2022 SECOND QUARTER REPORT

QUESTERRE ENERGY CORPORATION

QUESTERRE

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QUESTERRE

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

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

President's Message

During the quarter, three new Kakwa wells were brought on production. Leveraging the strong commodity prices, we recorded adjusted funds flow from operations[1] of over $12 million for the period.

Protecting our legal rights is our top priority after the Government of Quebec announced its plans to enact Bill 21 and revoke our licenses without meaningful compensation. We filed our primary claim in the Superior Court of Quebec this winter. Our litigation counsel recently engaged one of the Big 4 accounting firms as an expert witness to quantify our damages. Based on the value of the multi-Tcf discovery in excess of several billion dollars (on a risk adjusted basis), we expect this claim will be substantially larger than the notional $100 million the Government has suggested as a settlement. We are also supporting other stakeholders including First Nations and Quebec royalty holders to ensure their rights are also protected against the Government's actions.

Our investee company, Red Leaf, where we hold a 40% equity interest, also made progress on their new technology with a successful third-party review completed July. The granting of the final permit for a short line railroad terminating on their land is also very good news for Red Leaf and its refinery permit in the Uinta Basin in Utah.

Highlights

- Average daily production of 1,909 boe/d and adjusted funds flow from operations of $12.2 million for the quarter
- Government of Quebec announced plans to enact Bill 21 and revoke exploration licenses
- Red Leaf completes third-party engineering validation of new design

Contrary to other Western nations with natural gas resources, the Quebec Government seems to remain unwilling to consider exporting Clean Gas and alleviating the European energy crisis. This continues to surprise us as well as many of our Norwegian shareholders. This also conflicts with the recent comments by the Canadian Government that it is assessing expanding infrastructure to export energy to Europe. With an approved LNG export facility at Becancour, less than ten kilometres from our acreage, we could be an integral part of both this infrastructure and the supply. Though we remain realistic, the upcoming visits to Canada by the German Chancellor and the President of the European Union to 'secure key partnerships on energy security, critical minerals and clean tech' might prompt the Quebec Government to reconsider their plans.

The Canadian Government also noted that this infrastructure could then be used for exporting hydrogen in the long-term. This would align with the growing number of industrial hubs producing and consuming hydrogen and natural gas that are transforming existing energy systems, as reported this spring by the World Economic Forum. We remain convinced that our leading-edge project that integrates carbon capture, carbon recycling and zero-emission hydrogen, could deliver on the promise of eliminating emissions while providing both clean natural gas and hydrogen.

We respectfully reiterate that the policy of the Government of Quebec appears to be out of touch with the current geopolitical situation and with 21st century energy systems and technology. Recent polls have shown that the people of Quebec seem more knowledgeable and they consistently show a majority in favour of developing local natural gas. We are still struggling with the rationale for the Quebec Government's course of action in the name of climate change given these indisputable environmental, economic and strategic benefits.

Although demonstrating the benefits of Red Leaf's technology has taken longer than expected, we took a step closer with the review by a third-party engineering firm, Hatch, of their new re-design. Among other things, Hatch reviewed the material and energy balance, kinetic model, product composition, loading and unloading as well as preliminary cost estimates for the commercial plant. They concluded that 'the basic concept is sound and that there is a clear path to commercialization.' They also concurred with management that a scaled version of the commercial plant producing over 200 bbl/d will validate and optimize the current design and improve readiness for commercial development. We are working with them to find investors and partners for this small commercial demonstration plant.

Operating & Financial

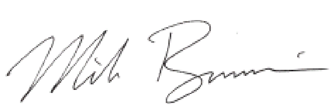
Our results reflect both the increased volumes and higher commodity prices in the quarter. With the three new wells tied-in, production for the quarter averaged 1,909 boe/d (2021: 1,479 boe/d) and 1,600 boe/d for the first half of the year (2021: 1,579 boe/d). Production volumes in the second half of the year will be impacted by an unplanned compressor outage at Kakwa in the third quarter as well as natural declines, partly offset by the planned conversion of our royalty volumes to working interest volumes at Kakwa North.

We generated $12.2 million of adjusted funds flow from operations for the quarter and $16.5 million year to date. As capital spending was limited in the quarter, we recorded a working capital surplus of $10.6 million at the end of the period. We anticipate this will grow with limited capital spending for the remainder of this year.

Outlook

While the legal process in Quebec is likely to be protracted, we are committed to seeing this through. It has been a 20-year investment to make a world class discovery, engineer it to eliminate emissions almost entirely and secure social acceptability. The Quebec Government's decision to seek a summary dismissal of our case has only strengthened our resolve.

If prices remain strong and wells continue to have quick payouts, the operators of our Kakwa joint ventures could resume drilling late in the fourth quarter. For the remainder of this year, we plan to build up our cash reserves to fully participate in these programs to grow our production.



Michael Binnion
President and Chief Executive Officer

(1) Refer to Non-GAAP Measures disclosures included in the Management's Discussion and Analysis

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. Transforming 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 was designed to deliver the world's first zero emissions natural gas production and consumption. It is an example of meeting this global challenge. It will have a dramatic impact on emissions in addition to other environmental criteria.

It requires 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 world'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 transforming our global energy systems.

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

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.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of August 10, 2022. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") for the six month period ended June 30, 2022 and 2021, and the audited annual consolidated financial statements of the Company for the year ended December 31, 2021 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, 2021, is available on SEDAR under Questerre's profile at www.sedar.com.

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

Basis of Presentation

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

Forward-Looking Statements

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

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:

- Government of Quebec's plans to enact Bill 21 and revoke exploration licenses;
- the application by the Attorney General of Quebec to dismiss pending litigation related to Bill 21, including judicial review and expropriation claims;
- drilling plans and the development of producing assets;
- the pursuit by the Company of available remedies to protect its legal rights in Quebec and its plans to assist other stakeholders;
- future production of oil, natural gas and natural gas liquids, including anticipated production declines;
- future commodity prices in light of decisions by OPEC and non-OPEC member countries, including Saudi Arabia and Russia on production levels, the war in Ukraine and related sanctions, as well as the impacts of COVID-19;
- tightness in the supply of oil and natural gas and market volatility;
- legislative and regulatory developments in the Province of Quebec;
- the transfer of wells drilled in 2022 from the proved undeveloped to the proved producing category;
- the development of producing assets to execute the Company business strategy;
- hedging policy;
- liquidity and capital resources;
- the Company's compliance with the terms of its credit facility;
- timing of the next review and expected renewal of the Company's credit facility by its lender;
- ability of the Company to meet its foreseeable obligations;
- capital expenditures and the funding thereof;
- Questerre's reserves;
- impacts of capital expenditures on the Company's reserves;
- average royalty rates;
- commitments and Questerre's participation in future capital programs;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness;
- joint venture partner willingness to participate in capital programs;
- the timing of receivables from joint venture partners;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

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

- drilling plans and the development of producing assets;

- future production of oil, natural gas and natural gas liquids;
- future commodity prices in light of decisions by OPEC and non-OPEC member countries, including Saudi Arabia and Russia on production levels, the war in Ukraine and related sanctions, as well as the impacts of COVID-19;
- legislative and regulatory developments in the Province of Quebec including plans by the Government to enact Bill 21 and revoke exploration licenses;
- the transfer of wells drilled in 2022 from the proved undeveloped to the proved producing category;
- the development of producing assets to execute the Company business strategy;
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- insurance;
- use of financial instruments; and
- critical accounting estimates.

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

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

BOE Conversions

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

Non-GAAP Measures

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

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

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

Adjusted Funds Flow From Operations Reconciliation

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2022**	2021	**2022**	2021
Net cash from operating activities	**$ 10,162**	$ 3,006	**$ 15,066**	$ 6,085
Interest received	**(69)**	(48)	**(108)**	(98)
Interest paid	**10**	123	**39**	256
Change in non-cash operating working capital	**2,080**	1,143	**1,476**	866
Adjusted Funds Flow from Operations	**$ 12,183**	$ 4,224	**$ 16,473**	$ 7,109

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

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

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

Select Information

As at/for the period ended June 30,	Three months ended 2022	Three months ended 2021	Six months ended 2022	Six months ended 2021
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	**17,013**	7,095	**26,587**	14,141
Net Income	**9,051**	2,892	**11,474**	3,800
Basic and diluted ($/share)	**0.02**	0.01	**0.03**	0.01
Adjusted Funds Flow from Operations	**12,183**	4,224	**16,473**	7,109
Basic and diluted ($/share)	**0.03**	0.01	**0.04**	0.02
Capital Expenditures	**2,843**	450	**7,769**	947
Working Capital Surplus (Deficit)[1]	**10,564**	(1,243)	**10,564**	(1,243)
Total Assets	**194,419**	194,053	**194,419**	194,053
Shareholders' Equity	**161,969**	156,316	**161,969**	156,316
Common Shares Outstanding (thousands)	**428,516**	428,516	**428,516**	428,516
Weighted average - basic (thousands)	**428,516**	427,571	**428,516**	427,543
Weighted average - diluted (thousands)	**428,747**	427,743	**430,622**	427,806
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**1,157**	887	**987**	929
Natural Gas (Mcf/d)	**4,510**	3,549	**3,682**	3,898
Total (boe/d)	**1,909**	1,479	**1,600**	1,579
Average Sales Price[2]				
Crude Oil and Natural Gas Liquids ($/bbl)	**129.48**	74.99	**129.83**	76.14
Natural Gas ($/Mcf)	**8.25**	3.22	**6.61**	3.08
Total ($/boe)	**97.95**	52.72	**91.80**	49.49
Netback ($/boe)				
Petroleum and Natural Gas Sales[3]	**97.95**	52.72	**91.80**	49.49
Royalty Expense[3]	**(5.92)**	1.87	**(6.91)**	(1.85)
Percentage	**6%**	(4)%	**8%**	4%
Operating Expense[3]	**(15.99)**	(18.96)	**(20.21)**	(19.36)
Operating Netback	**76.04**	35.63	**64.68**	28.29
Wells Drilled				
Gross	**–**	–	**–**	–
Net	**–**	–	**–**	–

[1] Refer to the Current Assets and Current Liabilities in the Balance Sheet as at June 30, 2022 and December 31, 2021.
[2] Refer to the Petroleum and Natural Gas Sales table in the MD&A for the periods ended June 30, 2022 and 2021.
[3] Refer to Consolidated Statement of Net Income and Comprehensive Income for the periods ended June 30, 2022 and 2021.

Highlights

- Average daily production of 1,909 boe/d and adjusted funds flow from operations of $12.2 million for the quarter
- Government of Quebec announced plans to enact Bill 21 and revoke exploration licenses
- Red Leaf completes third-party engineering validation of new design

Second Quarter 2022 Activities

Kakwa, Alberta

The operator concluded the completions and tie-in of three wells at Kakwa Central during the quarter. Questerre holds a 25% working interest in these wells. Two of these wells required further cleanup. Gross production from these wells for the quarter averaged 2,874 boe/d consisting of 6.9 MMcf/d of natural gas and 1,719 bbls/d of condensate and natural gas liquids. While the initial results are encouraging, they are not indicative of the long-term performance or ultimate recovery from these wells.

For the second quarter, gross production from the four farm-in wells at Kakwa North averaged 1,543 boe/d consisting of 5.6 MMcf/d of natural gas and 603 bbls/d of condensate and natural gas liquids. The Company holds a 5% royalty interest in these production volumes. Upon recovery by the operator of all costs associated with the initial wells including associated infrastructure, the Company has an election to remain in a royalty position or convert to a working interest in these wells. Based on current commodity prices, the Company anticipates it could be required to make this election during the third quarter of this year.

As previously noted, the Company anticipates drilling could resume early next year. Subject to its review of the proposed drilling programs and commodity prices, the Company plans to participate in future drilling at both its Kakwa joint ventures.

St. Lawrence Lowlands, Quebec

The Company's primary focus is protecting its legal rights following the passage of Bill 21, *An Act mainly to end petroleum exploration and production and the public financing of those activities* ("Bill 21") by the Government of Quebec. In July 2022, the Government of Quebec announced it intends to bring into effect Bill 21 on August 23, 2022. This follows royal assent received on April 12, 2022, and the approval of the elected representatives of the National Assembly.

Bill 21 revokes all exploration licenses in Quebec. The Company currently holds a direct and indirect interest in 24 exploration licenses covering over one million acres in the province. Bill 21 includes three main categories of compensation, including personal compensation for qualifying exploration and development expenses incurred between October 2015 to October 2021 and general compensation for acquisition costs, regulatory compliance costs and up to 75% of costs for well abandonments. The third category is contingent and includes expenses in the above categories for other time periods.

The Attorney General of Quebec has requested the Superior Court of Quebec order the special case management of all outstanding litigation related to Bill 21. If granted, this demand would result in all Bill 21 related litigation being grouped and dealt with by a single judge. The Company through its legal counsel will submit its official response to this request shortly. The Attorney General also intends to ask for all pending litigation to be dismissed. The pending litigation includes the judicial review application and the claim for expropriation filed by Questerre in 2018 and 2022 respectively.

The Company is pursuing available remedies to protect its legal rights. It is seeking to have Bill 21 judged illegal and unconstitutional and, alternatively, just compensation for the value of its licenses including the significant discovery. The Company plans to assist other stakeholders and partners including the First Nations and local royalty holders to ensure their rights are also protected against the Government's actions.

Corporate

Following a review conducted in the second quarter, the Company's credit facilities with a Canadian chartered bank are expected to remain unchanged at $16 million. The renewal will take effect upon the execution of an amending agreement which the Company anticipates will be completed in late August 2022. The renewed facilities will consist of a revolving operating demand loan of $16 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 2022 was 4.08% (2021: 3.45%). As at June 30, 2022, $0.03 million was drawn on the facility and the Company held unrestricted cash and term deposits of $13.8 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 2023.

Production

Three months ended June 30,		**2022**			2021	
	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	**872**	**4,510**	**1,624**	585	3,549	1,177
Saskatchewan and Manitoba	**285**	**–**	**285**	302	–	302
	1,157	**4,510**	**1,909**	887	3,549	1,479

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

Six months ended June 30,	2022			2021		
	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	**679**	**3,682**	**1,292**	624	3,898	1,274
Saskatchewan and Manitoba	**308**	**–**	**308**	305	–	305
	987	**3,682**	**1,600**	929	3,898	1,579

With new wells at Kakwa tied in during the quarter, volumes increased materially over the preceding quarter and the same quarter last year. This production offset the lower volumes in the first quarter resulting in relatively similar volumes for the first half of the current year compared to the prior year.

Kakwa continues to represent over 80% of corporate volumes inclusive of royalty production from Kakwa North that accounts for 97 boe/d (2021: 135 boe/d). Notwithstanding delays in the flowback and cleanup of two of the three (0.75 net) new wells, they accounted for just under 50% of Kakwa production of 1,624 boe/d for the quarter (2021: 1,177 boe/d).

Consistent with prior periods, the Company's oil and liquids weighting remained at 60% for the quarter and the first half of the year. In addition to the condensate and natural gas liquids from Kakwa, liquids production includes light oil from Saskatchewan and Manitoba. While production from these areas declined over the preceding quarter and the same period last year due to weather related delays for workovers, the volumes remained generally flat over the first six months of the year.

With no additional wells planned for the remainder of the year, the Company anticipates its production volumes will decline. These declines will be mitigated by the proposed conversion of Kakwa North royalty production to working interest volumes in the third quarter. Subject to its review of the drilling programs proposed by the operators this fall, the Company plans to participate in future drilling at both its Kakwa joint ventures.

Second Quarter 2022 Financial Results

Petroleum and Natural Gas Sales

Three months ended June 30,	2022			2021		
($ thousands)	**Oil and Liquids**	**Natural Gas**	**Total**	Oil and Liquids	Natural Gas	Total
Alberta	**$ 10,067**	**$ 3,386**	**$ 13,453**	$ 3,755	$ 1,201	$ 4,956
Saskatchewan and Manitoba	**3,560**	**–**	**3,560**	2,139	–	2,139
	$ 13,627	**$ 3,386**	**$ 17,013**	$ 5,894	$ 1,201	$ 7,095

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

Six months ended June 30,	2022			2021		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Alberta	$ 14,819	$ 4,773	$ 19,592	$ 7,881	$ 2,241	$ 10,122
Saskatchewan and Manitoba	6,995	–	6,995	4,019	–	4,019
	$ 21,814	$ 4,773	$ 26,587	$ 11,900	$ 2,241	$ 14,141

In the second quarter, the higher production volumes leveraged materially higher commodity prices and increased revenue nearly two and a half times to $17 million. For the first six months of the year with production volumes unchanged over the prior year, the near doubling in revenue is attributable to higher oil and gas prices.

Pricing

	Three months ended June 30,		*Six months ended June 30,*	
	2022	2021	**2022**	2021
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	**6.41**	2.82	**5.41**	2.85
Crude Oil - Mixed Sweet Blend ($/bbl)	**137.79**	77.60	**128.80**	74.51
Realized prices:				
Natural Gas ($/Mcf)	**8.25**	3.22	**6.61**	3.08
Crude Oil and Natural Gas Liquids ($/bbl)	**129.48**	74.99	**129.83**	76.14

Crude oil prices continued to climb to their highest levels in a decade. The benchmark West Texas Intermediate ("WTI") averaged US$108.41/bbl for the quarter (2021: US$66.07/bbl) and US$101.35/bbl for the first six months of the year (2021: US$61.67/bbl).

The conflict in Ukraine and its impact on Russian supply has highlighted the tightness in the oil market. Recovering post-pandemic demand has met with supply concerns including in North America following years of underinvestment and, more recently, a disciplined capital investment approach by producers. This is corroborated by a recent report that notes OECD crude inventories are at decade lows with diesel inventories at their lowest level since 2005. Volatility is expected to persist as the market fluctuates between concerns about inflation, a potential recession and the tight supply-demand balance.

In Canada, the facility turnarounds at the oilsands contributed to weaker demand for condensate that is used as a diluent for transportation. The differential between WTI and Canadian condensate prices averaged a nominal discount of US$0.07/bbl for the quarter (2021: US$0.33/bbl premium) compared to a premium of US$1.80/bbl for the first quarter (2021: US$0.20/bbl premium).

Questerre's liquids production consists primarily of condensate and light oil. As a result, realized prices closely tracked the benchmark prices with discounts of less than 10% for both the quarterly and six-month periods in the current year.

Consistent with the first quarter, natural gas prices also rose over the prior year with the benchmark Henry Hub averaging US$7.57/MMBtu (2021: US$2.94/MMBtu) in the quarter and US$6.11/MMBtu (2021: US$3.25/MMBtu) for the first half of the year.

The situation in Ukraine has also impacted global natural gas markets as Europe competes with Asia for LNG as a more reliable alternative to Russian supplies. The growing demand for LNG has, in turn, affected markets in North America with the United States now exporting over 12 Bcf/d in the first quarter of this year. In Canada, increased demand by the oilsands in Alberta and exports to the United States have resulted in Western Canada storage levels well below the five-year average.

Realized natural gas prices, reflecting the higher heat content from Kakwa production, averaged $6.61/Mcf (2021: $3.08/Mcf) compared to the AECO price of $5.41/Mcf (2021: $2.85/Mcf).

Royalties

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2022**	2021	**2022**	2021
Alberta	**$ 776**	$ (406)	**$ 1,515**	$ 236
Saskatchewan and Manitoba	**251**	155	**486**	293
	$ 1,027	$ (251)	**$ 2,001**	$ 529
% of Revenue:				
Alberta	**6%**	-	**8%**	2%
Saskatchewan and Manitoba	**7%**	7%	**7%**	7%
Total Company	**6%**	-	**8%**	4%

Excluding credits received from the Crown in Alberta, gross royalties on a three and six month basis increased over the prior year with the increase in petroleum and natural gas sales.

Royalties for the quarter ended June 30, 2022 reflect a credit of $0.6 million (2021: $0.8 million) from the government for processing its share of production through the Company's facilities. The decrease in the credit over the prior year is due to a depreciated cost base for the determination of the credit. Excluding the credit, royalties as a percentage of revenue averaged 10% (2021: 7%) for the second quarter and 11% for the first half of the year (2021: 10%). Unchanged from last year, royalties on production in Saskatchewan and Manitoba remained flat at 7%.

Operating Costs

($ thousands)	*Three months ended June 30,* 2022	2021	*Six months ended June 30,* 2022	2021
Alberta	**$ 2,012**	$ 1,864	**$ 4,192**	$ 4,047
Saskatchewan and Manitoba	**669**	612	**1,472**	1,314
Quebec	**96**	76	**189**	170
	$ 2,777	$ 2,552	**$ 5,853**	$ 5,531
$/boe:				
Alberta	**13.61**	17.40	**17.92**	17.55
Saskatchewan and Manitoba	**25.86**	22.28	**26.43**	23.84
Total Company	**15.99**	18.96	**20.21**	19.36

Gross operating costs increased by under 10% to $2.8 million in the quarter (2021: $2.6 million) and under 5% to $5.9 million for the first half of the year (2021: $5.5 million). On a boe basis, the higher production volumes offset these increases and translated into costs averaging $15.99/boe compared to $18.96/boe last year. Year to date operating costs on a unit of production basis increased commensurately with the increase in gross costs.

In Alberta, operating costs at Kakwa were nominally higher for the quarter due to higher fuel and power costs. For the first half of the year, costs remained relatively stable with nearly 80% of total costs being fixed including firm transportation and processing charges. With a nearly 30% increase in production volumes, this translated to an over 20% decline on a boe basis over the same quarter for the prior year.

Operating costs in Antler and Manitoba also increased slightly over the prior year for both the quarter and year to date periods. Coupled with the lower production volumes in the quarter, this increased costs on a boe basis by over 15% to $25.86/bbl. With similar production volumes in the six-month periods ended June 30, 2022, and 2021, the change in the per unit operating costs mirrored the change in gross costs for the period. Operating costs in Quebec reflect the maintenance costs associated with the Company's assets in the province and these increased for both the three and six month periods.

General and Administrative Expenses

($ thousands)	*Three months ended June 30,* 2022	2021	*Six months ended June 30,* 2022	2021
General and administrative expenses, gross	**$ 1,071**	$ 771	**$ 1,971**	$ 1,512
Capitalized expenses and overhead recoveries	**(58)**	(251)	**(116)**	(521)
General and administrative expenses, net	**$ 1,013**	$ 520	**$ 1,855**	$ 991

For the quarter and six months ended June 30, 2022, gross general and administrative expenses ("G&A") increased by over 30% from the prior year. The variance is due to higher costs incurred in consulting and legal fees related to Quebec. Capitalized expenses relate to the Company's assets in Quebec and Jordan. In 2022, these were materially lower following the introduction of Bill 21 in Quebec and the resulting impairment of the carrying value of its assets in the province. The increase in net G&A reflects the combination of the higher gross costs as well as lower capitalization in the three and six month periods.

Depletion, Depreciation, Accretion and Impairment

Questerre recorded depletion, depreciation and accretion expense of $2.6 million for the quarter ended June 30, 2022 (2021: $1.5 million) and $4.3 million for the six months then ended (2021: $3.2 million). Depletion accounts for over 95% of these amounts. The variance is attributed to the increased production volumes and the increase in the depletable base on a unit of production basis from $10.71/boe to $14.56/boe for the year to date period. The latter reflects the higher book cost for the Company's plant, property and equipment assets arising from the reversal of previously incurred impairment expense of $91.7 million following the impairment test completed as of December 31, 2021.

Interest expense, other income and share based compensation expense

During the six months ended June 30, 2022, the Company incurred interest expense of $0.04 million (2021: $0.3 million). The amounts relate to its credit facilities with a Canadian chartered bank. The lower expense in the year reflects the reduction in amounts outstanding under these facilities. As at June 30, 2022, the amount drawn on the facilities was $0.03 million (June 30, 2021: $12 million) and the effective interest rate was 4.08% (2021: 3.45%). The Company also earned interest income of $0.1 million (2021: $0.1 million) on its cash and term deposits for the period.

Year to date, the Company recorded share based compensation expense of $1.1 million (2021: $0.3 million) net of $0.2 million in expense capitalized during the period (2021: $0.3 million).

Other Comprehensive Income (Loss) and Expenses

In 2022, the Company recorded other comprehensive income of $0.4 million for the quarter (2021: $0.2 million loss) and $0.2 million year to date (2021: $0.4 million loss). These amounts relate to the impact of changes in foreign exchange for the respective periods. The appreciation of the Jordanian dinar resulted in a gain of $0.2 million (2021: $0.1 million loss) on the Company's dinar denominated assets in the country for the quarter. For the same period, the appreciation in the US dollar resulted in a gain of $0.2 million (2021: $0.1 million loss) on its US dollar denominated investment in Red Leaf Resources Inc. ("Red Leaf"). On a year to date basis, the income in the second quarter offset the losses in the first quarter of the year resulting in reduced other comprehensive income.

Net Income and Total Comprehensive Income

Net income for the current quarter was $9.1 million (2021: $2.9 million) and year to date it was $11.5 million (2021: $3.8 million). The significant change over the prior year for both periods is attributable to the higher petroleum and natural gas revenue partially offset by higher expenses in almost all categories in the current year. Including other comprehensive income (loss), the total comprehensive income for the second quarter of the year was $9.4 million (2021: $2.7 million) and year to date income was $11.7 million (2021: $3.4 million).

Cash Flow from Operating Activities

For the six months ended June 30, 2022, net cash from operating activities was $15.1 million compared to $6.1 million last year. The variance is due to the higher adjusted funds flow from operations in the current year offset by a larger decrease in non-cash working capital compared to last year. This also explains the positive variance in the net cash from operating activities for the quarter ended June 30, 2022.

Cash Flow used in Investing Activities

Cash flow used in investing activities for the second quarter increased to $4.1 million this year from $0.6 million last year reflecting the higher capital spending at Kakwa. The higher capital spending year to date also accounts for the increase in cash used in investing activities over the prior year partly offset by an increase in non-cash working capital compared to a decrease last year.

Cash Flow used in Financing Activities

For the second quarter and the year to date, net cash used in financing activities reflects the net repayment of its credit facilities of $0.8 million (2021: $2.4 million) and $3.4 million (2021: $3.3 million), respectively.

Capital Expenditures

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2022**	2021	**2022**	2021
Alberta	**$ 2,682**	$ 17	**$ 7,534**	$ 96
Saskatchewan, Manitoba and Jordan	**46**	41	**106**	57
Quebec	**115**	392	**129**	794
Total Company	**$ 2,843**	$ 450	**$ 7,769**	$ 947

For the first six months of 2022, the Company incurred capital expenditures of $7.7 million as follows:

- In Alberta, $7.5 million was incurred to finalize drilling and commence completion operations on three (0.75 net) wells at Kakwa Central; and
- $0.2 million was invested in maintenance for the Company's other assets.

For the six months ended June 30, 2021, the Company incurred nominal capital investment of $0.9 million as follows:

- In Quebec, $0.8 million for capitalized overhead related to engineering and securing social acceptability for its Clean Tech Energy project; and
- $0.1 million was invested in maintenance for the Company's other assets.

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At June 30, 2022, 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 10, 2022**	**June 30, 2022**	December 31, 2021
Common Shares	**428,516**	**428,516**	428,516
Stock Options	**35,347**	**35,347**	30,307
Weighted average common shares			
Basic		**428,516**	428,034
Diluted		**430,622**	428,034

A summary of the Company's stock option activity for the six months ended June 30, 2022, and the year ended December 31, 2021 follows:

	June 30, 2022		December 31, 2021	
	Number of Options *(thousands)*	**Weighted Average Exercise Price**	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	**30,307**	**$ 0.35**	25,351	$ 0.38
Granted	**11,490**	**0.35**	8,350	0.18
Forfeited/cancelled	**–**	**–**	(2,344)	0.18
Expired	**(6,450)**	**0.69**	(50)	0.18
Exercised	**–**	**–**	(1,000)	0.18
Outstanding, end of period	**35,347**	**$ 0.28**	30,307	$ 0.35
Exercisable, end of period	**18,319**	**$ 0.28**	20,866	$ 0.42

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 commodity prices have well surpassed pricing prior to the COVID-19 pandemic, they remain volatile as a result of recent geopolitical events. The Company continues to manage its financial liquidity through ensuring capital expenditures can be financed through a combination of cash flow from operations and available debt facilities.

At June 30, 2022, $0.03 million (December 31, 2021: $3.4 million) was drawn on the credit facilities and the Company is compliant with all its covenants under the credit facilities. Under the terms of the credit facilities, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2022 was 3.40 and the covenant was met. See Note 11 of the Financial Statements.

While the credit facilities are expected to be renewed in the third quarter at $16 million, the facilities could be reduced at their next review scheduled during the second quarter of 2023. The credit facilities are a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. In the current market, the Company may be unable to secure additional financing on acceptable terms, if at all.

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

The Company is committed to the 2022 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2021. It anticipates that, as a result, reserves associated with wells drilled in 2022 will be transferred from the proved undeveloped to the proved producing category.

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

Commitments

A summary of the Company's net commitments at June 30, 2022 are as follows:

($ thousands)	2022	2023	2024	2025	2026	Total
Transportation and Processing	$ 1,581	$ 3,162	$ 2,884	$ 2,015	$ 1,240	$ 10,882

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, 2021.

Volatility in the oil and gas industry is a major risk facing the Company. Market events and conditions, including global oil and natural gas supply and demand, actions taken by OPEC and non-OPEC member countries' decisions, including recent decisions by Saudi Arabia and Russia, on production growth and spare capacity, market volatility and disruptions, weakening global relationships, the war in Ukraine and related sanctions, 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 previously reduced the Company's cash flow leading to a reduction in funds available for capital expenditures. As a result, the Company may not be able to replace its production with additional reserves and both the Company's production and reserves could be reduced on a year over year basis. Any decrease in value of the Company's reserves may reduce the borrowing base under its credit facilities, which, depending on the level of the Company's indebtedness, could result in the Company having to repay all or a portion of its indebtedness. Given the current market conditions and the lack of confidence in the Canadian oil and natural gas industry, the Company may have difficulty raising additional funds in the future to raise funds on unfavourable and highly dilutive terms.

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

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

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

The Company uses the following guidelines to address financial exposure:

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

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

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

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

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing and infrastructure companies and the Company has not experienced any credit loss relating to these sales to date. Pursuant to IFRS 9, the Company made a provision of $0.07 million at June 30, 2022 for its expected credit losses related to its accounts receivable.

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

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, 2022, the Company had no outstanding commodity risk management contract in place.

Environmental Regulation and Risk

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in the applicable interest rates will impact the Company's interest expense related to its credit facilities. Given the immateriality of interest expense relative to net income, a 0.5% change in interest rates applicable to its credit facilities would have a negligible impact on net income. At June 30, 2022, the Company had credit facilities outstanding of $0.03 million (December 31, 2021: $3.4 million) with an effective rate of 4.08% (2021: 3.45%).

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, 2022 and ended on June 30, 2022 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 2022	Mar 31 2022	Dec 31 2021	Sept 30 2021
Production (boe/d)	**1,909**	1,288	1,398	1,363
Average Realized Price ($/boe)	**97.95**	82.56	69.11	58.83
Petroleum and Natural Gas Revenue	**17,013**	9,574	8,887	7,376
Adjusted Funds Flow from Operations	**12,183**	4,290	3,790	3,578
Net Income (Loss)	**9,051**	2,423	(10,107)	2,006
Basic and Diluted ($/share)	**0.02**	0.01	(0.02)	–
Capital Expenditures, net of acquisitions and dispositions	**2,843**	4,926	3,177	541
Working Capital Surplus	**10,564**	1,192	1,834	1,698
Total Assets	**194,419**	186,201	184,264	192,709
Shareholders' Equity	**161,969**	151,862	148,961	158,922
Weighted Average Common Shares Outstanding				
Basic (thousands)	**428,516**	428,516	428,516	428,516
Diluted (thousands)	**428,747**	432,112	428,516	428,516

($ thousands, except as noted)	June 30 2021	Mar 31 2021	Dec 31 2020	Sept 30 2020
Production (boe/d)	1,479	1,679	1,851	1,875
Average Realized Price ($/boe)	52.72	46.62	35.85	31.26
Petroleum and Natural Gas Revenue	7,095	7,046	6,105	5,391
Adjusted Funds Flow from Operations	4,224	2,885	1,857	1,623
Net Income (Loss)	2,892	908	(75)	(970)
Basic and Diluted ($/share)	0.01	–	–	–
Capital Expenditures, net of acquisitions and dispositions	450	497	1,621	348
Working Capital Deficit	(1,243)	(5,449)	(7,705)	(8,095)
Total Assets	194,053	194,417	196,177	195,925
Shareholders' Equity	156,316	153,108	152,120	152,508
Weighted Average Common Shares Outstanding				
Basic (thousands)	427,571	427,516	427,516	427,516
Diluted (thousands)	427,743	427,879	427,516	427,516

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. Revenue has increased each quarter primarily due to the recovery in commodity prices.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. In 2021, with the increase in prices, capital investment increased in the fourth quarter with the effect of increased production volumes realized in the second quarter of 2022. In

2020, with non-essential capital investment largely suspended, production volumes declined quarter over quarter.

- The working capital surplus (deficit) has generally decreased when capital expenditures and other investments have been higher than adjusted funds flow from operations and cash from financing activities.
- With no new equity capital raised in the last three years, shareholders' equity has generally changed with net income or losses sustained in the period.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended June 30, 2022.

Related Party Transactions

The Company paid fees of $0.1 million for the six months ended June 30, 2022 (December 31, 2021: $0.2 million) to a law firm where a director of the Company is currently a partner.

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

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

The accompanying unaudited consolidated interim financial statements of Questerre Energy Corporation for the interim reporting period ended June 30, 2022, 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 external auditors, Ernst and Young LLP, have not performed a review of these unaudited consolidated interim financial statements in accordance with the standards established by Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's external auditor.

Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note	June 30, 2022	December 31, 2021
Assets			
Current Assets			
Cash and cash equivalents		$ 13,821	$ 8,531
Accounts receivable		6,402	4,016
Deposits and prepaid expenses		1,346	1,068
		21,569	13,615
Property, plant and equipment	4	144,427	140,120
Exploration and evaluation	5	12,434	14,710
Investments	3	8,106	7,965
Restricted cash	11	7,713	7,658
Right-of-use assets		170	196
		$ 194,419	$ 184,264
Liabilities			
Current Liabilities			
Lease liabilities		$ 52	$ 52
Credit facilities	11	32	3,420
Accounts payable and accrued liabilities		10,973	8,361
		11,057	11,833
Lease liabilities		130	155
Contingent liabilities		1,820	1,820
Asset retirement obligation	6	19,443	21,495
		32,450	35,303
Shareholders' Equity			
Share capital	7	429,878	429,878
Contributed surplus		25,391	24,068
Accumulated other comprehensive loss		(316)	(527)
Deficit		(292,984)	(304,458)
		161,969	148,961
		$ 194,419	$ 184,264

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

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

($ thousands)	Note	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Revenue					
Petroleum and natural gas sales including royalty revenue	10	$ **17,013**	$ 7,095	$ **26,587**	$ 14,141
Royalties		**(1,027)**	251	**(2,001)**	(529)
Petroleum and natural gas sales, net of royalties		**15,986**	7,346	**24,586**	13,612
Expenses					
Direct operating		**2,777**	2,552	**5,853**	5,531
General and administrative		**1,013**	520	**1,855**	991
Depletion, depreciation, accretion and impairment	4,5,6	**2,616**	1,515	**4,345**	3,183
Lease expiries	5	**81**	9	**81**	86
Share based compensation	8	**559**	138	**1,121**	293
Interest expense		**10**	123	**39**	256
Interest and other income		**(91)**	(402)	**(165)**	(525)
Net income before taxes		**9,021**	2,891	**11,457**	3,797
Deferred tax recovery		**(30)**	(1)	**(17)**	(3)
Net income		**9,051**	2,892	**11,474**	3,800
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustment		**180**	(83)	**94**	(146)
Gain (loss) on foreign exchange on investments	3	**217**	(114)	**117**	(213)
		397	(197)	**211**	(359)
Total comprehensive income		$ **9,448**	$ 2,695	$ **11,685**	$ 3,441
Net income per share					
Basic and diluted	7	$ **0.02**	$ 0.01	$ **0.03**	$ 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)	**2022**	2021
Share Capital		
Balance, beginning of period	**$ 429,878**	$ 429,703
Options exercised	**-**	175
Balance, end of period	**429,878**	429,878
Contributed Surplus		
Balance, beginning of period	**24,068**	23,047
Share based compensation	**1,323**	580
Balance, end of period	**25,391**	23,627
Accumulated Other Comprehensive Loss		
Balance, beginning of period	**(527)**	(473)
Other comprehensive income (loss)	**211**	(359)
Balance, end of period	**(316)**	(832)
Deficit		
Balance, beginning of period	**(304,458)**	(300,157)
Net income	**11,474**	3,800
Balance, end of period	**(292,984)**	(296,357)
Total Shareholders' Equity	**$ 161,969**	$ 156,316

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

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

		Three months ended June 30,		Six months ended June 30,	
($ thousands)	Note	**2022**	2021	**2022**	2021
Operating Activities					
Net income		**$ 9,051**	$ 2,892	**$ 11,474**	$ 3,800
Adjustments for:					
Depletion, depreciation, accretion and impairment	4,5,6	**2,616**	1,515	**4,345**	3,183
Lease expiries	5	**81**	9	**81**	86
Share based compensation	8	**559**	138	**1,121**	293
Deferred tax recovery		**(30)**	(1)	**(17)**	(3)
Interest expense		**10**	123	**39**	256
Interest and other income		**(90)**	(400)	**(151)**	(453)
Abandonment expenditures	6	**(14)**	(52)	**(419)**	(53)
Adjusted Funds Flow from Operations		**12,183**	4,224	**16,473**	7,109
Interest paid		**(10)**	(123)	**(39)**	(256)
Interest received		**69**	48	**108**	98
Change in non-cash working capital		**(2,080)**	(1,143)	**(1,476)**	(866)
Net cash from operating activities		**10,162**	3,006	**15,066**	6,085
Investing Activities					
Property, plant and equipment expenditures	4	**(797)**	(72)	**(767)**	(131)
Exploration and evaluation expenditures	5	**(2,046)**	(378)	**(7,002)**	(816)
Change in non-cash working capital		**(1,272)**	(154)	**1,460**	(1,903)
Net cash used in investing activities		**(4,115)**	(604)	**(6,309)**	(2,850)
Financing Activities					
Proceeds from issue of share capital	7	**–**	175	**–**	175
Principal portion of lease payments		**(13)**	(13)	**(26)**	(26)
Drawdown under credit facilities		**765**	4,466	**5,413**	9,989
Repayment of credit facilities		**(1,500)**	(7,000)	**(8,800)**	(13,400)
Net cash used in financing activities		**(748)**	(2,372)	**(3,413)**	(3,262)
Change in cash, cash equivalents and restricted cash		**5,299**	30	**5,344**	(27)
Cash, cash equivalents and restricted cash, beginning of period		**16,235**	17,703	**16,190**	17,760
Cash, cash equivalents and restricted cash, end of period		**$ 21,534**	$ 17,733	**$ 21,534**	$ 17,733

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2022 and 2021 (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 six months ended June 30, 2022, and 2021 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 10, 2022.

2. Significant Accounting Policies

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

The unaudited condensed interim consolidated financial statements follow the same accounting policies as the most recent annual audited consolidated financial statements 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 interim consolidated financial statements note disclosures do not include all of those required by International Financial Reporting Standards ("IFRS") applicable for annual consolidated financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these condensed interim consolidated financial statements.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the six month period ended June 30, 2022, 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, 2021.

3. Investment in Red Leaf

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

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

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

The Company 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 abandonment liabilities and US$1.4 million representing the original issue price plus accrued but unpaid dividends of the issued and outstanding Series A Preferred Shares as of June 30, 2022 as well as an estimate of G&A and research and development expenses for the current year. 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, 2022.

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

($ thousands)	June 30, 2022	December 31, 2021
Balance, beginning of year	$ 7,965	$ 7,979
Gain (loss) on foreign exchange	141	(14)
Balance, end of period	$ 8,106	$ 7,965

For the six months ended June 30, 2022, the gain on foreign exchange relating to investments was $0.1 million (December 31, 2021: $0.01 million loss) 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 ("PP&E"):

($ thousands)		
Cost or deemed cost:		
Balance, December 31, 2020	$	290,923
Change in period		1,694
Balance, December 31, 2021		292,617
Additions		765
Change to asset retirement		(1,694)
Transfer from exploration and evaluation assets		9,416
Balance, June 30, 2022	**$**	**301,104**
Accumulated depletion, depreciation and impairment losses:		
Balance, December 31, 2020	$	238,439
Depletion and depreciation		5,794
Reversal of previous impairments		(91,736)
Balance, December 31, 2021		152,497
Depletion, depreciation and impairment		4,180
Balance, June 30, 2022	**$**	**156,677**

($ thousands)		Total Assets
Net book value:		
At December 31, 2021	$	140,120
At June 30, 2022	**$**	**144,427**

During the six months ended June 30, 2022, the Company did not capitalize any administrative overhead or share based compensation expense directly related to development activities (December 31, 2021: nil). Included in the June 30, 2022, depletion calculation is estimated future development costs of $279.1 million (December 31, 2021: $271.3 million).

Based on the assessment of the current environment, effective June 30, 2022, no indicators of impairment nor indicators to reverse previously recorded impairment were identified.

The Company assessed the carrying value of its PP&E as at December 31, 2021, for indicators of impairment or indicators to reverse previously recorded impairment. Based on this review, the Company's Montney, Alberta and Antler, Saskatchewan cash generating units ("CGU") were tested in accordance with the Company's accounting policy. The recoverable amount of the CGUs were estimated based on the fair value less costs of disposal ("FVLCD") using a discounted cash flow model. Due to the higher future commodity prices, the Company recorded a reversal of $91.7 million in impairment expense incurred in 2020. The estimates of FVLCD were determined using discount rates ranging from 11% to 13% and forecasted after tax cash flows based on proved plus probable reserves, with escalating prices and future development costs.

5. Exploration and Evaluation

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

($ thousands)		June 30, 2022		December 31, 2021
Balance, beginning of year	$	14,710	$	114,203
Additions		6,933		4,719
Transfers to property, plant and equipment		(9,416)		–
Undeveloped lease impairments		194		(103,847)
Undeveloped lease expiries and farmouts		(81)		(220)
Foreign currency translation adjustment - Jordan		94		(145)
Balance, end of period	$	12,434	$	14,710

During the period ended June 30, 2022, the Company capitalized administrative overhead charges of $0.2 million (December 31, 2021: $1.1 million) and $0.2 million of share based compensation expense (December 31, 2021: $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, 2022.

Effective December 31, 2021, as a result of the introduction of Bill 21 - *An Act mainly to end petroleum exploration and production and the public financing of those activities* ("Bill 21"), the Company impaired the full carrying value of its Quebec exploration and evaluation assets of $104 million. Bill 21 will revoke all exploration licenses issued, including those held by the Company. The Company is pursuing available remedies to protect its legal rights. It is seeking to have Bill 21 judged illegal and unconstitutional and, alternatively, just compensation for the value of its licenses including the significant discovery. There can be no certainty as to the timing and outcome of this legal process.

6. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be $19.4 million as at June 30, 2022 (December 31, 2021: $21.5 million) based on an undiscounted total future liability of $23 million (December 31, 2021: $24.9 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 3.07% (December 31, 2021: 1.31%). An inflation rate of 2%

(December 31, 2021: 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, 2022	December 31, 2021
Balance, beginning of year	$ 21,495	$ 20,369
Liabilities settled	(419)	(190)
Revisions due to change in estimates and discount rates	(1,965)	965
Liabilities incurred	–	104
Accretion	332	247
Balance, end of period	$ 19,443	$ 21,495

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At June 30, 2022, 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, 2020	427,516	$ 429,703
Options exercised	1,000	175
Balance, June 30, 2022 and December 31, 2021	**428,516**	**$ 429,878**

b) *Per share amounts*

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

	Three months ended June 30,		*Six months ended June 30,*	
(thousands, except as noted)	2022	2021	2022	2021
Net income	$ 9,051	$ 2,892	$ 11,474	$ 3,800
Issued Common Shares at beginning of period	428,516	427,516	428,516	427,516
Issued on exercise of options	–	55	–	27
Weighted average Common Shares outstanding	428,516	427,571	428,516	427,543
Basic net income per share	$ 0.02	$ 0.01	$ 0.03	$ 0.01

(thousands, except as noted)	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Net income	$ 9,051	$ 2,892	$ 11,474	$ 3,800
Weighted average Common Shares outstanding (basic)	428,516	427,571	428,516	427,543
Effect of outstanding options (diluted)	231	172	2,106	263
Weighted average Common Shares outstanding	428,747	427,743	430,622	427,806
Diluted net income per share	$ 0.02	$ 0.01	$ 0.03	$ 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. As of June 30, 2022, 20.7 million options (June 30, 2021: 30.3 million) were excluded from the diluted weighted average number of common shares outstanding as they were out of the money and their effect would have been anti-dilutive.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date 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.

For the three months ending June 30, 2022, the Company issued 11.5 million options with a weighted estimated fair value of $0.26 per option. The grant price was equivalent or greater than the market price on the date of issuance. The options were valued using the Black-Scholes option pricing model. The weighted average assumptions used by the Company in this pricing model were as follows: Volatility (%): 101.83, Risk Free Rate (%): 1.63, Expected Life (years): 5.0 and Unvested Forfeiture Rate (%): 10.24.

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

	June 30, 2022			December 31, 2021		
	Number of Options *(thousands)*		Weighted Average Exercise Price	Number of Options *(thousands)*		Weighted Average Exercise Price
Outstanding, beginning of period	30,307	$	0.35	25,351	$	0.38
Granted	11,490		0.35	8,350		0.18
Forfeited/cancelled	–		–	(2,344)		0.18
Expired	(6,450)		0.69	(50)		0.18
Exercised	–		–	(1,000)		0.18
Outstanding, end of period	35,347	$	0.28	30,307	$	0.35
Exercisable, end of period	18,319	$	0.28	20,866	$	0.42

9. Financial Risk Management and Determination of Fair Values

a) *Overview*

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

b) *Fair value of financial instruments*

The Company's financial instruments as at June 30, 2022 included restricted and unrestricted cash and cash equivalents, accounts receivable, deposits, credit facilities and accounts payable and accrued liabilities. As at June 30, 2022, the fair values of the Company's financial assets and liabilities approximate their carrying values due to the short-term maturity, except for the Company's investments which are recorded at fair value.

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.

<u>Commodity price risk</u>

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, 2022, the Company holds no risk management contracts.

Currency risk

All of Questerre's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. The Company also incurs expenditures in its Jordanian subsidiary that are denominated in Jordanian Dinar and United States dollars.

As at June 30, 2022, the Company had no forward foreign exchange contracts in place.

d) *Credit risk*

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

e) *Liquidity risk*

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

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

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

10. Petroleum and Natural Gas Sales

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2022**	2021	**2022**	2021
Crude oil and natural gas liquids	**$ 13,248**	$ 5,575	**$ 21,091**	$ 11,299
Natural gas	**3,145**	1,064	**4,372**	1,966
Royalty revenue	**620**	456	**1,124**	876
	$ 17,013	$ 7,095	**$ 26,587**	$ 14,141

11. Credit Facilities

As at June 30, 2022, the credit facilities consisted primarily of a revolving operating demand facility of $16 million ("Facility A"). Facility A can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. The effective interest rate on the facility for the six months of 2022 was 4.08% (2021: 3.45%). As at June 30, 2022, $0.03 million (December 31, 2021: $3.4 million) was drawn on the facility and the Company held unrestricted cash and term deposits of $13.8 million. The credit facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the credit facility, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2022 was 3.40 and the covenant was met.

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

Following a review conducted in the third quarter, the Company expects its facilities will be renewed at $16 million. The renewal will take effect upon receipt of the final requisite approvals in the third quarter. The next review is scheduled for the second quarter of 2023.

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, 2022 (December 31, 2021: $7.7 million).

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