

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

<i>(\$ thousands)</i>	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)	For the year ended December 31,		
	Note	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			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
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)	For the years ended December 31,		
	Note	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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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.

<i>(\$ thousands)</i>	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

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)</i>	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.

<i>(\$ thousands)</i>	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.

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)⁽¹⁾</i>	
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.

<i>(\$ thousands)</i>	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

<i>(\$ thousands)</i>	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:

	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
<i>(\$ thousands)</i>				
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.

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)</i>	
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:

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)</i>	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

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)</i>	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 (<i>thousands</i>)	Weighted Average Years to Expiry	Weighted Average Exercise Price	Number of Options (<i>thousands</i>)	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 (<i>thousands</i>)	Weighted Average Exercise Price	Number of Options (<i>thousands</i>)	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,	December 31,
	2019	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:

	December 31,	December 31,
<i>(\$ thousands)</i>	2019	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,
<i>(\$ thousands)</i>	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	Amount
	(thousands)	(\$ 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:

<i>(thousands, except as noted)</i>	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:

<i>(thousands, except as noted)</i>	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

<i>(\$ thousands)</i>	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

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)</i>	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*

<i>(\$ thousands)</i>	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:

<i>(\$ thousands)</i>	
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
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20. Commitments

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

<i>(\$ thousands)</i>	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.