Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of May 10, 2023. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") for the three-month periods ended March 31, 2023 and 2022, and the audited annual consolidated financial statements of the Company for the year ended December 31, 2022 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, 2022, is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an energy technology and innovative 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 the Oslo Stock Exchange under the symbol "QEC".

Basis of Presentation

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

Forward-Looking Statements

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

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

- Government of Quebec's enactment of Bill 21 and revocation of exploration licenses;
- The Company's protection of its legal rights following the enactment of Bill 21;

- The timing of the next case management conference related to Bill 21;
- drilling plans and the development of producing assets;
- drilling and completion costs;
- planned facilities;
- the pursuit by the Company of available remedies to protect its legal rights in Quebec and its plans to assist other stakeholders;
- the seeking of opportunities to work with the Government of Quebec to advance the Company's Clean Tech Energy Project;
- future production of oil, natural gas and natural gas liquids, including anticipated production increases and 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;
- the timing of capital budget finalization;
- 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 2023 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;
- commitments and Questerre's participation in future capital programs;
- the Company's objectives when managing its capital;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness and expected credit losses;
- the timing of receivables from joint venture partners;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

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

- drilling plans and the development of producing assets;

- future production of oil, natural gas and natural gas liquids;
- 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;
- legislative and regulatory developments in the Province of Quebec including the enactment of Bill 21 and revocation of exploration licenses;
- the transfer of wells drilled in 2023 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 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;
- the timing of receivables from joint venture partners;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

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

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

BOE Conversions

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

Non-GAAP Measures

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

This document contains the term "adjusted funds flow from operations", which is 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 March 31,	
($ thousands)	**2023**	2022
Net cash from operating activities	**$ 4,648**	$ 4,904
Change in non-cash operating working capital	**(370)**	(586)
Adjusted Fund Flow from Operations	**$ 4,278**	$ 4,318

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 and lease liabilities.

Select Information

As at/for the period ended,	*Three months ended March 31,* 2023	2022
Financial ($ thousands, except as noted)		
Petroleum and Natural Gas Sales	**10,531**	9,574
Net Income	**940**	2,423
Basic and diluted ($/share)	**–**	0.01
Adjusted Funds Flow from Operations	**4,277**	4,318
Basic and diluted ($/share)	**0.01**	0.01
Capital Expenditures	**3,246**	4,926
Working Capital Surplus	**25,523**	1,192
Total Assets	**199,264**	186,201
Shareholders' Equity	**167,371**	151,862
Common Shares Outstanding (thousands)	**428,516**	428,516
Weighted average - basic (thousands)	**428,516**	428,516
Weighted average - diluted (thousands)	**431,064**	432,112
Operations (units as noted)		
Average Production		
Crude Oil and Natural Gas Liquids (bbls/d)	**1,022**	814
Natural Gas (Mcf/d)	**4,607**	2,843
Total (boe/d)	**1,790**	1,288
Average Sales Price		
Crude Oil and Natural Gas Liquids ($/bbl)	**95.63**	111.67
Natural Gas ($/Mcf)	**4.18**	5.42
Total ($/boe)	**65.38**	82.56
Netback ($/boe)		
Petroleum and Natural Gas Sales	**65.38**	82.56
Royalties Expense	**(10.35)**	(8.39)
Percentage	**16%**	10%
Direct Operating Expense	**(24.73)**	(26.52)
Operating Netback	**30.30**	47.65
Wells Drilled		
Gross	**1.00**	–
Net	**0.35**	–

Highlights

- Red Leaf commissions pre-FEED engineering study for 40,000 bbl/d wax processing facility
- Government of Quebec seeks proposals for carbon sequestration pilot projects
- Average daily production of 1,790 boe/d and adjusted funds flow from operations of $4.3 million for the quarter

First Quarter 2023 Activities

Kakwa, Alberta

The operator at Kakwa Central finalized drilling and completion activities on two wells that spud in late 2022. The wells were tied in and placed on production in the second quarter of this year. Questerre elected to participate in only one of these two wells and holds a 25% working interest in the well. The operator has tentatively proposed to drill up to three (0.75 net) wells beginning in the fourth quarter.

Limited activity was conducted at the Kakwa North joint venture. Last fall, Questerre converted its 5% royalty interest in the original farm-in wells to a 50% working interest following the recovery by the operator of the costs associated with the farm-in program. The operator is proposing to drill up to three (1.5 net) wells late this year.

The Company plans to participate in the drilling programs at Kakwa North and Kakwa Central subject to, among other things, commodity prices and the costs and design of the proposed drilling and completion programs.

St. Lawrence Lowlands, Quebec

The Company's primary goal remains the protection of its legal rights following the enactment of Bill 21, *An Act mainly to end petroleum exploration and production and the public financing of those activities* ("Bill 21"). The Company continues to seek opportunities to work with the Government of Quebec to advance its Clean Tech Energy Project.

During the quarter, the Quebec Ministry of Economy, Innovation and Energy sought interest from Questerre and other license holders in implementing pilot projects that would foster the energy transition and attain targets in the fight against climate change. The Company has advised the Government of its continued interest in advancing it Clean Tech Energy Project including the first phase to test a reservoir for carbon storage potential.

Early in the second quarter, the Government announced its plans for public consultation in advance of a new law on the development of clean energy. The bill will among other things seek to amend the *Hydro-Quebec Act* and the *Act respecting the Regie de l'energie*, the provincial regulator. The Company has requested to participate in the public hearings.

Questerre anticipates the next case management conference related to Bill 21 could be held late in the second quarter. This follows the appointment of a single judge to separately manage all the outstanding litigation by license holders, including the Company, last fall. The purpose of the hearing would be, among other things, to determine the next steps in the proceedings including the specific items of the respective claims that can be dealt with collectively and which must be dealt with individually.

Oil Shale Mining

Questerre continues to assist its investee, Red Leaf Resources Inc. ("Red Leaf"), advance its wax upgrading facility and their proprietary technology to produce oil from shale.

During the quarter, Red Leaf commissioned a pre-FEED engineering study on the processing facility to validate the design and capital costs. The second phase of the study will assess new technologies to reduce the emissions footprint of the facility, specifically the inclusion of carbon capture. The company has also recently engaged a refinery expert to identify markets for its production from the facility including the vacuum gas oil used as lubricant base oil feedstock.

To validate key design parameters of its patented technology, the company is engineering a small-scale pilot to produce oil on a batch basis. It is also evaluating the suitability of its technology for a small scall project in Jordan designed to produce between 600 to 1,000 barrels per day for a consortium of local companies.

Production

Three months ended March 31,		**2023**			2022	
	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	**704**	**4,607**	**1,472**	483	2,843	957
Saskatchewan and Manitoba	**318**	**–**	**318**	331	–	331
	1,022	**4,607**	**1,790**	814	2,843	1,288

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

Volumes in the first quarter increased over the prior year with the addition of working interest production at Kakwa North effective the fourth quarter of last year. In comparison to the prior quarter, total Kakwa volumes were lower by 15% or 270 boe/d. Approximately one half is from the shut-in of adjacent wells during the completion of new wells at Kakwa Central with the remainder attributed to natural declines.

Kakwa continued to account for over 80% of corporate volumes. Production from the Kakwa North joint venture was 40% of these volumes with the remainder attributed to the Kakwa Central joint venture. Volumes from Kakwa North accounted for only for 10% of Kakwa production in the prior year and represented a 5% royalty interest compared to a 50% working interest in the current year. The higher proportion of natural gas from this area also contributed to a corporate liquids weighting of just under 60% for the period.

In addition to the condensate and natural gas liquids from Kakwa, the Company's liquids included light oil from Saskatchewan and Manitoba. Production volumes from these areas decreased over the prior year and increased nominally to 318 bbl/d from 281 bbl/d in the prior quarter because of a workover program at Saskatchewan and one new (0.35 net) well in Manitoba tied-in towards the end of the quarter.

With only one (0.25 net) new Kakwa well in 2023, the Company anticipates its production volumes will decline over the second half of the year. Subject to the timing and participation in the drilling programs on the Kakwa joint ventures, its production could increase in early 2024.

First Quarter 2023 Financial Results

Petroleum and Natural Gas Sales

Three months ended March 31,		2023			2022	
($ thousands)	**Oil and Liquids**	**Natural Gas**	**Total**	Oil and Liquids	Natural Gas	Total
Alberta	**$ 6,078**	**$ 1,731**	**$ 7,809**	$ 4,752	$ 1,387	$ 6,139
Saskatchewan and Manitoba	**2,722**	**–**	**2,722**	3,435	–	3,435
	$ 8,800	**$ 1,731**	**$ 10,531**	$ 8,187	$ 1,387	$ 9,574

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

A nearly 40% increase in sales due to production volumes was largely offset by a 30% decline due to realized prices, resulting in an increase in gross sales of just over 10% over the prior year.

Pricing

	Three months ended March 31,	
	2023	2022
Benchmark prices:		
Natural Gas – AECO, daily spot ($/Mcf)	**3.58**	4.42
Crude Oil – Mixed Sweet Blend ($/bbl)	**99.01**	115.66
Realized prices:		
Natural Gas ($/Mcf)	**4.18**	5.42
Crude Oil and Natural Gas Liquids ($/bbl)	**95.63**	111.67

In the first quarter, crude oil prices declined over the prior quarter and more materially over the same period last year. The benchmark West Texas Intermediate averaged US$76.13 per barrel compared to US$82.64 per barrel last quarter and US$94.29 per barrel last year.

The impacts of rising interest rates on the economy continued to weigh on prices in the quarter. Prices were volatile with concerns about the health of the global banking system following the collapse of two US banks leading to a nearly US$10 per barrel drop in prices in early March. Early in the second quarter, market sentiment improved following the OPEC+ announcement of a production cut of over one million barrels per day. In Canada, increased demand for condensate as a diluent for heavy oil contributed to an increase in the differential with WTI to US$3.70 per barrel in the quarter up from US$1.80 per barrel last year.

With the increased premium to WTI, Questerre's realized prices averaged $95.63 per barrel (2022: $111.67 per barrel) compared to the benchmark Canadian Mixed Sweet Blend price of $99.01 per barrel (2022: $115.66 per barrel).

Natural gas prices declined more materially over the prior quarter and prior year. The benchmark Henry Hub averaged US$2.65 per MMBtu compared to US$5.55 per MMBtu last quarter and US$4.66 per MMBtu for the first quarter of last year.

The decline in prices is attributed to reduced heating demand from a warmer than expected winter and reduced export demand from the outage at the Freeport LNG export terminal in the United States. With supply marginally increasing over last year, the reduced demand contributed to storage levels increasing by one third over last year. In Alberta, this decline was offset by a tightening in the differential between the AECO and Henry Hub prices despite higher daily production over last year.

The higher heat content of natural gas from Kakwa translates to a premium over the benchmark AECO price. Realized prices averaged $4.18/Mcf (2022: $5.42/Mcf) compared to the AECO price of $3.58/Mcf (2022: $4.42/Mcf).

Royalties

	Three months ended March 31,	
($ thousands)	**2023**	2022
Alberta	**$ 1,450**	$ 739
Saskatchewan and Manitoba	**217**	235
	$ 1,667	$ 974
% of Revenue:		
Alberta	**19%**	12%
Saskatchewan and Manitoba	**8%**	7%
Total Company	**16%**	10%

Gross royalties increased by over 70% to $1.7 million from $1.0 million in the prior year. On a percentage of revenue basis, this also increased by over 60% to 16% compared to 10% last year.

The higher royalties are attributable to the expiration of Crown incentive programs at Kakwa. As a percentage of revenue, condensate and natural gas liquids from wells with no incentives attract royalty rates of 40% compared to rates of 5% for wells that benefit from the incentive programs. Royalties as a percentage of revenue in Saskatchewan and Manitoba increased marginally to 8% from 7% last year.

Operating Costs

($ thousands)	Three months ended March 31, 2023	2022
Alberta	$ 3,127	$ 2,180
Saskatchewan and Manitoba	746	803
Quebec	111	93
	$ 3,984	$ 3,076
$/boe:		
Alberta	23.61	25.30
Saskatchewan and Manitoba	26.05	26.93
Total Company	24.73	26.52

Corresponding with the increase in production volumes, higher operating costs were incurred during the quarter. On a unit of production basis, these costs declined by just under 5% to $24.73 per boe from $26.52 per boe.

With the incremental working interest volumes from Kakwa North, operating costs in Kakwa increased by nearly 50% to $3.2 million from $2.2 million last year. The majority of operating costs at Kakwa North are variable reflecting the limited number of wells compared to Kakwa Central where the majority of operating costs are fixed. Operating costs in the Company's other core areas including Saskatchewan, Manitoba and Quebec remained largely unchanged over the prior year.

General and Administrative Expenses

($ thousands)	Three months ended March 31, 2023	2022
General and administrative expenses, gross	$ 1,208	$ 900
Capitalized expenses and overhead recoveries	(80)	(58)
General and administrative expenses, net	$ 1,128	$ 842

General & Administrative ("G&A") expenses increased by 20% to $1.2 million from $0.9 million last year. The increase reflects, in part, the reversal of the cost-cutting measures implemented in 2020. Capitalized expenses are G&A expenses directly attributable to the Company's exploration and evaluation assets in the Kingdom of Jordan.

Depletion, depreciation, accretion and impairment

Questerre recorded depletion, depreciation and accretion expense ("DD&A") of $3.0 million for the quarter ended March 31, 2023 (2022: $1.7 million). Depletion accounts for over 95% of these amounts. The variance is due to the increased production volumes and the increase in the depletable base, on a unit of production basis, to $17.29/boe from $15.17/boe year to date. The increase in the depletion rate is attributed to an increase in the future development costs over the prior year.

Net interest, other income and share based compensation expense

During the three months ended March 31, 2023, the Company reported net interest and other income of $0.6 million (2022: $0.04 million). This includes $0.3 million in interest earned on its cash deposits and the remainder relates to a settlement received on a restructuring transaction.

Year to date, the Company recorded share based compensation expense of $0.4 million (2022: $0.6 million) net of $0.1 million in expense capitalized during the period (2022: $0.1 million).

Other comprehensive loss and expenses

In 2023, the Company recorded other comprehensive loss of $0.2 million for the quarter (2022: $0.2 million loss). These amounts relate to the impact of changes in foreign exchange for the respective periods. The depreciation of the Jordanian dinar resulted in a loss of $0.1 million (2022: $0.1 million loss) on the Company's dinar denominated assets in the country for the quarter. Similarly, the depreciation in the US dollar resulted in a loss of $0.05 million (2022: $0.1 million loss) on its US dollar denominated investment in Red Leaf.

Net income and total comprehensive income

Net income for the current quarter was $0.9 million (2022: $2.4 million). The nominal increase in petroleum and natural gas sales was more than offset by higher expenses in most categories including direct operating, DD&A and G&A. Including other comprehensive income, the total comprehensive income for the first quarter of the year was $0.8 million (2022: $2.2 million).

Cash flow from operating activities

For the three months ended March 31, 2023, net cash from operating activities was $4.6 million compared to $4.9 million last year with no material change in adjusted fund flow from operations. The variance is due to the smaller increase in non-cash working capital compared to last year.

Cash flow used in investing activities

Cash flow used in investing activities for the first quarter decreased to $1.4 million this year from $2.2 million last year. This reflects the lower capital investment as the Company participated in one (0.25 net) well in Kakwa and one (0.35 net) well in Manitoba, compared to three (0.75 net) wells in Kakwa last year. The Company also recorded a smaller increase in non-cash working capital in the current year.

Cash flow used in financing activities

In the current year, net cash of $0.01 million was used in financing activities relating to the principal portion of lease payments. In the prior year, $2.7 million was used to reduce the net borrowings under its credit facility.

Capital Expenditures

	Three months ended March 31,	
($ thousands)	**2023**	2022
Alberta	**$ 2,767**	$ 4,852
Saskatchewan, Manitoba and Jordan	**479**	74
Total Company	**$ 3,246**	$ 4,926

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

For the first three months of 2023, the Company incurred capital expenditures of $3.2 million as follows:

- In Alberta, $2.7 million was incurred to finalize drilling and completion operations on one (0.25 net) well at Kakwa Central; and
- $0.5 million was invested in Manitoba for the drilling and completion of one (0.35 net) new well.

For the first quarter of 2022, the Company incurred capital expenditures of $4.9 million as follows:

- In Alberta, $4.8 million was incurred to finalize drilling and commence completion operations on three (0.75 net) wells at Kakwa Central; 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 March 31, 2023, 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)	**May 10, 2023**	**March 31, 2023**	December 31, 2022
Common Shares	**428,516**	**428,516**	428,516
Stock Options	**41,298**	**41,298**	35,298
Weighted average common shares			
Basic		**428,516**	428,516
Diluted		**431,064**	430,524

A summary of the Company's stock option activity for the three months ended March 31, 2023, and the year ended December 31, 2022 follows:

	March 31, 2023			December 31, 2022		
	Number of Options *(thousands)*		Weighted Average Exercise Price	Number of Options *(thousands)*		Weighted Average Exercise Price
Outstanding, beginning of period	**35,298**	**$**	**0.28**	30,308	$	0.35
Granted	**6,000**		**0.24**	11,490		0.34
Expired	**–**		**–**	(6,500)		0.69
Outstanding, end of period	**41,298**	**$**	**0.27**	35,298	$	0.28
Exercisable, end of period	**24,829**	**$**	**0.27**	22,643	$	0.28

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 March 31, 2023, and the end of December 31, 2022, effectively nil 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 March 31, 2023 was 4.37 and the covenant was met. See Note 11 of the Financial Statements.

While the credit facilities are expected to be renewed 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 2023 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2022. It anticipates that, as a result, reserves associated with wells drilled in 2023 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 March 31, 2023, are as follows:

($ thousands)	2023	2024	2025	2026	Total
Transportation and Processing	$ 2,371	$ 2,884	$ 2,016	$ 1,240	$ 8,511

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

Risk Management

Companies engaged in the petroleum and natural gas industry face a variety of risks. For Questerre, these include risks associated with commodity prices, exploration and development drilling as well as production operations, foreign exchange and interest rate fluctuations. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates, government regulations and global economic conditions could have an impact on the Company's future operating results and/or financial condition. While Management realizes that all the risks may not be controllable, Questerre believes that they can be monitored and managed. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF and Note 6 to the audited consolidated financial statements for the year ended December 31, 2022.

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

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

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

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

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

The Company uses the following guidelines to address financial exposure:

- Internally generated cash flow provides the initial source of funding on which the Company's annual capital expenditure program is based.

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

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

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

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

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing and infrastructure companies and the Company has not experienced any credit loss relating to these sales to date. The Company has a provision of $0.04 million at March 31, 2023, 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 March 31, 2023, 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 March 31, 2023, the Company had credit facilities outstanding of effectively nil (December 31, 2022: nil) with an effective rate of 7.70% (2021: 5.33%).

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 January 1, 2023, and ended on March 31, 2023 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)	Mar 31 2023	Dec 31 2022	Sept 30 2022	June 30 2022
Production (boe/d)	**1,790**	2,023	1,629	1,909
Average Realized Price ($/boe)	**65.38**	72.87	77.40	97.95
Petroleum and Natural Gas Revenue	**10,531**	13,562	11,602	17,013
Adjusted Funds Flow from Operations	**4,277**	4,670	5,183	12,183
Net Income (Loss)	**940**	(122)	2,759	9,051
Basic and Diluted ($/share)	**–**	–	0.01	0.02
Capital Expenditures, net of acquisitions and dispositions	**3,246**	2,169	1,653	2,843
Working Capital Surplus	**25,523**	24,491	14,433	10,564
Total Assets	**199,264**	196,486	196,258	194,419
Shareholders' Equity	**167,371**	166,128	166,235	161,969
Weighted Average Common Shares Outstanding				
Basic (thousands)	**428,516**	428,516	428,516	428,516
Diluted (thousands)	**431,064**	428,516	430,727	428,747

($ thousands, except as noted)	Mar 31 2022	Dec 31 2021	Sept 30 2021	June 30 2021
Production (boe/d)	1,288	1,398	1,363	1,479
Average Realized Price ($/boe)	82.56	69.11	58.83	52.72
Petroleum and Natural Gas Revenue	9,574	8,887	7,376	7,095
Adjusted Funds Flow from Operations	4,318	3,790	3,578	4,224
Basic and Diluted ($/share)	–	–	–	–
Net Income (Loss)	2,423	(10,107)	2,006	2,892
Basic and Diluted ($/share)	0.01	(0.02)	–	0.01
Capital Expenditures, net of acquisitions and dispositions	4,926	3,177	541	450
Working Capital Surplus (Deficit)	1,192	1,834	1,698	(1,243)
Total Assets	186,201	184,264	192,709	194,053
Shareholders' Equity	151,862	148,961	158,922	156,316
Weighted Average Common Shares Outstanding				
Basic (thousands)	428,516	428,516	428,516	427,571
Diluted (thousands)	432,112	428,516	428,516	427,743

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 begun increasing in the last six quarters 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.

- The working capital position has generally increased when capital expenditures and other investments have been lower than adjusted funds flow from operations and cash from financing activities.
- Shareholders' equity increased as a result of net income, primarily from higher commodity prices. It decreased in the fourth quarter of 2021 as a result of the impairment related to its investment in Quebec.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended March 31, 2023.