,037	1,123	1,261
Average Realized Price (\$/boe)	36.03	44.34	43.82	39.43
Petroleum and Natural Gas Sales	5,446	4,184	4,429	4,574
Adjusted Funds Flow from Operations	1,938	880	1,411	1,943
Basic and Diluted (\$/share)	-	-	-	0.01
Net Profit (Loss)	(2,641)	(3,621)	(523)	3,674
Basic and Diluted (\$/share)	(0.01)	(0.01)	(0.01)	(0.01)
Capital Expenditures, net of acquisitions and dispositions	4,906	2,544	5,320	5,260
Working Capital Surplus (Deficit)	(7,559)	(3,184)	3,274	(17,019)
Total Assets	198,904	205,672	205,640	177,761
Shareholders' Equity	158,204	160,069	163,888	139,660
Weighted Average Common Shares Outstanding				
Basic (thousands)	346,685	345,408	324,426	293,470
Diluted (thousands)	346,685	345,408	324,426	308,017

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
<i>(\$ thousands, except as noted)</i>				
Production (boe/d)	1,275	1,422	1,538	1,648
Average Realized Price (\$/boe)	34.91	34.17	28.79	35.03
Petroleum and Natural Gas Sales	4,095	4,423	4,029	5,311
Adjusted Funds Flow from Operations (1)	1,447	1,916	1,740	2,269
Basic and Diluted (\$/share)	0.01	0.01	0.01	0.01
Net Profit (Loss)	(1,007)	(2,173)	(325)	(56,044)
Basic and Diluted (\$/share)	-	(0.01)	-	(0.21)
Capital Expenditures, net of acquisitions and dispositions	4,060	741	4,158	1,014
Working Capital Surplus (Deficit)	(21,250)	(23,075)	(24,044)	(21,478)
Total Assets	165,109	161,721	163,547	161,894
Shareholders' Equity	127,895	125,028	127,134	127,453
Weighted Average Common Shares Outstanding				
Basic (thousands)	283,494	264,932	264,932	264,932
Diluted (thousands)	283,494	264,932	264,932	264,932

⁽¹⁾ Certain figures have been revised. Refer to note 2 of the December 31, 2015 financial statements.

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

- Petroleum and natural gas revenue 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 increasing investment in Kakwa in 2017, production has grown to 1,643 boe/d in the most recent quarter. The Company plans to continue to invest in Kakwa, subject to commodity prices and results, and expects a commensurate increase in production.
- The level of capital expenditures over the quarters has varied largely due to the timing and number of wells drilled and completed for the Kakwa asset as well as the timing of 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 March 31, 2017 and December 31, 2016 as a result of equity issuances completed by the Company.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended September 30, 2017.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended September 30, 2017.