2020 SECOND QUARTER REPORT

QUESTERRE ENERGY CORPORATION

QUESTERRE

CONTENTS

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

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

President's Message

We responded quickly to the impacts of the COVID-19 pandemic and the ensuing global shutdown during the second quarter.

To weather the collapse in oil prices, we cut spending and reduced overheads and operating costs wherever possible. The capital savings and the imminent credit facility renewal have strengthened our financial liquidity. With cost reductions of about $3/bbl, we can now operate at a lower breakeven price.

The crisis has also created an unexpected opportunity to move our Clean Tech Energy project forward.

As securing local supply chains and developing projects to restart the economic recovery and create jobs have become top priorities in Quebec, interest in our project is growing. Late in the quarter, we resumed discussions with stakeholders including farmers, local municipalities and First Nations on their participation and support. We have been very pleased with the recent progress and hope to conclude several participation agreements later this year.

Highlights

- Reengaging with stakeholders to build social acceptability for Clean Tech Energy in Quebec
- Credit facilities will be renewed at $20 million
- Collapse in oil prices responsible for adjusted funds flow from operations of $0.2 million with average daily production of 2,058 boe/d

Clearly, the uncertainty around future oil prices is a real challenge. Several majors dropped their price forecasts for the next few years and a number of producers are facing insolvency. We believe prices will eventually recover as world energy demand continues to grow with the population but the timing is uncertain.

Until prices recover, we are preserving the option on our billion-barrel resource in Jordan by cutting third-party engineering expenses as reported last quarter. We are still looking at technical changes aimed at materially cutting capex for the project so it can make a reasonable profit at lower oil prices.

While the social acceptability and regulatory challenges remain, our Quebec project is robust economically with premium local prices and could be profitable at today's natural gas prices.

The combination of the right geology, modern drilling and completion technology, and premium local pricing contributes to strong economics in today's pricing environment. Our breakeven price on a per well basis, adjusted for a transportation premium, ranges between $2.50/MMBtu and under $1/MMBtu. This compares quite favorably to the breakeven price of $2.40/MMBtu for a select group of US and Canadian gas producers as reported in a research note recently published by a Canadian brokerage firm.

These robust economics and the scale of our discovery are why we are still working on the social acceptability and regulatory hurdles for the last decade. We share our shareholders' increasing frustration at how long this has taken with no definitive timeline as to when it will be completed. But it is important to recognize how far we have come and our plan to move forward.

The completion of several environmental impact assessments and the passage of new environmental and hydrocarbon laws and the associated regulations were major milestones. Many other jurisdictions that suspended development did not make it this far. The two changes to the hydrocarbon regulations introduced in the fall of 2018 were disappointing but these can be changed at the Government's discretion.

While the situation in Quebec is very nuanced, our experience, validated by polling data, suggests a silent majority supports our project while a vocal minority opposes it. This varies by region, but is generally true particularly in the regions where we plan to operate. Our plan is simply to ensure the benefits are maximized and shared by many and have them openly support it.

We are now more optimistic because our project can satisfy the two new priorities in Quebec post COVID-19, securing local supplies and creating economic activity, specifically employment. More importantly our Clean Tech Energy project helps climate goals by producing natural gas with zero emissions. Another encouraging sign was the introduction of Bill C-61 in the National Assembly in Quebec to fast-track projects that help with the recovery.

Operating & Financial

While production remained largely flat over the prior year at just over 2,000 boe/d, depressed oil prices severely impacted our financial results. Realized crude oil and liquids prices averaged just over $21/bbl in the quarter, down from $49/bbl last quarter and $66/bbl last year. Although we reduced costs, the lower prices resulted in adjusted funds flow from operations of $0.2 million for the quarter. We expect this will improve over the next two quarters assuming oil prices continue to stabilize.

We expect capital spending will be limited this year since current prices are below our economic hurdle at Kakwa and we have no pressing land tenure issues. We plan to participate in the completion and equipping of the one well drilled this winter at an estimated cost of $2 million. Total capital spending was $3.4 million for the first half of the year and, including the completion and equipping, we expect to spend an additional $3 million by year-end. We anticipate confirming our credit facilities unchanged at $20 million though $3 million of this amount will bear a slightly higher interest rate. This is in spite of Government announced financial support not being possible to access on practical terms.

Outlook

Although oil prices improved this spring, there are a few unknowns, particularly the timing and strength of the global economic recovery. As a result, we are maintaining a defensive position, preserving financial liquidity and the long-term value of our assets.

In spite of natural gas prices under $3/MMBtu and governments with ambitious goals of 'net-zero' emissions, our Clean Tech Energy project is among a handful that could meet these economic and environmental criteria in today's market. Based on the renewed local interest, we are hopeful we can clear the final hurdle of social acceptability and receive our approvals by next summer.

Michael Binnion
President and Chief Executive Officer

Environmental, Social and Governance

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

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

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

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

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

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

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

Management’s Discussion and Analysis

This Management’s Discussion and Analysis (“MD&A”) was prepared as of August 11, 2020. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation (“Questerre” or the “Company”) as at June 30, 2020 and for the three and six month periods ended June 30, 2020 and 2019 (the “Q2 Statements”), and the audited annual consolidated financial statements of the Company for the year ended December 31, 2019 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, 2019, is available on SEDAR under Questerre’s profile at www.sedar.com.

Questerre 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. Questerre is committed to the economic development of its resources in an environmentally conscious and socially responsible manner.

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

Basis of Presentation

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

Forward-Looking Statements

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

Management has not adjusted or revised any forward-looking statements in this MD&A to account for the potential disruption to the Company’s business from the coronavirus (“COVID-19”) pandemic, the impact of which is not immediately known or quantifiable.

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

- The elimination of non-essential capital spending until commodity prices improve;

- future commodity prices in light of recent decisions by the Organization of the Petroleum Exporting Countries ("OPEC") and non-OPEC member countries, including Saudi Arabia and Russia on production levels as well as the COVID-19 pandemic;
- planned debottlenecking and improved export capacity on the main pipeline system in Canada supporting commodity prices for the remainder of the year;
- drilling and completion plans and the potential curtailment or suspension thereof;
- further capital investment requiring additional financial liquidity through potential asset dispositions, equity or debt;
- future production of oil, natural gas and natural gas liquids and the weighting thereof;
- the potential shut-in of production;
- production declines;
- development plans for the Company's Kakwa assets;
- the assessment of future development costs;
- requirement of significant additional capital to develop the Company's Quebec assets;
- the prioritization of consultation ahead of permitting and regulatory approvals for the Company's Clean Tech Energy project in Quebec;
- the partnering with groups in Quebec to gain support for the Company's Clean Tech Energy project;
- legislative and regulatory developments in the Province of Quebec;
- liquidity and capital resources;
- the suspension of third-party engineering in Jordan;
- the reduction in the upfront capital costs to improve project economics for its oil shale project in Jordan;
- the Company's compliance with the terms of its credit facility;
- execution of the amending agreement for its credit facility;
- the timing of the next review of the Company's credit facility by its lender;
- ability of the Company to meet its foreseeable obligations;
- capital expenditures and the funding thereof;
- the Company's objectives when managing its capital;
- the Company's methods to address financial exposure;
- Questerre's reserves and resources;
- impacts of capital expenditures on the Company's reserves and resources;
- 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, related provisions for credit losses and the fulfillment of obligations by counterparties;
- joint venture partner willingness to participate in capital programs;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

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

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

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

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

BOE Conversions

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

Non-GAAP Measures

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

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

Adjusted Funds Flow From Operations Reconciliation

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2020**	2019	**2020**	2019
Net cash from (used in) operating activities	**$ (791)**	$ 3,098	**$ 3,770**	$ 2,599
Interest received	**(34)**	(34)	**(172)**	(35)
Interest paid	**144**	181	**331**	355
Change in non-cash operating working capital	**887**	(583)	**(1,263)**	2,290
Adjusted Funds Flow from Operations	**$ 206**	$ 2,662	**$ 2,666**	$ 5,209

This document also contains the terms "operating netbacks" and "working capital deficit", which are non-GAAP measures. The Company considers operating netbacks to be a key measure as it demonstrates its profitability relative to current commodity prices. Operating netbacks as presented do not have any standardized meaning prescribed by GAAP and may not be comparable with the calculation of similar measures for other entities. Operating netbacks have been defined as revenue less royalties, transportation and operating costs. Netbacks are generally discussed and presented on a per boe basis.

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

Select Information

As at/for the period ended June 30,	*Three months ended* 2020	2019	*Six months ended* 2020	2019
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	**3,410**	8,019	**10,428**	15,124
Net Loss	**(2,701)**	(2,099)	**(116,577)**	(3,033)
Basic and diluted ($/share)	**(0.01)**	(0.01)	**(0.27)**	(0.01)
Adjusted Funds Flow from Operations	**206**	2,662	**2,666**	5,209
Basic and diluted ($/share)	**–**	0.01	**0.01**	0.01
Capital Expenditures	**515**	7,496	**3,390**	10,436
Working Capital Deficit	**(9,272)**	(775)	**(9,272)**	(775)
Total Assets	**201,255**	248,070	**201,255**	248,070
Shareholders' Equity	**153,509**	199,108	**153,508**	199,108
Common Shares Outstanding (thousands)	**427,516**	427,907	**427,516**	427,907
Weighted average - basic (thousands)	**427,516**	417,220	**427,711**	403,192
Weighted average - diluted (thousands)	**427,516**	417,220	**427,711**	403,192
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**1,352**	1,234	**1,370**	1,272
Natural Gas (Mcf/d)	**4,238**	4,805	**4,190**	4,304
Total (boe/d)	**2,058**	2,035	**2,068**	1,989
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	**21.30**	65.92	**37.22**	59.32
Natural Gas ($/Mcf)	**2.05**	1.41	**2.23**	1.88
Total ($/boe)	**18.20**	43.30	**27.71**	42.01
Netback ($/boe)				
Petroleum and Natural Gas Sales	**18.20**	43.30	**27.71**	42.01
Royalties Expense	**(0.33)**	(3.58)	**(2.08)**	(2.96)
Percentage	**2%**	8%	**8%**	7%
Direct Operating Expense	**(13.51)**	(18.00)	**(14.88)**	(18.04)
Operating Netback	**4.36**	21.72	**10.75**	21.01
Wells Drilled				
Gross	**–**	2.00	**1.00**	3.00
Net	**–**	0.38	**0.25**	0.59

(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 and received.

(2) Working capital deficit 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

- Reengaging with stakeholders to build social acceptability for Clean Tech Energy in Quebec
- Credit facilities will be renewed at $20 million
- Collapse in oil prices responsible for adjusted funds flow from operations of $0.2 million with average daily production of 2,058 boe/d

Second Quarter 2020 Activities

Kakwa, Alberta

With the collapse in crude oil prices in the second quarter, minimal activity was conducted on the Company's joint ventures.

At Kakwa Central, this included workovers to optimize production from existing wells. The completion of two wells drilled in the first quarter has been deferred in the near term, pending a recovery in commodity prices. Questerre participated in one (0.25 net) well that targeted the Upper Montney and went penalty on the second well that targeted the Lower Montney.

The operators of both joint ventures have not yet committed to a drilling program for the remainder of the year. Questerre's participation in any future wells will depend on among other things, a material improvement in the outlook for oil prices. Should the Company participate, it will require additional financial liquidity through potential asset dispositions, equity or debt issuances. There is no certainty that such liquidity will be available when required on terms acceptable to Questerre.

St. Lawrence Lowlands, Quebec

Recognizing the growing importance of social acceptability for energy projects, the Company is prioritizing consultation ahead of permitting and regulatory approvals for its Clean Tech Energy project in Quebec. Following the partial lifting of lockdowns late in the second quarter, Questerre reengaged with stakeholders on its pilot project.

These discussions with farmers and First Nations focused on the importance of local supplies of natural gas and local projects that can contribute to the economic recovery in the province. The Company also met with municipal officials on the benefits of its profit-sharing arrangement. Based on these discussions, Questerre remains optimistic about partnering with these groups to gain their support.

Oil Shale Mining

As reported in the first quarter, Questerre has suspended all third-party engineering for its oil shale project in Jordan. The Company continues its internal engineering with the goal of reducing the up-front capital investment to improve project economics.

Corporate

Following a review conducted in the second quarter, the Company's credit facilities with a Canadian chartered bank will be renewed at $20 million. The renewal will take effect upon the execution of an amending agreement which the Company anticipates will be completed in late August 2020. The renewed facilities will consist of a revolving operating demand loan of $17 million and an uncommitted demand non-conforming revolving facility for $3 million. Any borrowing under the facilities, except letters of credit are subject to the Bank's prime rate and applicable basis point margin. The effective interest rate on the facility for the first half of 2020 was 3.58% (2019: 4.45%). As at June 30, 2020, $19.3 million was drawn on the facility and the Company held unrestricted cash and term deposits of $12.8 million.

The facilities are secured by a revolving credit agreement, a debenture including a first floating charge over all assets of the Company and a general assignment of book debts. The next scheduled review is the second quarter of 2021.

Production

Three months ended June 30,		2020			2019	
	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	**1,009**	**4,238**	**1,715**	860	4,805	1,661
Saskatchewan	**309**	**–**	**309**	325	–	325
Manitoba	**34**	**–**	**34**	49	–	49
	1,352	**4,238**	**2,058**	1,234	4,805	2,035

Six months ended June 30,		2020			2019	
	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	**982**	**4,190**	**1,680**	921	4,304	1,638
Saskatchewan	**350**	**–**	**350**	301	–	301
Manitoba	**38**	**–**	**38**	50	–	50
	1,370	**4,190**	**2,068**	1,272	4,304	1,989

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

Both on a quarterly and year to date basis, volumes remained largely flat with the first quarter and prior year.

Kakwa continued to represent over 80% of corporate production with a growing proportion attributable to the royalty volumes from Kakwa North. In 2020, this represented 223 boe/d or 13% of these volumes compared to 131 boe/d and 8% last year, with the remainder attributable to Kakwa Central.

In the second quarter, light oil from Saskatchewan and Manitoba declined over the prior quarter but remained consistent with last year. Several wells were shut-in during the period as the Company deferred well workovers with the historically low oil prices. These volumes contributed to an oil and liquids weighting of two thirds. Prospectively, the Company expects this will trend towards 60%, representing the relative weighting of natural gas liquids to natural gas at Kakwa.

As the Company eliminates non-essential capital spending, including new wells, to preserve financial liquidity, production volumes are expected to decline over the remainder of this year. Should realized prices fall materially below break-even levels, the Company may partially or completely shut-in production.

Second Quarter 2020 Financial Results

Petroleum and Natural Gas Sales

Three months ended June 30,	2020			2019		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Alberta	$ 1,699	$ 789	$ 2,488	$ 4,882	$ 616	$ 5,498
Saskatchewan	839	–	839	2,206	–	2,206
Manitoba	83	–	83	315	–	315
	$ 2,621	$ 789	$ 3,410	$ 7,403	$ 616	$ 8,019

Six months ended June 30,	2020			2019		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Alberta	$ 5,787	$ 1,659	$ 7,446	$ 9,126	$ 1,463	$ 10,589
Saskatchewan	2,710	–	2,710	3,918	–	3,918
Manitoba	272	–	272	617	–	617
	$ 8,769	$ 1,659	$ 10,428	$ 13,661	$ 1,463	$ 15,124

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

On a three and six month basis, petroleum and natural gas sales declined materially by 57% and 31% respectively over the prior year. The material variance was due to the decline in oil prices with natural gas prices increasing over the prior periods. The smaller decline in the six month period is due to relatively higher pricing in the first quarter of the year.

Pricing

	Three months ended June 30,		*Six months ended June 30,*	
	2020	2019	**2020**	2019
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	**1.85**	1.09	**1.91**	1.68
Crude Oil - Mixed Sweet Blend ($/bbl)	**28.57**	73.53	**42.83**	70.03
Realized prices:				
Natural Gas ($/Mcf)	**2.05**	1.41	**2.23**	1.88
Crude Oil and Natural Gas Liquids ($/bbl)	**21.30**	65.92	**37.22**	59.32

During the second quarter, crude oil prices continued their decline falling to the lowest prices in two decades before recovering. The benchmark West Texas Intermediate ("WTI") averaged US$27/bbl in the quarter (2019: US$59.82/bbl) and US$36.60/bbl year to date (2019: US$57.36/bbl).

The demand destruction from the global shutdown for COVID-19 coupled with the increased production following the breakdown of the OPEC+ agreement on cuts in March saw prices drop dramatically, briefly turning negative early in the quarter. Prices later improved after a new OPEC+ agreement was finalized to reinstitute production cuts, operators shut-in production and increased imports from China alleviated concerns about running out of physical storage. In Canada, the benchmark price volatility was matched by the volatility in differentials, which exceeded 50% of WTI prices for the month of May but normalized thereafter. For the quarter, the differential between WTI and Canadian condensate prices averaged US$5.55/bbl (2019: US$3.96/bbl).

In the second quarter, Questerre's realized prices averaged $21.30/bbl (2019: $65.92/bbl) compared to a Canadian benchmark price of $28.57/bbl (2019: $73.53/bbl).

Natural gas prices experienced a more muted decline in the second quarter. The benchmark Henry Hub averaged US$1.75/MMBtu compared to US$2.64/MMBtu for the same period last year and US$1.91/MMBtu for the first quarter of this year.

In the United States, the drop in crude oil prices and resulting production shut-ins for liquids-rich plays such as the Permian contributed to a drop in associated gas volumes. On the demand side, industrial demand was lower because of the lockdowns while residential and power demand remained strong with people staying at home. LNG exports were significantly lower, reflecting the lack of global demand. Market concerns about the pace of the economic recovery and storage levels at the end of the summer continued to weigh on futures prices. In Canada, with improved access to storage prices strengthened over the prior year, and remained relatively stable in the first half of 2020. Furthermore, planned debottlenecking and improved export capacity on the main pipeline system is expected to support prices for the remainder of the year.

Questerre's realized pricing includes a premium for the high heat content of its natural gas from Kakwa. Pricing for the second quarter averaged $2.05/Mcf (2019: $1.41/Mcf) compared to the benchmark AECO price of $1.85/Mcf (2019: $1.09/Mcf).

Royalties

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2020**	2019	**2020**	2019
Alberta	**$ (13)**	$ 454	**$ 522**	$ 698
Saskatchewan	**58**	139	**196**	239
Manitoba	**17**	71	**64**	129
	$ 62	$ 664	**$ 782**	$ 1,066
% of Revenue:				
Alberta	**-**	8%	**7%**	7%
Saskatchewan	**7%**	6%	**7%**	6%
Manitoba	**20%**	23%	**24%**	21%
Total Company	**2%**	8%	**8%**	7%

Mirroring the decline in revenue over last year, gross royalties for the quarter and the first six months of this year declined over the same periods last year. As a percentage of revenue, this rose to 8% from 7% for the six month period due to higher revenue and royalties in the first quarter. It fell to 2% from 8% for the quarter due a royalty credit received in the period.

Royalties in the current quarter reflect a credit of $0.2 million from the Crown for gas cost allowance, a deduction for processing its share of production through the Company's facilities in Kakwa in 2019 (2019: $0.4 million). On a year to date basis, excluding this adjustment, royalties as a percentage of revenue in the quarter were 8%, consistent with the rate for the second quarter last year.

Notwithstanding this credit, the Company estimates its royalties on production in Alberta to average approximately 10%, reflecting the forecast rate on production from Kakwa.

Operating Costs

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2020**	2019	**2020**	2019
Alberta	**$ 1,611**	$ 2,420	**$ 3,675**	$ 4,499
Saskatchewan	**675**	877	**1,546**	1,897
Manitoba	**18**	37	**81**	99
Quebec	**227**	–	**297**	–
	$ 2,531	$ 3,334	**$ 5,599**	$ 6,495
$/boe:				
Alberta	**10.32**	16.01	**12.02**	15.17
Saskatchewan	**24.03**	29.62	**24.27**	34.78
Manitoba	**5.82**	8.40	**11.62**	10.96
Total Company	**13.51**	18.00	**14.88**	18.04

Operating costs for the three and six month periods ended June 30, 2020 declined over the prior year due to lower expenses in all areas. This was partly offset by increased costs in Quebec where the Company consolidated its ownership and acquired operatorship of non-producing assets in the first quarter of this year. On a unit of production basis, the decrease in gross costs and relatively stable volumes saw operating costs decline to $13.51/boe from $18/boe in the quarter and to $14.88/boe from $18.04/boe in the first half of the year.

At Kakwa, operating costs for the period include a credit of $0.4 million (2019: $0.3 million) for a thirteen-month adjustment reallocating plant operating costs based on actual volumes. On a boe basis, operating costs benefitted from Kakwa North royalty volumes which accounted for 13% of production year to date (2019: 8%). Excluding these items, operating costs would average $15.09/boe for the first half of the year (2019: $17.55/boe).

Operating costs at Antler declined over the prior year primarily due to lower workover and associated consulting costs. As noted earlier, with the decline in oil prices, limited workovers were conducted in the second quarter. This translated into lower costs on a boe basis, partly offset by the lower production volumes in the period compared to last year.

As part of its cost-cutting measures, the Company has restructured some of its commitments for processing and transportation at Kakwa. Effective the third quarter of this year, these costs will reduce by over one quarter or $1.2 million annually. The Company is also targeting further cost reductions at Antler.

General and Administrative Expenses

($ thousands)	Three months ended June 30, 2020	2019	Six months ended June 30, 2020	2019
General and administrative expenses, gross	**$ 827**	$ 1,637	**$ 1,885**	$ 2,827
Capitalized expenses and overhead recoveries	**(232)**	(311)	**(540)**	(531)
General and administrative expenses, net	**$ 595**	$ 1,326	**$ 1,345**	$ 2,296

Gross general and administrative expenses ("G&A") declined one half in the quarter and one third for the first half of the year. Current quarter costs reflect overhead reductions in response to the collapse in oil prices and the impacts of the pandemic. These include a 20 to 50 percent reduction in salaries and a 20 percent reduction in directors' fees. The Company is implementing further reductions with the goal of saving $1.5 million for the year or approximately one third of gross G&A in fiscal 2019.

Depletion, Depreciation, Impairment and Accretion

For the quarter ended June 30, 2020, Questerre recorded depletion, depreciation and accretion expense of $2.3 million (2019: $3.2 million) with depletion accounting for over 90% of this amount. On a unit of production basis this decreased to $12.19/boe from $16.72/boe last quarter. This reflects the lower carrying value of the producing assets in the second quarter after a $96.3 million impairment expense in the first quarter as a result of lower future commodity prices. This also accounted for the reduction in expense for the six month period ended June 30, 2020 to $5.5 million from $6.1 million last year.

Interest expense, interest income and share based compensation expense

During the first six months of the year, the Company incurred interest expense of $0.3 million (2019: $0.4 million) related to its credit facilities with a Canadian chartered bank. As at June 30, 2020, the amount drawn on the facilities was $19.3 million (2019: $16.4 million) and the effective interest rate was 3.58% (2019: 4.45%). The Company also earned interest income of $0.2 million (2019: $0.2 million) on its cash and term deposits for the period.

For the year to date period, the Company recorded share based compensation expense of $0.3 million (2019: $0.7 million) net of $0.3 million in expense (2019: $0.4 million) capitalized during the period.

Other Comprehensive Income and Expenses

In 2020, the Company recorded other comprehensive loss of $0.4 million (2019: $0.1 million) for the quarter and income of $0.7 million for the year to date period (2019 $0.2 million loss). These amounts relate to changes in foreign exchange for the respective periods. The appreciation in the Jordanian dinar resulted in a gain of $0.2 million (2019: $0.2 million loss) on the Company's dinar denominated assets in the country for the first half of the year. For the same period, the appreciation in the US dollar resulted in a gain of $0.4 million (2019: nil) on its US dollar denominated investment in Red Leaf Resources Inc. ("Red Leaf").

Total Comprehensive Loss

Questerre's total comprehensive loss for the second quarter of 2020 was $3.1 million (2019: $2.2 million) and for the year to date, the loss was $116 million (2019: $3.2 million). The loss in the current quarter increased over the same period last year due to the significantly lower petroleum revenue offset partly by lower operating, G&A and depletion, depreciation and accretion expense. For the six month period, the variance relates largely to the $113 million impairment expense incurred in the first quarter.

Cash Flow from Operating Activities

For the three months ended June 30, 2020, net cash used in operating activities was $0.8 million (2019: 3.1 million from operating activities) and for the six months then ended, net cash from operating activities was $3.8 million (2019: $2.6 million). The materially lower petroleum revenue and the reduction in non-cash working capital in the current quarter account for the variance over the prior year. The variance over the six month period this year compared to last year is attributable to the increase in the non-cash working capital offsetting the lower petroleum revenue.

Cash Flow used in Investing Activities

Cash flow used in investing activities for the second quarter stayed relatively flat over the prior year with reduced capital spending being offset by a reduction in non-cash working capital over the quarter. For the year to date period, the higher reduction in non-cash working capital more than offset the lower capital investment and increased the cash used in investing activities to $8.7 million from $8 million last year.

Cash Flow from Financing Activities

For the second quarter of 2020, net cash from financing activities reflects the net drawdown under the credit facilities. In the same period last year, the company completed an equity placement for gross proceeds of $14.5 million and reduced amounts outstanding under its facilities. These changes also account for the variance in the year to date periods.

Capital Expenditures

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2020**	2019	**2020**	2019
Alberta	$ **31**	$ 6,868	$ **2,086**	$ 9,321
Saskatchewan & Manitoba	**100**	65	**329**	175
Quebec, Jordan & Other	**384**	563	**975**	941
Total Company	$ **515**	$ 7,496	$ **3,390**	$ 10,437

For the six months ended June 30, 2020, the Company incurred capital expenditures of $3.4 million as follows:

- In Alberta, $2.1 million was invested to drill a well and expand gas-lift infrastructure on the Kakwa Central joint venture acreage with de minimus spending in the second quarter;
- In Quebec, $1.0 million for well maintenance operations and capitalized overhead related to engineering and securing social acceptability for its Clean Tech Energy project; and
- In Saskatchewan, the Company invested $0.3 million for infrastructure for its pressure maintenance pilot.

For the same period in 2019, the Company incurred capital expenditures of $10.4 million as follows:

- In Alberta, $9.3 million was invested to primarily expand infrastructure and drill and complete wells at its Kakwa Central joint venture acreage;

- In Quebec, $0.8 million was invested to advance its legal claim and for engineering and overhead expenses for its Clean Tech Energy project; and
- In Jordan, $0.3 million was spent on engineering for its oil shale project.

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, 2020, 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 11, 2020**	**June 30, 2020**	December 31, 2019
Common Shares	**427,516**	**427,516**	427,907
Stock Options	**27,153**	**27,153**	27,087
Weighted average common shares			
Basic		**427,711**	388,712
Diluted		**427,711**	395,715

A summary of the Company's stock option activity for the six months ended June 30, 2020 and the year ended December 31, 2019 follows:

	June 30, 2020		December 31, 2019	
	Number of Options *(thousands)*	**Weighted Average Exercise Price**	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	**27,087**	**$ 0.40**	21,412	$ 0.44
Granted	**6,475**	**0.20**	6,100	0.29
Forfeited	**(846)**	**0.43**	(50)	0.29
Expired	**(5,563)**	**(0.30)**	(375)	1.07
Outstanding, end of period	**27,153**	**$ 0.37**	27,087	$ 0.40
Exercisable, end of period	**14,333**	**$ 0.40**	16,632	$ 0.37

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.

Although crude oil prices have partially recovered in the second quarter of this year, the volatility arising from the actions of OPEC+ and the fallout from the COVID-19 pandemic will have a material impact on the Company's liquidity in 2020. To manage its liquidity, the Company has eliminated all non-essential capital spending and has instituted a 20%

reduction in salaries and directors' fees with the goal of eliminating up to $1.5 million in total overhead. The Company also plans to partially or completely shut-in production when realized prices fall materially below break-even prices.

At June 30, 2020, $19.3 million (December 31, 2019: $16.4 million) was drawn on the credit facilities and the Company is compliant with all its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with the covenants for its credit facilities. Under the terms of the credit facilities, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2020 was 2.76 and the covenant was met. See Note 12 of the Financial Statements.

While the credit facilities will be renewed in the third quarter at $20 million, the uncertainty in the outlook for commodity prices could result in the facilities being reduced at their next review scheduled for the second quarter of 2021. 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.

On the assumption that commodity prices stabilize and improve over the next 12 to 18 months, the Company believes that it should have access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations.

In light of current market conditions, the Company is assessing its investment in the 2020 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2019. It anticipates that, as a result, reserves associated with wells not drilled in 2020 will remain in the proved undeveloped category.

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

Commitments

A summary of the Company's net commitments at June 30, 2020 follows:

($ thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Transportation and Processing	$ 1,755	$ 2,987	$ 2,791	$ 2,791	$ 2,791	$ 3,255	$ 16,370

In order to maintain its capacity to execute its business strategy, the Company expects that it will need to continue the development of its producing assets. There will also be expenditures in relation to G&A and other operational expenses. These expenditures are not yet commitments, but Questerre expects to fund such amounts primarily out of adjusted funds flow from operations and its existing credit facilities.

Risk Management

Companies engaged in the petroleum and natural gas industry face a variety of risks. For Questerre, these include risks associated with commodity prices, exploration and development drilling as well as production operations, foreign exchange and interest rate fluctuations. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates and Government regulations could have an impact on the Company's future operating results and/or financial condition. While Management realizes that all the risks may not be controllable, Questerre believes that they can be monitored and managed. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF and Note 6 to the audited consolidated financial statements for the year ended December 31, 2019.

Volatility in the oil and gas industry is a major risk facing the Company. Market events and conditions, including global oil and natural gas supply and demand, actions taken by OPEC and non-OPEC member countries' decisions, including recent decisions by Saudi Arabia and Russia, on production growth and spare capacity, market volatility and disruptions, weakening global relationships, conflict between the U.S. and Iran, isolationist and punitive trade policies, U.S. shale production, sovereign debt levels and political upheavals in various countries including growing anti-fossil fuel sentiment, have caused significant volatility in commodity prices. These events and conditions have been a factor in the decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax and royalty changes and other environmental regulations.

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

In addition, the global market is also currently volatile due to the uncertainty around how severely COVID-19 will affect global energy consumption. The global economy is reliant on the manufacturing and trade of products and the movement of people, and any slowdown in this process has a chain reaction that impacts energy consumption by both manufacturers and consumers. As a result of the pandemic's impact on the global economy, commodity prices declined prior to the production announcements by members of OPEC and non-OPEC members, including Saudi Arabia and Russia, there may be a further weakening as the effects move through the supply chain. Travel restrictions announced by various countries as a measure to reduce the spread of COVID-19 may also impact global energy consumption.

The COVID-19 pandemic and efforts to contain it may have a significant effect on commodity prices and demand and potentially broader impacts on the global economy. A prolonged period of low and/or volatile oil and natural gas prices could have a significant adverse effect on the Company's operations, business and financial condition. If commodity prices should decline below cash costs of production and remain at such levels for any sustained period, the Company could determine that it is not economically feasible to continue commercial production at any or all of its operations.

The Company may also curtail or suspend some or all of its exploration activities, with the result that depleted reserves are not replaced.

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

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

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

The Company uses the following guidelines to address financial exposure:

- Internally generated cash flow provides the initial source of funding on which the Company's annual capital expenditure program is based.
- Equity, including flow-through shares, if available on acceptable terms, may be raised to fund acquisitions and capital expenditures.
- Debt may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be managed.
- 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. Management does not expect any counterparty to fail to meet its obligations. 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.

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

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing and infrastructure companies and the Company has not experienced any credit loss relating to these sales to date. Pursuant to IFRS 9 *Financial Instruments*, the Company made a provision of $0.02 million at June 30, 2020 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.

The Company has issued and may continue in the future to issue flow-through shares to investors. The Company uses its best efforts to ensure that qualifying expenditures of Canadian Exploration Expense ("CEE") are incurred in order to meet its flow-through obligations. In 2017, the Federal Government amended the law regarding what expenses constitute CEE. Generally, oil and gas drilling expenses are now Canadian Development Expense rather than CEE. In the event that the Company has CEE expenditures reclassified under audit by the Canada Revenue Agency or fails to incur expenditures required under a flow-through share agreement, the Company may be required to liquidate certain of its assets in order to meet the indemnity obligations under flow-through share subscription agreements.

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

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

As at June 30, 2020, the Company had no outstanding commodity risk management contracts.

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 counterparts who operate in jurisdictions where there are less costly carbon regulations.

Interest Rate Risk

Interest rate risk is the risk that changes in the applicable interest rates for its credit facilities will impact the Company's interest expense. At June 30, 2020, the Company had credit facilities outstanding of $19.3 million (December 31, 2019: $16.4 million) with an effective rate of 3.58% (2019: 4.45%).

Critical Accounting Estimates

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

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

Petroleum and Natural Gas Reserves

Questerre's petroleum and natural gas reserves and resources are evaluated and reported on by independent petroleum engineering consultants in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators ("NI 51-101") and the COGE Handbook. For further information, please refer to "Statement of Reserves Data and Other Oil and Gas Information" in the AIF.

The estimation of reserves and resources is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves and resources will change to reflect updated information. Reserve and resource estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices. These estimates are evaluated by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. If probabilistic methods are used, there should be at least a 50 percent probability that the quantities recovered will equal or exceed the estimated proved plus probable reserves and there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves.

Reserve and resource estimates impact a few areas, in particular, the valuation of property, plant and equipment, exploration and evaluation assets and the calculation of depletion.

Cash Generating Units

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

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

The Company assesses its oil and natural gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Determining if there are facts and circumstances present that indicate that carrying values of the assets may not be recoverable requires Management's judgment and analysis of the facts and circumstances.

The recoverable amounts of CGUs have been determined based on the higher of value in use ("VIU") and the FVLCD. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes, the discount rate, future operating and development costs and recent land transactions. Changes to these assumptions will affect the recoverable amounts of the CGUs and may require a material adjustment to their related carrying value.

Goodwill is the excess of the purchase price paid over the fair value of the net assets acquired. Since goodwill results from purchase accounting, it is imprecise and requires judgment in the determination of the fair value of assets and liabilities. Goodwill is assessed for impairment on an operating segment level based on the recoverable amount for each CGU of the Company. Following the reduction in the recoverable amounts of the Company's CGUs as of March 31, 2020, goodwill was assessed and fully impaired. This impairment cannot be reversed should the recoverable amount of the Company's CGUs increase in the future.

Asset Retirement Obligation

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

Share Based Compensation

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

Income Tax Accounting

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

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

Investment in Red Leaf

Questerre has investments in certain private companies, including Red Leaf, which it classifies as an equity investment and assesses for indicators of impairment at each period end. For the purposes of impairment testing, the Company measures the fair value of Red Leaf by valuation techniques such as the net asset value approach.

Accounting Policy Changes

IFRS 3 *Business Combinations*, has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 Business Combinations is effective for the years beginning on or after January 1, 2020. The Company has determined that this amendment will not have a material impact on its financial statements.

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, 2020 and ended on June 30, 2020 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, 2020**	March 31, 2020	Dec 31, 2019	Sept 30, 2019
Production (boe/d)	**2,058**	2,078	2,160	2,343
Average Realized Price ($/boe)	**18.20**	37.12	45.52	40.33
Petroleum and Natural Gas Sales	**3,410**	7,018	9,033	8,690
Adjusted Funds Flow from Operations	**206**	2,460	4,108	5,038
Net Profit (Loss)	**(2,701)**	(113,876)	67,414	1,331
Basic and Diluted ($/share)	**(0.01)**	(0.27)	0.14	–
Capital Expenditures, net of acquisitions and dispositions	**515**	2,875	4,868	6,756
Working Capital Deficit	**(9,272)**	(8,603)	(8,111)	(2,573)
Total Assets	**201,255**	204,782	318,062	251,454
Shareholders' Equity	**153,509**	156,263	268,656	200,966
Weighted Average Common Shares Outstanding				
Basic (thousands)	**427,516**	427,907	427,907	427,907
Diluted (thousands)	**427,516**	427,907	428,022	428,591

($ thousands, except as noted)	June 30, 2019	March 31, 2019	Dec 31, 2018	Sept 30, 2018
Production (boe/d)	2,035	1,944	2,033	1,414
Average Realized Price ($/boe)	43.30	40.61	34.35	52.98
Petroleum and Natural Gas Sales	8,019	7,105	6,492	6,892
Adjusted Funds Flow from Operations	2,662	2,547	1,929	2,620
Net Profit (Loss)	(2,099)	(934)	14,858	(2,023)
Basic and Diluted ($/share)	(0.01)	–	(0.01)	(0.01)
Capital Expenditures, net of acquisitions and dispositions	7,496	2,941	8,785	6,077
Working Capital Surplus (Deficit)	(776)	(9,543)	(9,078)	(2,374)
Total Assets	248,070	231,975	233,372	218,630
Shareholders' Equity	199,108	186,812	187,291	171,648
Weighted Average Common Shares Outstanding				
Basic (thousands)	417,220	389,007	388,412	388,412
Diluted (thousands)	417,220	389,007	392,612	388,412

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

- Petroleum and natural gas revenues and adjusted funds flow from operations have fluctuated with production volumes and realized commodity prices. They declined materially in the second quarter of this year following the collapse in oil prices.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. In 2020, the Company plans to suspend any non-essential capital spending including any additional drilling at Kakwa pending an improvement in commodity prices. It anticipates production volumes will decline over the remainder of this year.
- The level of capital expenditures over the quarters has varied largely due to the timing and number of wells drilled and completed as well as the timing of the infrastructure investment at Kakwa.
- The working capital deficit has generally increased when capital expenditures and other investments have been higher than adjusted funds flow from operations and cash from financing activities.
- Shareholders' equity decreased significantly in the first quarter of 2020 with materially lower commodity prices resulting in an impairment expense of $113 million. In the preceding quarter, shareholder's equity increased due to the $58.5 million gain realized by the Company on the release of litigation related to the acquisition of the assets in Quebec. In the quarter ended June 30, 2019, shareholder equity increased as a result of a private placement completed during the period. In previous quarters, shareholder equity has generally fluctuated with the changes in net income (loss).

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended June 30, 2020.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended June 30, 2020.

Notice of no Auditor Review of Condensed Consolidated Interim Financial Statements

Pursuant to National Instrument 51-102 - Continuous Disclosure Obligation*s*, 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, 2020 have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the International Accounting Standards Board, and are the responsibility of the Company's management.

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

Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note	June 30, 2020	December 31, 2019
Assets			
Current Assets			
Cash and cash equivalents		$ 12,748	$ 15,037
Accounts receivable		2,293	3,868
Deposits and prepaid expenses		985	881
		16,026	19,786
Right-of-use assets	13	62	116
Investments	3	8,890	8,439
Property, plant and equipment	4	53,479	152,794
Exploration and evaluation assets	5	115,078	127,081
Restricted cash	12	7,720	7,500
Goodwill	6	–	2,346
		$ 201,255	$ 318,062
Liabilities			
Current Liabilities			
Lease liabilities	13	$ 50	$ 101
Accounts payable and accrued liabilities		5,976	11,519
Credit facilities	12	19,320	16,377
		25,346	27,997
Lease liabilities	13	16	18
Contingent liabilities		1,820	1,820
Asset retirement obligation	7	20,564	19,571
		$ 47,746	$ 49,406
Shareholders' Equity			
Share capital	8	429,703	429,703
Contributed surplus		22,477	21,700
Accumulated other comprehensive income		440	(213)
Deficit		(299,111)	(182,534)
		153,509	268,656
		$ 201,255	$ 318,062

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

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

		Three months ended June 30,		Six months ended June 30,	
($ thousands)	Note	**2020**	2019	**2020**	2019
Revenue					
Petroleum and natural gas sales including royalty revenue		**$ 3,410**	$ 8,019	**$ 10,428**	$ 15,124
Royalties		**(62)**	(664)	**(782)**	(1,066)
Petroleum and natural gas revenue, net of royalties		**3,348**	7,355	**9,646**	14,058
Expenses					
Direct operating		**2,531**	3,334	**5,599**	6,495
General and administrative		**595**	1,326	**1,345**	2,296
Depletion, depreciation, accretion	4,5,7,13	**2,282**	3,169	**5,461**	6,102
Impairment	4,5,6	**–**	–	**113,001**	145
Lease expiries	4,5	**427**	–	**427**	–
Share based compensation	9	**131**	363	**262**	727
Interest expense		**144**	181	**331**	355
Interest & other income		**(59)**	(109)	**(197)**	(219)
Net loss before taxes		**(2,703)**	(909)	**(116,583)**	(1,843)
Deferred tax expense (recovery)		**(2)**	1,190	**(6)**	1,190
Net loss		**(2,701)**	(2,099)	**(116,577)**	(3,033)
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income (loss):					
Foreign currency translation adjustment		**(78)**	(86)	**233**	(179)
Gain (loss) on foreign exchange on investments	3	**(363)**	(6)	**420**	(12)
		(441)	(92)	**653**	(191)
Total comprehensive loss		**$ (3,142)**	$ (2,191)	**$ (115,924)**	$ (3,224)
Net loss per share					
Basic and diluted	8	**$ (0.01)**	$ (0.01)	**$ (0.27)**	$ (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)	Note	**2020**	2019
Share Capital			
Balance, beginning of period	8	**$ 429,703**	$ 415,747
Private placement		**-**	14,474
Share issue costs (net of tax)		**-**	(538)
Balance, end of period		**429,703**	429,683
Contributed Surplus			
Balance, beginning of period		**21,700**	19,772
Share based compensation		**777**	1,106
Balance, end of period		**22,477**	20,878
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of period		**(213)**	10
Other comprehensive income (loss)		**653**	(191)
Balance, end of period		**440**	(181)
Deficit			
Balance, beginning of period		**(182,534)**	(248,239)
Net loss		**(116,577)**	(3,033)
Balance, end of period		**(299,111)**	(251,272)
Total Shareholders' Equity		**$ 153,509**	$ 199,108

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

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

($ thousands)	Note	*Three months ended June 30,* **2020**	2019	*Six months ended June 30,* **2020**	2019
Operating Activities					
Net Loss		**$ (2,701)**	$ (2,099)	**$ (116,577)**	$ (3,033)
Adjustments for:					
Depletion, depreciation, and accretion	4,5,7,13	**2,282**	3,169	**5,461**	6,102
Impairment	4,5,6	**–**	–	**113,001**	145
Lease expiries	4,5	**427**	–	**427**	–
Share based compensation	9	**131**	363	**262**	727
Deferred tax expense (recovery)		**(2)**	1,190	**(6)**	1,190
Interest expense		**144**	182	**331**	355
Interest income and other		**(60)**	(85)	**(198)**	(196)
Abandonment expenditures	7	**(15)**	(58)	**(35)**	(81)
Adjusted Funds Flow from Operations		**206**	2,662	**2,666**	5,209
Interest paid		**(144)**	(181)	**(331)**	(355)
Interest received		**34**	34	**172**	35
Change in non-cash working capital		**(887)**	583	**1,263**	(2,290)
Net cash from (used in) operating activities		**(791)**	3,098	**3,770**	2,599
Investing Activities					
Property, plant and equipment expenditures	4	**(58)**	(1,151)	**(1,269)**	(2,266)
Exploration and evaluation expenditures	5	**(457)**	(6,345)	**(2,121)**	(8,171)
Change in non-cash working capital		**(2,920)**	4,312	**(5,339)**	2,463
Net cash used in investing activities		**(3,435)**	(3,184)	**(8,729)**	(7,974)
Financing Activities					
Proceeds from issue of share capital	8	**–**	14,474	**–**	14,474
Share issue costs	8	**–**	(538)	**–**	(538)
Principal portion of lease payments	13	**(27)**	(28)	**(54)**	(53)
Increase in credit facilities		**6,154**	7,326	**15,944**	17,046
Repayment of credit facilities		**(4,100)**	(8,800)	**(13,000)**	(16,200)
Net cash from financing activities		**2,027**	12,434	**2,890**	14,729
Change in cash, cash equivalents and restricted cash		**(2,199)**	12,348	**(2,069)**	9,354
Cash, cash equivalents and restricted cash, beginning of period		**22,667**	16,214	**22,537**	19,208
Cash, cash equivalents and restricted cash, end of period		**$ 20,468**	$ 28,562	**$ 20,468**	$ 28,562

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, 2020 and 2019 (unaudited)

1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high quality resources. These condensed consolidated interim financial statements of the Company as at and for the three months ended June 30, 2020 and 2019 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 11, 2020.

Segmented Disclosure

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by Questerre's chief operating decision makers comprising of the Chief Executive Officer and other members of Management. The operating segments have been aggregated based on several factors including geographic location and stage of development as well as the assignment of reserves and resources.

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

Reorganization of operating segments

The Company reassessed its operating segments at December 31, 2019 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 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 loss and comprehensive loss.

($ thousands)	Western Canada	Quebec	Corporate & other	Consolidated
Assets by operating segment				
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
Exploration and evaluation	$ 7,633	$ 101,603	$ 5,842	$ 115,078
Property, plant & equipment	53,479	–	–	53,479
Other	3,278	7,720	21,700	32,698
Total assets, June 30, 2020	**$ 64,390**	**$ 109,323**	**$ 27,542**	**$ 201,255**
Results by operating segment for six months ended				
Revenues	$ 14,058	$ –	$ –	$ 14,058
Expenses	(12,742)	–	(3,159)	(15,901)
Segmented & total income (loss), June 30, 2019	$ 1,316	$ –	$ (3,159)	**$ (1,843)**
Deferred income tax				(1,190)
Total loss, June 30, 2019				**$ (3,033)**
Revenues	$ 9,646	$ –	$ –	$ 9,646
Expenses	(123,792)	(696)	(1,741)	(126,229)
Segmented loss, June 30, 2020	$ (114,146)	$ (696)	$ (1,741)	**$ (116,583)**
Deferred tax expense (recovery)				6
Total loss, June 30, 2020				**$ (116,577)**

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 compound risks of the global pandemic and the collapse in oil prices as a result of the actions of OPEC and non-OPEC members create significant risks and uncertainties for the Company, its operations and financial performance. These known and unknown risks may materially impact the estimates and assumptions used by Management in preparing these financial statements.

The unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual audited consolidated financial statements. The interim consolidated financial statements note disclosures do not include all of those required by IFRS applicable for annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2019 which have been prepared in accordance with IFRS as issued by the IASB with the exception of deferred taxes. Taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual net income (loss). The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only.

The Company has qualified for the Canada Emergency Wage Subsidy ("CEWS") announced by the Federal Government as part of its COVID-19 Economic Response Plan. CEWS provides a 75 per cent wage subsidy to eligible employers. The amounts received were deducted from the gross expenses incurred by the Company.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three month period ended June 30, 2020, 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, 2019.

3. Investment in Red Leaf

Red Leaf is a private Utah-based oil shale and technology company whose principal assets are its proprietary EcoShale technology to recover oil from shale and its oil shale leases in the state of Utah.

Questerre currently holds 132,293 common shares, representing approximately 30% of the common share capital of Red Leaf and 288 Series A Preferred Shares, representing 16% of the issued and outstanding preferred share capital of Red Leaf.

Questerre has determined its investment in Red Leaf will be accounted for using the equity method. This is based on several criteria including its current equity interest in Red Leaf and ability to participate in the decision making process of Red Leaf through its current Board representation.

The Company measured the fair market value of its equity investment using a net asset valuation approach. The net assets are estimated as the net current assets of Red Leaf less US$2.8 million representing the original issue price plus accrued but unpaid dividends of the issued and outstanding Series A Preferred Shares as of June 30, 2020. No value was assigned to the non-current assets of Red Leaf for the purposes of determining the fair value of the Company's investment. The Company also evaluated the fair value of the preferred shares held based on the face value including accrued but unpaid dividends as of June 30, 2020.

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

($ thousands)	June 30, 2020	December 31, 2019
Investment	**$ 14,098**	$ 13,604
Equity loss on investment	**(5,208)**	(5,165)
	$ 8,890	$ 8,439

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

($ thousands)	June 30, 2020	December 31, 2019
Balance, beginning of year	$ 8,439	$ 287
Reversal of impairment	–	8,162
Gain (loss) on foreign exchange	451	(10)
Balance, end of period	$ 8,890	$ 8,439

For the six months ended June 30, 2020, the gain on foreign exchange relating to investments was $0.5 million (December 31, 2019: $0.01 million) which was recorded in other comprehensive income (loss) net of a deferred tax recovery.

4. Property, Plant and Equipment

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

($ thousands)	Total Assets
Cost or deemed cost:	
Balance, December 31, 2018	$ 275,548
Additions	8,041
Disposition of assets	(8,082)
Derecognition of fully depreciated assets	(4,721)
Transfer from exploration and evaluation assets	14,954
Balance, December 31, 2019	285,740
Additions	2,025
Transfer from exploration and evaluation assets	253
Balance, June 30, 2020	$ 288,018
Accumulated depletion, depreciation and impairment losses:	
Balance, December 31, 2018	$ 132,984
Depletion and depreciation	13,077
Disposition of assets	(8,082)
Derecognition of fully depreciated assets	(4,721)
Other impairments	(312)
Balance, December 31, 2019	132,946
Depletion and depreciation	5,336
Impairments	96,257
Balance, June 30, 2020	$ 234,539

($ thousands)	Total Assets
Net book value:	
At December 31, 2019	$ 152,794
At June 30, 2020	$ 53,479

During the six months ended June 30, 2020, the Company capitalized $0.03 million of administrative overhead related to development activities (2019: nil). Included in the June 30, 2020 depletion calculation are estimated future development costs of $334.5 million (December 31, 2019: $341.5 million).

Effective March 31, 2020, the Company reviewed the carrying amounts of its oil and natural gas assets following the material decline and the decrease in forward commodity prices. Based on this indicator of impairment, the Company tested its CGUs for impairment in accordance with its accounting policy.

The recoverable amount of the CGUs was estimated based on the fair value less cost of disposal ("FVLCD") using a discounted cash flow model. The impairment testing concluded that the carrying amounts of Montney, Antler and Other Alberta CGUs exceeded their FVLCD. As a result, the Company recorded an impairment expense of $96.3 million for the period ended March 31, 2020. For more information, please refer to the Notes to the Financial Statements for the three months ended March 31, 2020.

Effective June 30, 2020, no indicators of impairment nor indicators to reverse previously incurred impairment were noted.

5. Exploration and Evaluation Assets

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

($ thousands)		June 30, 2020		December 31, 2019
Balance, beginning of year	**$**	**127,081**	$	58,092
Acquisition		**–**		67,278
Additions		**2,860**		16,880
Transfers to property, plant and equipment		**(253)**		(14,954)
Undeveloped lease impairments		**(14,416)**		–
Undeveloped lease expiries		**(427)**		–
Foreign currency translation adjustment - Jordan		**233**		(215)
Balance, end of period	**$**	**115,078**	$	127,081

During the period ended June 30, 2020, the Company capitalized administrative overhead charges of $0.6 million (December 31, 2019: $1.8 million) and $0.5 million of share based compensation expense (December 31, 2019: $0.7 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, 2020.

Effective March 31, 2020, as a result of the decline in commodity prices and no future plans to pursue development of its wholly-owned and operated exploration and evaluation assets in Kakwa, the Company impaired exploration and evaluation assets in Kakwa totalling $14.4 million.

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 has since granted deferrals for the hearing date to allow the parties to resolve the issues raised in its legal motion in a constructive manner. A new hearing date will be established once the Quebec courts lift the suspension of activities for the COVID-19 pandemic. 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 $102 million as of June 30, 2020, could be materially impaired.

6. Goodwill

At June 30, 2020, the Company had a goodwill balance of nil (2019: $2.3 million). The recoverable amount of goodwill is determined as the FVLCD using a discounted cash flow method and is assessed at the corporate level.

The Company determined that the corporate carrying amount of PP&E and goodwill exceeded the recoverable amount due to the lower forecast commodity prices as of March 31, 2020. As a result, the Company incurred an impairment expense of $2.3 million related to goodwill in the first quarter.

7. 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 $20.6 million as at June 30, 2020 (December 31, 2019: $19.6 million) based on an undiscounted total future liability of $22.6 million (December 31, 2019: $23.2 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 0.66% (December 31, 2019: 1.74%). An inflation rate of 2% (December 31, 2019: 2.2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

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

($ thousands)	June 30, 2020	December 31, 2019
Balance, beginning of year	**$ 19,571**	$ 13,736
Liabilities settled	**(35)**	(136)
Revisions due to change in estimates and discount rates	**998**	179
Liabilities incurred	**(23)**	5,555
Accretion	**53**	237
Balance, end of period	**$ 20,564**	$ 19,571

8. 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, 2020, 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, 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**
Shares returned to treasury	(391)	–
Balance, June 30, 2020	**427,516**	**$ 429,703**

In the first quarter of 2020, the Company returned 0.4 million unclaimed Common Shares, related to prior corporate acquisitions, to treasury for no associated monetary consideration.

b) *Per share amounts*

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

	Three months ended June 30,		*Six months ended June 30,*	
(thousands, except as noted)	**2020**	2019	**2020**	2019
Net loss ($ thousands)	$ **(2,701)**	$ (2,099)	$ **(116,577)**	$ (3,033)
Issued Common Shares at beginning of period	**427,516**	389,007	**427,907**	389,007
Effect of shares issued pursuant to:				
Private placements and other	**–**	28,213	(196)	14,185
Weighted average Common Shares outstanding (basic & diluted)	**427,516**	417,220	**427,711**	403,192
Basic net loss per share	$ **(0.01)**	$ (0.01)	$ **(0.27)**	$ (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 year to date period, no options were potentially dilutive.

9. Share Based Compensation

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

In the first half of the year, the Company issued 6.5 million options with a weighted estimated fair value of $0.14 per option. The options were valued using the Black-Scholes option pricing model. The assumptions used by the Company in this pricing model were as follows: Volatility (%): 90.43, Risk Free Rate (%): 1.31, Expected Life (years): 5.0.

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

	June 30, 2020		December 31, 2019	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	27,087	$ 0.40	21,412	$ 0.44
Granted	6,475	0.20	6,100	0.29
Forfeited	(846)	0.43	(50)	0.29
Expired	(5,563)	(0.30)	(375)	1.07
Outstanding, end of period	27,153	$ 0.37	27,087	$ 0.40
Exercisable, end of period	14,333	$ 0.40	16,632	$ 0.37

10. Liquidity and Capital Management

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

Although crude oil prices have partially recovered in the second quarter of this year, the volatility arising from the actions of OPEC+ and the fallout from the COVID-19 pandemic will have a material impact on the Company's liquidity in 2020. To manage its liquidity, the Company has eliminated all non-essential capital spending and has instituted a 20% reduction in salaries and directors' fees with the goal of eliminating up to $1.5 million in total overhead. The Company also plans to partially or completely shut-in production when realized prices fall materially below break-even prices.

At June 30, 2020, $19.3 million (December 31, 2019: $16.4 million) was drawn on the credit facilities and the Company is compliant with all its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with the covenants for its credit facilities. Under the terms of the credit facilities, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). See Note 12.

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

($ thousands)	June 30, 2020	December 31, 2019
Credit facilities	$ 19,320	$ 16,377
Shareholders' equity	153,509	268,656

11. 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, 2020 included restricted and unrestricted cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at June 30, 2020, the fair values of the Company's financial assets and liabilities approximate their carrying values due to the short-term maturity, with the exception of the Company's investments which are recorded at fair value.

Disclosures about the inputs to fair value measurements are required, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

The Company does not hold any Level 1 financial instruments.

Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

The Company's risk management contracts when held are considered a Level 2 instrument. The Company's derivative instruments are carried at fair value as determined by reference to independent monthly forward settlement prices and currency rates. As of the date of the financial statements the Company does not hold any risk management contracts.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

The Company's fair value measurements included in the impairment calculations for its capital assets and Red Leaf investment are considered Level 3 instruments. The fair values are determined using a discounted cash flow approach.

As at each reporting period, the Company will assess whether a financial asset is impaired, other than those classified as fair value through profit or loss. Any impairment loss will be included in net income (loss) for the period.

c) *Market risk*

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

Commodity price risk

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

As at June 30, 2020, the Company holds no risk management contracts.

d) *Credit risk*

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

12. Credit Facilities

As at June 30, 2020, the credit facilities include a revolving operating demand facility of $19.9 million ("Credit Facility A") and a corporate credit card of $0.1 million ("Credit Facility B"). Credit Facility A can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. Any borrowing under the credit 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 bank's prime rate currently is 2.45% per annum and the effective interest rate for the quarter was 2.95%. 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, 2020 was 2.76 and the covenant was met. At June 30, 2020, $19.3 million (December 31, 2019: $16.4 million) was drawn on Credit Facility A.

In addition to the credit facilities, the lender has issued letters of credit on the Company's behalf to support its operating activities. These letters of credit are secured by restricted cash deposits of $7.7 million at June 30, 2020 (2019: $7.5 million).

The current commodity price environment has resulted in tighter capital markets. The credit facilities are demand facilities and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity.

The credit facilities will be renewed at $20 million. The renewal will take effect upon the execution of an amending agreement which the Company anticipates will be completed in late August 2020. The renewed facilities will consist of a revolving operating demand loan of $17 million and an uncommitted demand non-conforming revolving facility for $3 million. Any borrowing under the facilities, except letters of credit are subject to the Bank's prime rate and applicable basis point margin. The next scheduled review is in the second quarter of 2021.

13. Right-of-use Assets and Lease Liabilities

a) *Right-of-use assets*

($ thousands)	Real Estate	Other	Total
Cost			
Balance, January 1, 2019	$ 198	$ –	$ 198
Additions	–	25	25
Balance, June 30, 2020	**$ 198**	**$ 25**	**$ 223**
Accumulated Depreciation			
Balance, January 1, 2019	$ –	$ –	$ –
Depreciation	155	7	162
Balance, June 30, 2020	**$ 155**	**$ 7**	**$ 162**
Carrying value			
Balance, January 1, 2019	$ 198	$ –	$ 198
Additions, net of depreciation	(155)	18	(137)
Balance, June 30, 2020	**$ 43**	**$ 18**	**$ 61**

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, 2019, to the lease liabilities as at June 30, 2020 is as follows:

($ thousands)		
Operating lease commitments disclosed as at December 31, 2018	$	256
Discounted using the incremental borrowing rate as at January 1, 2019		246
(Less): short-term leases recognized on a straight-line basis as expense		(20)
(Less): low-value leases recognized on a straight-line basis as expense		(28)
Lease liability recognized as at January 1, 2019	$	198

Maturity analysis - undiscounted cash flows as at December 31, 2019:		
Current portion		105
Long term portion		18
Total undiscounted lease liabilities as at December 31, 2019	$	123

Lease Liabilities		
Balance, January 1, 2019		198
Additional leases acquired during period		25
Interest expense		11
Lease payments		(141)
Balance, June 30, 2020	$	93

Current portion		50
Long term portion		16
Balance, June 30, 2020	$	66

Amounts related to lease liabilities recognized in profit or loss are as follows:		
Interest expense on lease liabilities	$	11

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, "Leases" ("IAS 17"). Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates at January 1, 2019 estimated at 4.14%. Leases with a remaining term of less than twelve months and low-value leases were excluded. Interest expense related to leases are included in "Interest paid" under Operating Activities on the Statements of Cash Flow.

CORPORATE INFORMATION

DIRECTORS
Michael Binnion
Mireille Fontaine
Hans Jacob Holden
Dennis Sykora
Bjorn Inge Tonnessen

OFFICERS
Michael Binnion,
President and
Chief Executive Officer
John Brodylo,
VP Exploration
Peter Coldham,
VP Engineering
Jason D'Silva,
Chief Financial Officer
Rick Tityk,
VP Land

BANKERS
Canadian Western Bank
200, 606 Fourth Street SW
Calgary, Alberta T2P 1T1

LEGAL COUNSEL
Borden Ladner Gervais LLP
1900, 520 Third Avenue SW
Calgary, Alberta T2P 0R3

TRANSFER AGENT
Computershare Trust
Company of Canada
600, 530 Eighth Avenue SW
Calgary, Alberta T2P 3S8

DNB Bank ASA
Dronning Eufemias gate 30
N-0021 Oslo, Norway

AUDITORS
PricewaterhouseCoopers LLP
3100, 111 Fifth Avenue SW
Calgary, Alberta T2P 5L3

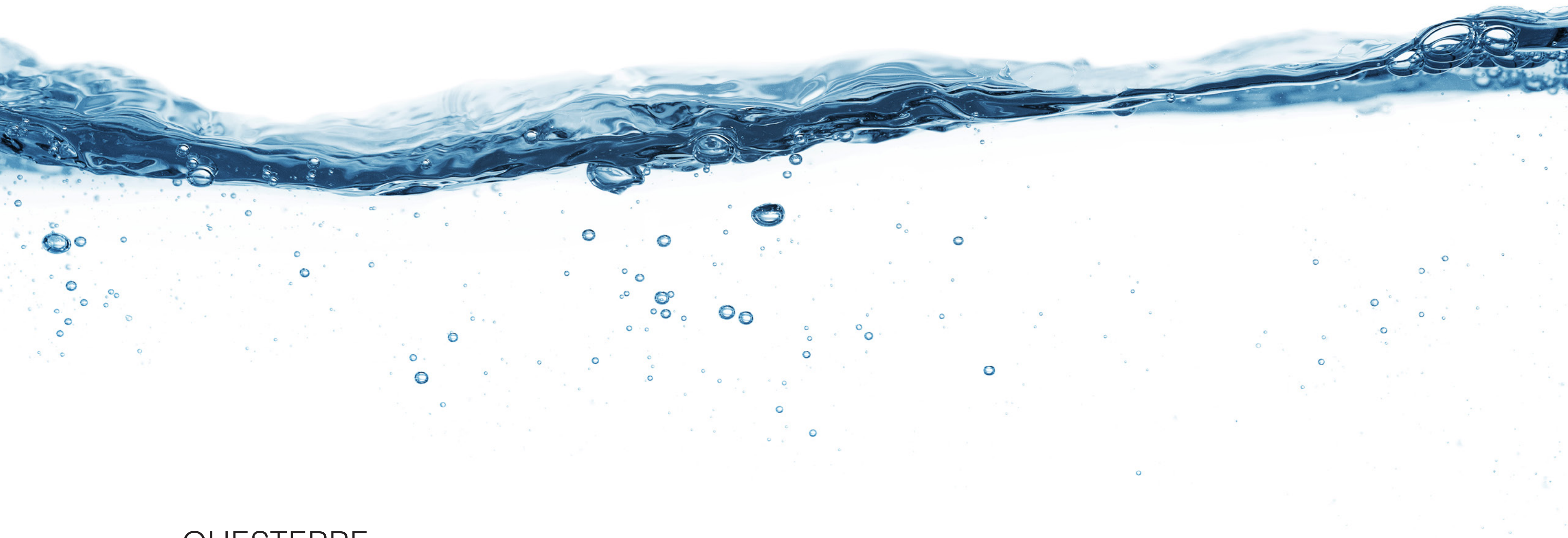
INDEPENDENT
RESERVOIR ENGINEERS
McDaniel & Associates Consultants Ltd.
2200, 255 Fifth Avenue SW
Calgary, Alberta T2P 3G6

GLJ Petroleum Consultants Ltd.
4100, 400 Third Avenue SW
Calgary, Alberta T2P 4H2

HEAD OFFICE
1650 AMEC Place
801 Sixth Avenue SW
Calgary, Alberta T2P 3W2
Telephone: (403) 777-1185
Facsimile: (403) 777-1578
Web: www.questerre.com
Email: info@questerre.com

STOCK INFORMATION
Toronto Stock Exchange
Oslo Stock Exchange
Symbol: QEC

QUESTERRE



QUESTERRE
ENERGY CORPORATION

1650 AMEC Place
801 Sixth Avenue SW
Calgary, Alberta T2P 3W2

Telephone: (403) 777-1185
Facsimile: (403) 777-1578

Web: www.questerre.com
Email: info@questerre.com