2024 SECOND QUARTER REPORT

QUESTERRE ENERGY CORPORATION

QUESTERRE

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QUESTERRE ENERGY CORPORATION is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high-quality resources. We believe we can successfully transition our energy portfolio. With new low-emission technologies and innovation to responsibly produce and use energy, we can sustain both human progress and our natural environment.

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

President’s Message

As we advance our high-impact projects, we are growing our conventional assets.

Three (0.75 net) wells were completed at Kakwa Central this quarter and should be on production late August. A new completion design and improved water handling lowered costs by 20% over last year to about $14 million per well. Using a similar approach, the operator at Kakwa North plans to drill three (1.5 net) wells this fall. We will review the final programs to assess our participation. If successful, these wells could materially grow our production next year.

Our carbon storage pilot application in Quebec is well advanced. A program to find government funding for this project is underway. In what could be a positive development, the Government of Quebec tabled Bill 69 on the responsible governance of energy resources in response to the impending electric energy shortfall. It requires an integrated plan for managing both electricity and natural gas supply in the province. The added natural gas supply requirement appears very positive and demonstrates a recognition of the long-term need for natural gas supply in Quebec.

The Government of Quebec enacted Bill 21 shortly before the last election. Yet just under two years later, the energy situation has renewed interest in natural gas. At a Montreal Board of Trade event this May, the Minister of Economy, Innovation and Energy was clear that hydroelectricity alone will not decarbonize the province and noted the need for other energy sources including natural gas and nuclear. On the subject of natural gas, he added, “We currently consume, in Quebec, the equivalent of 7,000 megawatts of natural gas. To think that there will be no more natural gas tomorrow morning, that will not happen." This follows comments earlier this year where he noted that, while natural gas has environmental concerns, Quebec has large resources of natural gas.

Our application for a carbon storage pilot seeks to address these concerns, largely related to emissions. In the bigger picture, carbon storage can be integral to the province meeting its climate targets and helping us advance our plans for a low-emissions industrial park. Our next step is to assess available federal and provincial funding programs with the goal of securing approval for our pilot later this year.

In tandem with pursuing a business and political solution, we continue to protect our legal position. Examination of Government representatives will be scheduled this year before setting a trial date for the hearing on the merits of our case. Our next court hearing is scheduled for October to hear the appeal by the Attorney General of the Superior Court’s ruling on suspending key elements of Bill 21.

Another goal for this year is to help our investee, Red Leaf, find a partner to fund a field demonstration project for their technology to produce oil from shale. A leading prospect is a group of Jordanian companies that are in the steel fabrication business.

The design for this project will be based on a new lab pilot. This lab pilot will produce about two barrels of oil per day on a batch basis and demonstrate the technology design in a small scale operation. Red Leaf is

also building a prototype to assess how their core technology can be applied to the much larger market for industrial heat applications.

Operating & Financial

Natural declines contributed to lower production volumes this year compared to last year when we tied-in one (0.25 net) well. Production averaged 1,559 boe per day in the second quarter of 2024 compared to 1,978 boe per day in the second quarter of 2023. Year to date, production was 1,612 boe per day for 2024 compared to 1,884 boe per day in the first half of 2023. Based on our reserve report on a total proved basis, the three new wells are anticipated to add 500 net boe per day over the first year.

Reduced revenue from lower production volumes partly offset by a crown royalty credit contributed to adjusted funds flow from operations of $4.5 million for the quarter and $7.4 million for the first half of the year. Net of capital spent to drill and complete the three (0.75 net) wells, our working capital surplus reduced from $30 million last quarter to $27.6 million.

Outlook

We are looking forward to the new wells at Kakwa North. This area accounts for over three quarters of our proved and probable reserves as of last year end. The cash we built up over the last two years will fund the program this year and retain our financial flexibility to fund future programs. Another three to five well program could follow in 2025 based on this year’s wells.

Significant financial assistance from the provincial and federal government will be necessary to advance our pilot project in Quebec. It presents a real-world and cost-effective opportunity to prove the province’s carbon storage potential and how natural gas, including our discovery, could be a permanent part of their energy supply.

Michael Binnion
President and Chief Executive Officer

Environmental, Social and Governance

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

From today to 2050, the world's population is estimated to grow from 8 billion to almost 10 billion who will expect a better standard of living. We believe providing the increased energy needed tomorrow, with lower environmental impacts than today, is the challenge of our times. Transforming our energy diet to lower emissions is essential to meet this challenge and we believe the oil and gas industry have made major improvements and must continue to do so.

Our project in Quebec was designed with a goal to significantly reduce emissions associated with the development and production of natural gas. We are also assessing how to reduce other environmental impacts. It is an example of the steps needed to meet this global challenge.

It requires a new way of thinking to become leaders on environmental issues. Our industry plays a vital role in today's energy systems. We have the experience, expertise, capital and technology to meet the world's energy and environmental challenges. Delivering on projects like our low-emissions natural gas project is just one example of how our industry can be leaders on transforming our global energy systems.

Questerre is proactively working with communities and First Nations to deliver local benefits. For example, we have committed to share our profits with them. We have also engaged with local First Nations to include them in our contracting and benefits program.

People know they need energy to maintain progress for their families and communities. They want to know the providers of that energy are being responsible and sustainable in the way it is supplied.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of August 8, 2024. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") for the three and six month periods ended June 30, 2024, and 2023, and the audited annual consolidated financial statements of the Company for the year ended December 31, 2023, and the MD&A prepared in connection therewith. Additional information relating to Questerre, including Questerre's Annual Information Form ("AIF") for the year ended December 31, 2023, is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an energy technology and innovative company actively involved in the acquisition, exploration and development of oil and gas projects, and, in specific, non-conventional projects such as tight oil, oil shale, shale oil and shale gas. Questerre is committed to the economic development of its resources in an environmentally conscious and socially responsible manner. The Company's Class "A" Common voting shares ("Common Shares") are listed on the Toronto Stock Exchange and the Oslo Stock Exchange under the symbol "QEC".

Basis of Presentation

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

Forward-Looking Statements

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

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

- Government of Quebec's enactment of Bill 21 and revocation of exploration licenses;

- the Company's protection of its legal rights following the enactment of Bill 21;
- the timing of the hearings related to Bill 21, including the appeal by the Attorney General of the Superior Court's ruling;
- Government of Quebec's introduction of Bill 69, the impact thereof and the Company's intent to participate in the public consultations;
- drilling plans and the development of producing assets;
- drilling and completion costs;
- the pursuit by the Company of available remedies to protect its legal rights in Quebec;
- the Company's submission of an expanded application for a carbon storage pilot project under Bill 21;
- the status of the Company's work with Red Leaf Resources Inc. ("Red Leaf") in advancing its assets and developing its projects;
- the advancing of engineering for a potential project in Jordan in conjunction with local companies;
- future production of oil, natural gas and natural gas liquids, including anticipated production increases and declines;
- future drilling and production rates at Kakwa Central and North, and the timing of the same on such properties;
- future commodity prices;
- short term energy outlook and anticipated future energy inventories;
- the outlook for Canadian heavier crude and associated demand for the condensate as a diluent;
- the outlook for natural gas prices in North America for 2024 and beyond;
- tightness in the supply of oil and natural gas and market volatility;
- legislative and regulatory developments in the Province of Quebec;
- the transfer of wells drilled in 2024 from the proved undeveloped to the proved producing category;
- the development of producing assets to execute the Company business strategy;
- hedging policy;
- the renewal of the Company's credit facility with a Canadian chartered bank and the terms thereof;
- liquidity and capital resources;
- the Company's compliance with the terms of its credit facility;
- ability of the Company to meet its foreseeable obligations;
- capital expenditures and the funding thereof;
- Questerre's reserves;
- impacts of capital expenditures on the Company's reserves;
- commitments and Questerre's participation in future capital programs;
- the Company's objectives when managing its capital;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- the Company's guidelines to address financial exposure;
- counterparty creditworthiness and expected credit losses;

- the timing of receivables from joint venture partners;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A, the AIF, and the documents incorporated by reference into this document:

- drilling plans and the development of producing assets;
- future production of oil, natural gas and natural gas liquids;
- changes in future commodity prices;
- legislative and regulatory developments in the Province of Quebec including the enactment of Bill 21 and revocation of exploration licenses;
- the appeal by the Attorney General of the Quebec Superior Courts decision to suspend certain aspects of Bill 21;
- delays or changes in drilling plans on the Kakwa properties;
- the transfer of wells drilled in 2024 from the proved undeveloped to the proved producing category;
- failure to secure funding or otherwise advance projects and pilots with Red Leaf;
- the development of producing assets to execute the Company business strategy;
- hedging policy;
- liquidity and capital resources;
- the Company's compliance with the terms of its credit facility;
- the failure to renew the Company's credit facility by its lender on terms acceptable to the Company or at all;
- ability of the Company to meet its foreseeable obligations;
- capital expenditures and the funding thereof;
- Questerre's reserves;
- impacts of capital expenditures on the Company's reserves;
- average royalty rates;
- commitments and Questerre's participation in future capital programs;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness;
- the timing of receivables from joint venture partners;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

Statements relating to reserves are by their nature deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future.

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

BOE Conversions

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

Non-GAAP Measures

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

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

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

Adjusted Funds Flow From Operations Reconciliation

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2024**	2023	**2024**	2023
Net cash from operating activities	**$ 3,141**	$ 4,133	**$ 5,769**	$ 8,781
Change in non-cash operating working capital	**1,314**	1,202	**1,659**	831
Adjusted Fund Flow from Operations	**$ 4,455**	$ 5,335	**$ 7,428**	$ 9,612

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

The Company considers netbacks a key measure as it demonstrates its profitability relative to current commodity prices. Operating and cash netbacks, as presented, do not have any standardized meaning prescribed by GAAP and may not be comparable with the calculation of similar measures for other entities. Operating netbacks have been defined as revenue less royalties, transportation and operating costs. Cash netbacks have been defined as operating netbacks less general and administrative costs. Netbacks are generally discussed and presented on a per boe basis.

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

Select Information

As at/for the period ended,	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	**8,847**	10,702	**17,845**	21,233
Net Income	**1,262**	1,692	**1,087**	2,632
Adjusted Funds Flow from Operations	**4,455**	5,335	**7,428**	9,612
Basic and diluted ($/share)	**0.01**	0.01	**0.02**	0.02
Capital Expenditures	**7,034**	2,469	**9,664**	5,715
Working Capital Surplus	**27,620**	28,013	**27,620**	28,013
Total Assets	**179,248**	201,213	**179,248**	201,213
Shareholders' Equity	**145,941**	169,444	**145,941**	169,444
Common Shares Outstanding (thousands)	**428,516**	428,516	**428,516**	428,516
Weighted average - basic (thousands)	**428,516**	428,516	**428,516**	428,516
Weighted average - diluted (thousands)	**431,327**	431,100	**431,248**	431,060
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**931**	1,159	**955**	1,091
Natural Gas (Mcf/d)	**3,767**	4,911	**3,942**	4,760
Total (boe/d)	**1,559**	1,978	**1,612**	1,884
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	**98.39**	89.27	**93.64**	92.45
Natural Gas ($/Mcf)	**1.41**	2.72	**2.06**	3.32
Total ($/boe)	**62.36**	59.46	**60.85**	62.26
Netback ($/boe)				
Petroleum and Natural Gas Sales	**62.36**	59.46	**60.85**	62.26
Royalties Expense	**(0.61)**	(7.77)	**(3.86)**	(8.99)
Percentage	**1%**	13%	**6%**	14%
Direct Operating Expense	**(24.99)**	(17.32)	**(26.00)**	(20.82)
Operating Netback	**36.75**	34.37	**30.99**	32.45
Wells Drilled				
Gross	**1.00**	–	**3.00**	1.00
Net	**0.25**	–	**0.75**	0.35

(1) Adjusted Funds Flow from Operations is a non-GAAP measure defined as cash flows from operating activities before changes in non-cash operating working capital and interest paid or received.
(2) Working capital surplus is a non-GAAP measure calculated as current assets less current liabilities excluding the current portion of risk management and lease liabilities.
(3) Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead.

Highlights

- Three (0.75 net) wells completed at Kakwa Central
- Government of Quebec introduces Bill 69 for the responsible governance of energy resources in Quebec
- Average daily production of 1,559 boe per day with adjusted funds flow from operations of $4.5 million

Second Quarter 2024 Activities

Kakwa, Alberta

The operator at Kakwa Central spud the last of three wells during the quarter. The wells were subsequently completed using a revised completion design compared to prior wells. They have been tied-in to the local gathering system and it is anticipated they will be on production shortly. Questerre participated in this activity and holds a 25% working interest in these wells.

At Kakwa North, the operator proposes to drill three (1.5 net) wells beginning in the fourth quarter of this year using a similar completion design.

The Company plans to participate in future drilling at its joint ventures, subject to, among other things, commodity prices, and the costs and design of the proposed drilling and completion programs.

St. Lawrence Lowlands, Quebec

While Questerre pursues a business and political solution for the development of its natural gas discovery, it is protecting its legal rights following the enactment of Bill 21, *An Act mainly to end petroleum exploration and production and the public financing of those activities in Quebec* ("Bill 21").

The Company is assessing available provincial and federal funding programs for its proposed carbon storage pilot. This follows the application for the pilot submitted to the Quebec Ministry of Economy, Innovation and Energy (the "Ministry") under Bill 21 in the first quarter of this year. The project includes a comprehensive program to test the carbon storage potential including injection and monitoring wells, compression facilities and a pipeline to an adjacent industrial park.

In June, the Ministry tabled in the Quebec National Assembly Bill 69, *An Act to ensure the responsible governance of energy resources and to amend various legislative provisions* ("Bill 69"). The centerpiece of the proposed legislation is an integrated energy resource management plan to promote energy development in Quebec. Among other things, it will establish for electric power and natural gas markets, policy directions, objectives and targets regarding supply, energy infrastructure and innovation. Questerre intends to participate in the public consultations for Bill 69 to be held this fall.

During the quarter, the Attorney General of Quebec was granted leave to appeal the Quebec Superior Court (Civil Division) ruling from earlier this year suspending key provisions of Bill 21 pending a hearing on the merits of the case. The appeal is scheduled for October of this year. The Company is following the legal process for the main hearing. Following the questioning of key Government representatives to be scheduled for later this year, a trial date for the hearing on the merits of the case will be set.

Corporate

Following a review conducted in the second quarter, the Company's credit facilities with a Canadian chartered bank are expected to remain at $16 million. The renewal will take effect upon the execution of an amending agreement that should be completed late in the third quarter. The renewed facilities will consist of a revolving operating demand loan of $16 million. Any borrowings under the renewed facilities except letter of credit are subject to the Bank's prime rate and applicable basis point margin. The effective interest rate on the facility is 8.16% (2023: 7.74%). As at June 30, 2024, there were no material amounts drawn on the facilities and the Company held unrestricted cash and term deposits of $37 million.

Production

Three months ended June 30,	2024			2023		
	Oil and Liquids (bbls/d)	**Natural Gas (Mcf/d)**	**Equivalent (boe/d)**	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Alberta	**630**	**3,767**	**1,258**	850	4,911	1,669
Saskatchewan and Manitoba	**301**	**–**	**301**	309	–	309
	931	**3,767**	**1,559**	1,159	4,911	1,978

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

Six months ended June 30,	2024			2023		
	Oil and Liquids (bbls/d)	**Natural Gas (Mcf/d)**	**Equivalent (boe/d)**	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Alberta	**637**	**3,942**	**1,294**	777	4,760	1,570
Saskatchewan and Manitoba	**318**	**–**	**318**	314	–	314
	955	**3,942**	**1,612**	1,091	4,760	1,884

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

For both the three months and six months ended June 30, production volumes reflected natural declines in the current year with no offsetting increases from new wells. Last year, one (0.25 net) well was brought on stream in the second quarter. The three (0.75 net) wells now drilled and completed this year are expected to increase production in the latter half of the third quarter of 2024.

Consistent with prior periods, Kakwa accounted for over 80% of corporate production, split approximately 60/40 between the Kakwa Central and Kakwa North joint ventures. The Company's crude oil and liquids continued to represent 60% of volumes. With Kakwa production volumes equally split between liquids and natural gas, the higher liquids weighting is attributed to the incremental light oil volumes from Saskatchewan

and Manitoba. Production from these areas remained relatively stable with a new well in Saskatchewan brought on production last fall offsetting natural declines.

With the incremental production from new wells at Kakwa Central, production volumes are expected to increase over the remainder of this year. Subject to the timing of a possible drilling program at Kakwa North this fall, production volumes could increase further in the second half of next year.

Second Quarter 2024 Financial Results

Petroleum and Natural Gas Sales

Three months ended June 30,		**2024**			2023	
($ thousands)	**Oil and Liquids**	**Natural Gas**	**Total**	Oil and Liquids	Natural Gas	Total
Alberta	**$ 5,502**	**$ 507**	**$ 6,009**	$ 6,764	$ 1,269	$ 8,033
Saskatchewan and Manitoba	**2,838**	**–**	**2,838**	2,669	–	2,669
	$ 8,340	**$ 507**	**$ 8,847**	$ 9,433	$ 1,269	$ 10,702

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

Six months ended June 30,		**2024**			2023	
($ thousands)	**Oil and Liquids**	**Natural Gas**	**Total**	Oil and Liquids	Natural Gas	Total
Alberta	**$ 10,692**	**$ 1,593**	**$ 12,285**	$ 12,841	$ 3,002	$ 15,843
Saskatchewan and Manitoba	**5,560**	**–**	**5,560**	5,390	–	5,390
	$ 16,252	**$ 1,593**	**$ 17,845**	$ 18,231	$ 3,002	$ 21,233

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

Lower production volumes and, to a lesser extent, lower natural gas prices, offset the increase in realized liquids prices resulting in lower revenue for the quarter and six months ended June 30 compared to last year.

Pricing

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	**2024**	2023
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	**1.17**	2.27	**1.83**	2.93
Crude Oil - Mixed Sweet Blend ($/bbl)	**105.28**	94.97	**98.72**	96.99
Realized prices:				
Natural Gas ($/Mcf)	**1.41**	2.72	**2.06**	3.32
Crude Oil and Natural Gas Liquids ($/bbl)	**98.39**	89.27	**93.64**	92.45

Crude oil prices increased over the prior quarter and second quarter of 2023. In the second quarter of this year, the benchmark West Texas Intermediate ("WTI") averaged US$81 per barrel compared to US$77 per barrel last quarter and US$74 per barrel for the same period last year.

The extension of voluntary production cuts by OPEC+ in June and the conflict in the Middle East contributed to stronger prices in the current quarter. While global inventories are expected to decline over the remainder of this year because of these cuts and growing demand, the US Energy Information Administration's Short Term Energy Outlook anticipates inventories will increase next year due to stronger growth in non-OPEC+ countries including the United States, Canada and Guyana. Growth in Canada is in part due to the Trans Mountain pipeline expansion start-up this May that improved market egress, particularly for heavy oil production.

Questerre's realized prices in the second quarter of this year averaged $98.39 per barrel (2023: $89.27 per barrel) compared to the benchmark Canadian Mixed Sweet Blend price of $105.28 per barrel (2023: $94.97 per barrel).

Natural gas prices declined over both the prior period and same period last year. The benchmark Henry Hub averaged US$2.08 per MMBtu compared to US$2.13 per MMBtu last quarter and US$2.16 per MMBtu last year. Canadian natural gas prices declined more substantially with the AECO 5A benchmark averaging $1.12 per GJ compared to $2.36 per GJ last quarter and $2.27 per GJ in the second quarter of 2023.

Prices declined with US natural gas inventories nearly 40% above the five-year average at the end of the winter season and strong domestic production that has kept pace with demand and LNG exports. In Canada, similarly high inventories and production coupled with a lack of export capacity led to the larger drop in natural gas prices. While LNG Canada's export facility on the West Coast is expected to improve market access later this year, more LNG facilities are likely required to tighten the supply demand balance.

Relative to the benchmark AECO price for the quarter of $1.17 per Mcf (2023: $2.27 per Mcf), Questerre realized a price of $1.41 per Mcf (2023: $2.72 per Mcf), reflecting the higher heat content of production from Kakwa.

Royalties

($ thousands)	Three months ended June 30, 2024	2023	Six months ended June 30, 2024	2023
Alberta	**$ (128)**	$ 1,150	**$ 702**	$ 2,600
Saskatchewan and Manitoba	**215**	248	**432**	465
	$ 87	$ 1,398	**$ 1,134**	$ 3,065
% of Revenue:				
Alberta	**-**	14%	**6%**	16%
Saskatchewan and Manitoba	**8%**	9%	**8%**	9%
Total Company	**1%**	13%	**6%**	14%

For the three and six months ended June 30, 2024, royalty expense decreased by $1.3 million and $1.9 million respectively over the prior year due to credits received for processing the Crown's share of production in Alberta in the current quarter. Excluding these credits, royalty expense on production in Alberta was $0.9 million for the quarter and $1.7 million for the first half of the year, representing a royalty rate of 15% and 14% respectively.

Royalties on production in Saskatchewan and Manitoba declined by approximately 10% to $0.2 million for the three months and $0.4 million for the six months ended June 30, 2024. On a percentage of revenue basis, this declined slightly to 8% from 9% last year.

Operating Costs

($ thousands)	Three months ended June 30, 2024	2023	Six months ended June 30, 2024	2023
Alberta	**$ 2,629**	$ 2,328	**$ 5,648**	$ 5,553
Saskatchewan and Manitoba	**730**	693	**1,640**	1,438
Quebec	**187**	97	**336**	111
	$ 3,546	$ 3,118	**$ 7,624**	$ 7,102
$/boe:				
Alberta	**22.97**	15.33	**23.98**	19.53
Saskatchewan and Manitoba	**26.63**	24.59	**28.39**	25.32
Total Company	**$ 24.99**	$ 17.32	**$ 26.00**	$ 20.82

For the second quarter, operating costs increased by nearly 15% over the prior year to $3.5 million from $3.1 million last year. For the first half of the year, costs increased by under 10% to $7.6 million from $7.1 million last year. On unit of production basis, the higher costs and lower volumes resulted in a more material increase for both periods over last year.

In Kakwa, higher operating costs at Kakwa North related to gas transportation fees incurred in the current year. With operating costs in Saskatchewan and Manitoba largely unchanged over the prior year, higher

costs in the first quarter account for the variance in the year to date period. Operating costs in Quebec represent the costs associated with maintaining the Company's assets in the province.

General and Administrative Expenses

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2024**	2023	**2024**	2023
General and administrative expenses, gross	**$ 1,167**	$ 1,236	**$ 2,447**	$ 2,444
Capitalized expenses and overhead recoveries	**(89)**	(72)	**(180)**	(152)
General and administrative expenses, net	**$ 1,078**	$ 1,164	**$ 2,267**	$ 2,292

For the three months ended June 30, 2024, gross General and Administrative expenses ("G&A") decreased by under 10% for the quarter to $1.2 million and remained unchanged for the six-month period then ended at $2.4 million. Net of capitalized expenses related to the Company's assets in Kakwa and Jordan, the Company reported a similar variance in net G&A.

Depletion, depreciation, accretion, lease expiries and impairment

Questerre recorded depletion, depreciation and accretion expense of $2.9 million for the quarter ended June 30, 2024 (2023: $3.3 million) and $5.7 million for the six months then ended (2023: $6.2 million). Depletion accounts for over 95% of these amounts. The lower expense is due to the lower production volumes. On a boe basis, the reduction in the total proved and probable reserves as at December 31, 2023, translated to an increase from $17.16 per boe to $18.32 per boe for the six months ended June 30, 2024.

Net interest, other income and share based compensation expense

During the three months ended June 30, 2024, the Company reported net interest and other income of $0.3 million (2023: $0.3 million) and for the six months then ended, it reported $0.7 million (2023: $0.9 million). This includes $0.6 million in interest earned on its cash deposits for both year to date periods. In the prior year, the Company recorded a $0.3 million settlement received on a restructuring transaction in the first quarter.

Year to date, the Company recorded share-based compensation expense of $0.7 million (2023: $0.8 million) net of $0.2 million in expense capitalized during the period (2023: $0.1 million).

Other comprehensive income (loss) and expenses

In 2024, the Company recorded other comprehensive income of $0.1 million for the quarter (2023: $0.1 million loss) and $0.4 million for the first half of the year (2023: $0.3 million loss). These amounts relate to the impact of changes in foreign exchange for the respective periods. The appreciation of the Jordanian dinar resulted in income of $0.2 million (2023: $0.3 million loss) on the Company's dinar denominated assets in the country for the first half of the year. Similarly, the appreciation in the US dollar resulted in a gain of $0.2 million (2023: nominal loss) on its US dollar denominated investment in Red Leaf.

Net income and total comprehensive income

Net income for the current quarter was $1.3 million (2023: $1.7 million) and $1.1 million year to date (2023: $2.6 million). The decline over the prior year is attributable to the decline in petroleum and natural gas sales offset by the reduction in royalties in the current quarter. Including other comprehensive income, the total comprehensive income for the quarter was $1.4 million (2023: $1.6 million) and $1.5 million (2023: $2.4 million) year to date.

Cash flow from operating activities

For the six months ended June 30, 2024, net cash from operating activities was $5.8 million compared to $8.8 million last year. The variance is due to the lower oil and gas revenue in the current year partially offset by a larger decrease in non-cash working capital compared to last year. This also explains the decrease in the net cash from operating activities for the quarter ended June 30, 2024, compared to the prior year.

Cash flow used in investing activities

Cash flow used in investing activities for the first half of the year increased to $3.7 million this year from $3.1 million last year. Total capital expenditures of $9.7 million for the period include the new wells at Kakwa, a portion of which were payable at the period end which contributes to the increased non-cash working capital. This also accounts for the increase in cash flow used in investing activities for the current quarter.

Cash flow used in financing activities

For the second quarter and the year to date, net cash used in financing activities was minimal and represents the interest portion of its operating leases.

Capital Expenditures

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2024**	2023	**2024**	2023
Alberta	**$ 6,185**	$ 547	**$ 8,712**	$ 3,314
Saskatchewan, Manitoba and Jordan	**849**	1,922	**952**	2,401
Total Company	**$ 7,034**	$ 2,469	**$ 9,664**	$ 5,715

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

For the first half of 2024, the Company incurred capital expenditures of $9.7 million as follows:

- In Alberta, $8.7 million was incurred to drill and complete three (0.75 net) wells at Kakwa Central; and
- $1 million was invested in other assets.

For the first half of 2023, the Company incurred capital expenditures of $5.7 million as follows:

- In Alberta, $3.3 million was incurred to finalize drilling and completion operations on one (0.25 net) wells at Kakwa Central;
- In Saskatchewan, $1.6 million was invested in well workovers and a pressure maintenance scheme;

- $0.5 million was invested to drill and complete one (0.35 net) well in Manitoba; and
- The remaining $0.3 million capital was spent on the Company's other assets.

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 June 30, 2024, there were no Class "B" Common voting shares or preferred shares outstanding. The following table provides a summary of the outstanding Common Shares and options as at the date of the MD&A, the current quarter-end and the preceding year-end.

(thousands)	August 8, 2024	June 30, 2024	December 31, 2023
Common Shares	**428,516**	**428,516**	428,516
Stock Options	**38,420**	**38,420**	38,140
Weighted average common shares			
Basic		**428,516**	428,516
Diluted		**431,248**	428,516

A summary of the Company's stock option activity for the six months ended June 30, 2024, and the year ended December 31, 2023, follows:

	June 30, 2024		December 31, 2023	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	**38,140**	**$ 0.26**	35,298	$ 0.28
Granted	**6,700**	**0.25**	6,000	0.24
Forfeited/cancelled	**(620)**	**0.27**	–	–
Expired	**(5,800)**	**0.29**	(3,158)	0.48
Outstanding, end of period	**38,420**	**$ 0.25**	38,140	$ 0.26
Exercisable, end of period	**26,015**	**$ 0.24**	28,153	$ 0.25

Liquidity and Capital Resources

The Company's objectives when managing its capital are firstly to maintain financial liquidity, and secondly to optimize the cost of capital at an acceptable risk to sustain the future development of the business.

The Company continues to manage its financial liquidity through ensuring capital expenditures can be financed through a combination of cash flow from operations and available debt facilities.

At June 30, 2024, and December 31, 2023, a very small amount was drawn on the credit facilities and the Company is compliant with all of its covenants under the credit facilities. Under the terms of the credit facilities, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2024, was 3.99 and the covenant was met. See Note 11 of the Financial Statements.

The Company's credit facilities with a Canadian chartered bank are $16 million and, subject to the completion of the review, it is anticipated this will remain unchanged. The credit facilities are a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. In the current market, the Company may be unable to secure additional financing on acceptable terms, if at all.

The Company believes that it has access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations over the next 12 months.

The Company is committed to the 2024 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2023. It anticipates that, as a result, reserves associated with wells drilled in 2024 will be transferred from the proved undeveloped to the proved producing category.

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

Commitments

A summary of the Company's net commitments at June 30, 2024, are as follows:

($ thousands)	2024	2025	2026	2027	Total
Transportation and Processing	$ 1,714	$ 2,515	$ 1,566	$ 545	$ 6,340

To maintain its capacity to execute its business strategy, the Company expects that it will need to continue the development of its producing assets. There will also be expenditures in relation to G&A and other operational expenses. These expenditures are not yet commitments, but Questerre expects to fund such

amounts primarily out of adjusted funds flow from operations and its existing credit facilities.

Risk Management

Companies engaged in the petroleum and natural gas industry face a variety of risks. For Questerre, these include risks associated with commodity prices, exploration and development drilling as well as production operations, foreign exchange and interest rate fluctuations. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates, government regulations and global economic conditions could have an impact on the Company's future operating results and/or financial condition. While management realizes that all the risks may not be controllable, Questerre believes that they can be monitored and managed. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF and Note 6 to the audited consolidated financial statements for the year ended December 31, 2023.

Volatility in the oil and gas industry is a major risk facing the Company. Market events and conditions, including global oil and natural gas supply and demand, actions taken by OPEC and non-OPEC member countries' decisions, including recent decisions by Saudi Arabia and Russia, on production growth and spare capacity, market volatility and disruptions, weakening global relationships, the war in Ukraine, conflict between the U.S. and Iran, isolationist and punitive trade policies, hostilities in the Middle East, Ukraine and Taiwan, U.S. shale production, sovereign debt levels and political upheavals in various countries including growing anti-fossil fuel sentiment, have caused significant volatility in commodity prices. Russia's invasion of Ukraine has led to sanctions being levied against Russia by the international community and may result in additional sanctions or other international action, any of which may have a destabilizing effect on commodity prices and global economies more broadly. These events and conditions have been a factor in the decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax and royalty changes and other environmental regulations.

In addition, the difficulties in obtaining the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil and gas industry in Western Canada has led to additional uncertainty and reduced confidence in the oil and gas industry in Western Canada. Lower commodity prices may also affect the volume and value of the Company's reserves especially as certain reserves become uneconomic. In addition, lower commodity prices have previously reduced the Company's cash flow leading to a reduction in funds available for capital expenditures. As a result, the Company may not be able to replace its production with additional reserves and both the Company's production and reserves could be reduced on a year over year basis. Any decrease in value of the Company's reserves may reduce the borrowing base under its credit facilities, which, depending on the level of the Company's indebtedness, could result in the Company having to repay all or a portion of its indebtedness. Given the current market conditions and the lack of confidence in the Canadian oil and natural gas industry, the Company may have difficulty raising

additional funds in the future to raise funds on unfavourable and highly dilutive terms.

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

As future capital expenditures will be financed out of adjusted funds flow from operations, borrowings and possible future equity sales, the Company's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry, and the Company's securities. To the extent that external sources of capital become limited or unavailable, or available but on onerous terms, the Company's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected. Based on current funds available and expected adjusted funds flow from operations, the Company believes it has sufficient funds available to fund its projected capital expenditures. However, if adjusted funds flow from operations is lower than expected, or capital costs for these projects exceed current estimates, or if the Company incurs major unanticipated expense related to development or maintenance of its existing properties, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Company's capital expenditure plans may result in a delay in development or production on the Company's properties.

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

The Company uses the following guidelines to address financial exposure:

- Internally generated cash flow provides the initial source of funding on which the Company's annual capital expenditure program is based.
- Equity, if available on acceptable terms, may be raised to fund acquisitions and capital expenditures.
- Debt may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be controlled.
- Farm-outs of projects may be arranged if management considers that a project requires too much capital or where the project affects the Company's risk profile.

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises from the Company's receivables from joint venture partners and oil and gas marketers. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. Credit risk also arises from the Company's cash and cash equivalents. In the past, the Company manages credit risk exposure by investing in Canadian

banks and credit unions. Management does not expect any counterparty to fail to meet its obligations.

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

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

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing and infrastructure companies and the Company has not experienced any credit loss relating to these sales to date. The Company has a provision of $0.05 million at June 30, 2024, for its expected credit losses related to its accounts receivable.

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

Exploration and development drilling risks are managed through the use of geological and geophysical interpretation technology, employing technical professionals and working in areas where those individuals have experience. For its non-operated properties, the Company strives to develop a good working relationship with the operator and monitors the operational activity on the property. The Company also carries appropriate insurance coverage for risks associated with its operations.

The Company may use financial instruments to reduce corporate risk in certain situations. Questerre's hedging policy is up to a maximum of 40% of total production at management's discretion.

As at June 30, 2024, the Company had no outstanding commodity risk management contract in place.

Environmental Regulation and Risk

The oil and natural gas industry is currently subject to environmental regulations pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases of emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and natural gas industry operations, which can affect the location and operation of wells and facilities, and the extent to which exploration and development is permitted. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such

legislation can require significant expenditures, and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders. The Company mitigates the potential financial exposure of environmental risks by complying with the existing regulations and maintaining adequate insurance. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF.

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

Interest Rate Risk

Interest rate risk is the risk that changes in the applicable interest rates will impact the Company's interest expense related to its credit facilities. Given the unutilized credit facility, a 0.5% change in interest rates applicable to its credit facilities would have no impact on net income (loss). At June 30, 2024, the Company had credit facilities outstanding of effectively nil (December 31, 2023: nil) with an effective rate of 8.16% (June 30, 2023: 7.74%).

Critical Accounting Estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These estimates and judgments have the 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. The use of critical accounting estimates made by management in the preparation of the interim financial statements are discussed under the section "Critical Accounting Estimates" in the MD&A for the year ended December 31, 2023.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on April 1, 2024, and ended on June 30, 2024, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Quarterly Financial Information

($ thousands, except as noted)	**June 30 2024**	Mar 31 2024	Dec 31 2023	Sept 30 2023
Production (boe/d)	**1,559**	1,664	1,794	1,830
Average Realized Price ($/boe)	**62.36**	59.43	59.04	63.71
Petroleum and Natural Gas Revenue	**8,847**	8,998	9,743	10,725
Adjusted Funds Flow from Operations	**4,455**	2,973	3,209	3,034
Net Income (Loss)	**1,262**	(175)	(26,003)	(337)
Basic and Diluted ($/share)	**–**	–	(0.06)	–
Capital Expenditures, net of acquisitions and dispositions	**7,034**	2,630	3,588	845
Working Capital Surplus	**27,620**	30,211	29,866	30,191
Total Assets	**179,248**	172,968	172,346	197,716
Shareholders' Equity	**145,941**	144,148	143,667	169,636
Weighted Average Common Shares Outstanding				
Basic (thousands)	**428,516**	428,516	428,516	428,516
Diluted (thousands)	**431,327**	428,516	428,516	428,516

($ thousands, except as noted)	June 30 2023	Mar 31 2023	Dec 31 2022	Sept 30 2022
Production (boe/d)	1,978	1,790	2,023	1,629
Average Realized Price ($/boe)	59.46	65.38	72.87	77.40
Petroleum and Natural Gas Revenue	10,702	10,531	13,562	11,602
Adjusted Funds Flow from Operations	5,335	4,277	4,670	5,183
Net Income (Loss)	1,692	946	(122)	2,759
Basic and Diluted ($/share)	–	–	–	0.01
Capital Expenditures, net of acquisitions and dispositions	2,469	3,246	2,169	1,653
Working Capital Surplus (Deficit)	28,013	25,085	24,491	14,433
Total Assets	201,213	199,264	196,486	196,258
Shareholders' Equity	169,444	167,371	166,128	166,235
Weighted Average Common Shares Outstanding				
Basic (thousands)	428,516	428,516	428,516	428,516
Diluted (thousands)	431,100	431,064	428,516	430,727

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

- Petroleum and natural gas revenues and adjusted funds flow from operations have generally fluctuated with production volumes and realized commodity prices. Commodity prices generally declined since December 2022.
- Production volumes have averaged approximately 1,800 boe per day with a variance of 10% over the period and reflect natural declines offset in part by the addition of new wells at Kakwa Central. Additionally, in the fourth quarter of 2022, the Company increased production by converting a royalty interest into a working interest at Kakwa North.

- The working capital position has generally increased when capital expenditures and other investments have been lower than adjusted funds flow from operations and cash from financing activities.
- Shareholders' equity increased as a result of net income, primarily from higher commodity prices and production volumes. Excluding the current quarter, it has decreased for the last three quarters with the largest decrease due to the impairments related to its assets in Kakwa and Antler.

Off-Balance Sheet and Related Party Transactions

The Company did not engage in any off-balance sheet transactions nor any related party transactions during the six month period ended June 30, 2024.

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

Pursuant to National Instrument 51-102 *Continuous Disclosure Obligations,* Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of Questerre Energy Corporation for the interim reporting period ended June 30, 2024, have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board, and are the responsibility of the Company's management.

The Company's external auditors, Ernst and Young LLP, have not performed a review of these unaudited consolidated interim financial statements in accordance with the standards established by Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's external auditor.

Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note	June 30, 2024	December 31, 2023
Assets			
Current Assets			
Cash and cash equivalents		$ 37,081	$ 35,038
Accounts receivable		3,648	3,016
Deposits and prepaid expenses		1,445	1,419
		42,174	39,473
Right-of-use assets		157	180
Investments	3	4,638	4,471
Property, plant and equipment	4	110,838	115,935
Exploration and evaluation	5	21,441	12,287
		$ 179,248	$ 172,346
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 14,357	$ 9,387
Lease liabilities		59	58
Credit facilities	11	38	36
Current portion of asset retirement obligation	6	159	184
		14,613	9,665
Lease liabilities		109	134
Asset retirement obligation	6	18,585	18,880
		$ 33,307	$ 28,679
Shareholders' Equity			
Share capital	7	$ 429,878	$ 429,878
Contributed surplus		28,725	27,908
Accumulated other comprehensive income (loss)		350	(20)
Deficit		(313,012)	(314,099)
		145,941	143,667
		$ 179,248	$ 172,346

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

Condensed Consolidated Interim Statements of Net Income and Comprehensive Income *(unaudited)*

($ thousands)	Note	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Revenue					
Petroleum and natural gas sales including royalty revenue	10	**$ 8,847**	$ 10,702	**$ 17,845**	$ 21,233
Royalties		**(87)**	(1,398)	**(1,134)**	(3,065)
Petroleum and natural gas sales, net of royalties		**8,760**	9,304	**16,711**	18,168
Expenses					
Direct operating		**3,546**	3,118	**7,624**	7,102
General and administrative		**1,078**	1,164	**2,267**	2,292
Depletion, depreciation, accretion and impairment	4,5,6	**2,858**	3,252	**5,726**	6,227
Share based compensation	8	**345**	404	**662**	804
Net interest and other income		**(329)**	(326)	**(655)**	(889)
		7,498	7,612	**15,624**	15,536
Net income		**$ 1,262**	$ 1,692	**$ 1,087**	$ 2,632
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustment		**69**	(135)	**214**	(256)
Gain (loss) on foreign exchange on investments	3	**38**	41	**156**	(5)
		107	(94)	**370**	(261)
Total comprehensive income		**$ 1,369**	$ 1,598	**$ 1,457**	$ 2,371
Net income per share					
Basic and diluted	7	**$ –**	$ –	**$ –**	$ 0.01

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

Condensed Consolidated Interim Statements of Changes in Equity

(unaudited)

	Six months ended June 30,	
($ thousands)	**2024**	2023
Share Capital		
Balance, beginning and end of period	**$ 429,878**	$ 429,878
Contributed Surplus		
Balance, beginning of period	**27,908**	26,301
Share based compensation	**817**	945
Balance, end of period	**$ 28,725**	$ 27,246
Accumulated Other Comprehensive Income		
Balance, beginning of period	**(20)**	296
Other comprehensive income (loss)	**370**	(261)
Balance, end of period	**$ 350**	$ 35
Deficit		
Balance, beginning of period	**(314,099)**	(290,347)
Net income	**1,087**	2,632
Balance, end of period	**$ (313,012)**	$ (287,715)
Total Shareholders' Equity	**$ 145,941**	$ 169,444

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

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

		Three months ended June 30,		Six months ended June 30,	
($ thousands)	Note	**2024**	2023	**2024**	2023
Operating Activities					
Net income		**$ 1,262**	$ 1,692	**$ 1,087**	$ 2,632
Adjustments for:					
Depletion, depreciation, accretion and impairment	4,5,6	**2,858**	3,252	**5,726**	6,227
Share based compensation	8	**345**	404	**662**	804
Other income		**(6)**	(10)	**(14)**	(9)
Abandonment expenditures	6	**(4)**	(3)	**(33)**	(42)
		4,455	5,335	**7,428**	9,612
Change in non-cash working capital		**(1,314)**	(1,202)	**(1,659)**	(831)
Net cash from operating activities		**$ 3,141**	$ 4,133	**$ 5,769**	$ 8,781
Investing Activities					
Property, plant and equipment expenditures	4	**(817)**	(2,087)	**(768)**	(2,488)
Exploration and evaluation expenditures	5	**(6,217)**	(382)	**(8,896)**	(3,227)
Change in non-cash working capital		**5,076**	725	**5,967**	2,602
Net cash used in investing activities		**$ (1,958)**	$ (1,744)	**$ (3,697)**	$ (3,113)
Financing Activities					
Principal portion of lease payments		**(16)**	(14)	**(31)**	(27)
Drawdown under credit facilities		**1**	1	**2**	2
Net cash used in financing activities		**$ (15)**	$ (13)	**$ (29)**	$ (25)
Change in cash, cash equivalents		**1,168**	2,376	**2,043**	5,643
Cash, cash equivalents, beginning of period		**35,913**	32,857	**35,038**	29,590
Cash, cash equivalents, end of period		**$ 37,081**	$ 35,233	**$ 37,081**	$ 35,233

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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2024, and 2023 (unaudited)

1. Reporting Entity and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high-quality resources. These condensed consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2024, and 2023 comprise the Company and its wholly owned subsidiaries.

Questerre is incorporated under the laws of the Province of Alberta and is domiciled in Canada. The address of its registered office is 1650, 801 – 6 Avenue SW, Calgary, Alberta.

These unaudited condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on August 8, 2024.

2. Significant Accounting Policies

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The unaudited condensed interim consolidated financial statements follow the same accounting policies as the most recent annual audited consolidated financial statements. The interim consolidated financial statements note disclosures do not include all of those required by International Financial Reporting Standards ("IFRS") applicable for annual consolidated financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2023, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these condensed interim consolidated financial statements.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the six month period ended June 30, 2024, that are applicable to the Company in future periods. A detailed description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2023.

3. Investment in Red Leaf

Red Leaf Resources Inc. ("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, its oil shale leases and its assets in the Uinta Basin in the state of Utah.

Questerre holds 132,292 common shares, representing just over 40% of the common share capital of Red Leaf and 288 Series A Preferred Shares of Red Leaf representing less than 16% of the issued and outstanding preferred shares capital of Red Leaf.

Questerre has determined its investment in Red Leaf will be accounted for using the equity method. This is based on several criteria including its current equity interest in Red Leaf and ability to participate in the decision-making process of Red Leaf through its current Board representation. The Company measures the fair market value of its investment using a net liquidation approach. The net liquidation value is calculated as the net current assets of Red Leaf less abandonment and other liabilities, the accrued and unpaid dividends associated with the preferred shares and an estimate of research and development and general and administrative expenses for the current fiscal year.

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

($ thousands)		June 30, 2024		December 31, 2023
Balance, beginning of year	$	4,471	$	5,796
Gain (loss) on equity investment		11		(1,232)
Gain (loss) on foreign exchange		156		(93)
Balance, end of period	$	4,638	$	4,471

For the six months ended June 30, 2024, the gain on foreign exchange relating to investments was $0.2 million (December 31, 2023: $0.1 million loss).

4. Property, Plant and Equipment

The following table provides a reconciliation of the Company's property, plant, and equipment assets:

($ thousands)		
Cost or deemed cost:		
Balance, December 31, 2022	$	303,826
Change to asset retirement net of additions		4,188
Transfer from exploration and evaluation assets		6,307
Balance, December 31, 2023		314,321
Change to asset retirement net of additions		282
Balance, June 30, 2024	**$**	**314,603**
Accumulated depletion, depreciation and impairment losses:		
Balance, December 31, 2022	$	162,759
Depletion and depreciation		11,890
Impairments		23,737
Balance, December 31, 2023		198,386
Depletion and depreciation		5,379
Balance, June 30, 2024	**$**	**203,765**

($ thousands)		
Net book value:		
At December 31, 2023	$	115,935
At June 30, 2024	**$**	**110,838**

During the period ended June 30, 2024, and year ended December 31, 2023, the Company did not capitalize any administrative overhead or share based compensation expense directly related to development activities. Included in the June 30, 2024, depletion calculation is estimated future development costs of $319.6 million (December 31, 2023: $319.6 million).

No indicators of impairment nor indicators to reverse previously recorded impairment were identified as at June 30, 2024.

5. Exploration and Evaluation

The following table provides a reconciliation of the Company's exploration and evaluation assets on a year-to-date basis:

($ thousands)		June 30, 2024		December 31, 2023
Balance, beginning of year	$	12,287	$	14,227
Additions		8,899		5,591
Transfers to property, plant and equipment		–		(6,307)
Undeveloped lease impairments		–		(826)
Undeveloped lease expiries and farmouts		41		(139)
Foreign currency translation adjustment - Jordan		214		(259)
Balance, end of period	$	21,441	$	12,287

During the period ended June 30, 2024, the Company capitalized administrative overhead charges of $0.2 million (December 31, 2023: $0.4 million) and $0.1 million of share based compensation expense (December 31, 2023: $0.2 million) directly related to exploration and evaluation activities.

The Company determined that there were no impairment indicators for its exploration and evaluation assets as of June 30, 2024.

6. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be $18.7 million as at June 30, 2024 (December 31, 2023: $19.1 million) based on an undiscounted total future liability of $24.3 million (December 31, 2023: $24.3 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 3.66% (December 31, 2023: 3.39%). An inflation rate of 2% (December 31, 2023: 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 on a year-to-date basis:

($ thousands)		June 30, 2024		December 31, 2023
Balance, beginning of year	$	**19,064**	$	19,441
Liabilities settled		**(33)**		(255)
Revisions due to change in estimates and discount rates		**(723)**		(878)
Liabilities incurred		**79**		73
Accretion		**357**		683
Balance, end of period	$	**18,744**	$	19,064
Current portion		**159**		184
Non-current portion		**18,585**		18,880
Balance, end of period	$	**18,744**	$	19,064

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At June 30, 2024, there were no Class "B" Common voting shares or preferred shares outstanding.

a) *Issued and outstanding – Common Shares*

	Number *(thousands)*		Amount *($ thousands)*
Balance December 31, 2023 and June 30, 2024	**428,516**	$	**429,878**

b) *Per share amounts*

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

(thousands, except as noted)		*Three months ended June 30,* 2024		2023		*Six months ended June 30,* 2024		2023
Net income	$	**1,262**	$	1,692	$	**1,087**	$	2,632
Weighted average Common Shares beginning of period and outstanding		**428,516**		428,516		**428,516**		428,516
Basic net income per share	$	**–**	$	–	$	**–**	$	0.01

(thousands, except as noted)	Three months ended June 30, 2024	2023	Six months ended June 30, 2024	2023
Net income	**$ 1,262**	$ 1,692	**$ 1,087**	$ 2,632
Weighted average Common Shares outstanding (basic)	**428,516**	428,516	**428,516**	428,516
Effect of outstanding options	**2,811**	2,584	**2,732**	2,544
Weighted average Common Shares outstanding (diluted)	**431,327**	431,100	**431,248**	431,060
Diluted net income per share	**$ –**	$ –	**$ –**	$ 0.01

Under the current stock option plan, options can be exchanged for Common Shares, or for cash at the Company's discretion. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. For the six months ended June 30, 2024, 23.9 million options (June 30, 2023: 26.5 million options) were excluded from the diluted weighted average number of Common Shares outstanding as they were out of the money and their effect would have been anti-dilutive.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date. The grants expire five years from the grant date. The Company accounts for its share-based compensation awards on the basis that the options will be equity settled.

For the six months ending June 30, 2024, the Company issued 6.7 million options with an estimated fair value of $0.19 per option. The grant price was equivalent or greater than the market price on the date of issuance. The options were valued using the Black-Scholes option pricing model. The weighted average assumptions used by the Company in this pricing model were as follows: Volatility (%): 103.50, Risk Free Rate (%): 3.57, Expected Life (years): 5.0 and Unvested Forfeiture Rate (%): 8.86.

On a year-to-date basis, the number and weighted average exercise prices of the outstanding stock options are as follows:

	June 30, 2024		December 31, 2023	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	**38,140**	**$ 0.26**	35,298	$ 0.28
Granted	**6,700**	**0.25**	6,000	0.24
Forfeited/cancelled	**(620)**	**0.27**	–	–
Expired	**(5,800)**	**0.29**	(3,158)	0.48
Outstanding, end of period	**38,420**	**$ 0.25**	38,140	$ 0.26
Exercisable, end of period	**26,015**	**$ 0.24**	28,153	$ 0.25

9. 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 June 30, 2024, included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at June 30, 2024, excluding the investment in Red Leaf, the fair values of the Company's financial assets and liabilities equaled their carrying values due to the short-term maturity.

c) *Market risk*

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's profit or loss or the value of its financial instruments. The objective of the Company is to mitigate exposure to these risks while maximizing returns to the Company.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted both by the relationship between the Canadian and United States dollar and world economic events that dictate the levels of supply and demand. The Company may enter into oil and natural gas contracts to protect, to the extent possible, its cash flows from future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas.

As at June 30, 2024, 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 June 30, 2024, the Company had no forward foreign exchange contracts in place.

d) *Credit risk*

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises principally from the Company's receivables from joint venture partners and oil and gas marketers. The Company manages the credit risk associated with its oil and gas marketers by transacting with high quality counterparties, establishing concentration limits, monitoring credit ratings and if required the posting of guarantees.

e) *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.

10. Petroleum and Natural Gas Sales

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2024**	2023	**2024**	2023
Crude oil and natural gas liquids	**$ 8,328**	$ 9,428	**$ 16,232**	$ 18,210
Natural gas	**502**	1,267	**1,581**	2,981
Royalty revenue	**17**	7	**32**	42
	$ 8,847	$ 10,702	**$ 17,845**	$ 21,233

11. Credit Facilities

As at June 30, 2024, the credit facilities consisted primarily of a revolving operating demand facility of $16 million. The facility can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. The effective interest rate on the facility for the six months ended June 30, 2024, was 8.16% (2023: 7.74%). As at June 30, 2024, and December 31, 2023, a very nominal amount was drawn on the facility and the Company held unrestricted cash of over $30 million. The credit facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the credit facility, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2024, was 3.99 and the covenant was met.

The credit facilities are demand facilities and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. Following a review conducted in the second quarter, the Company's credit facilities with a Canadian chartered bank are expected to remain at $16 million.

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