2023 FIRST QUARTER REPORT

QUESTERRE ENERGY CORPORATION

QUESTERRE

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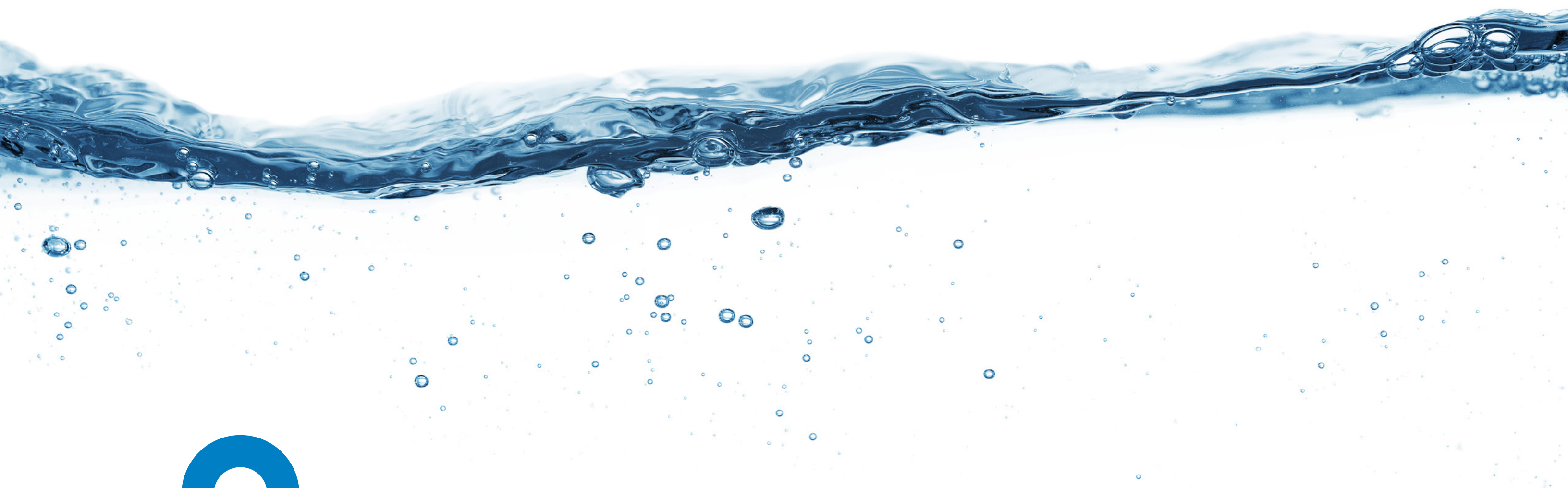

QUESTERRE

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

We are taking a more active role at Red Leaf, our 40% owned investee company, as they develop their core assets: a wax processing facility in the Uintah Basin with environmental permits in place and their patented technology to produce oil from shale that incorporates carbon capture.

We have been leading discussions with stakeholders including producers in the basin, prospective purchasers, and financial advisors. These have been very encouraging and support the business case for the wax project. Red Leaf has also been working closely with us and a potential licensee for a small-scale project using their technology in the Kingdom of Jordan.

We are following the legal process for our claim against the Quebec Government including the preparation of our damage assessment. As our Clean Gas remains a viable option to resolve the impending electricity energy shortage in the province, we are still seeking a business and political solution. During the quarter, the Quebec Ministry of Energy sent us a request for a proposal for pilot projects that would 'foster carbon neutrality and help attain targets in the fight against climate change.' This was followed by the announcement of a consultation process ahead of new legislation this fall on a new clean energy strategy for the province.

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

Energy transition policies are responsible for projected power shortages in Canada. This issue is not limited to Canada. At a recent investor presentation in Oslo, we heard a report from Statnett, the Norwegian transmission system operator, that increased demand could cause a power shortage as early as 2027. Canada's largest bank published a report last fall that noted that Ontario, Canada's largest province, could face shortages as early as 2026.

In Quebec, the province lost a $13 billion Volkswagen battery manufacturing project to Ontario due to a lack of energy resources, according to Minister Fitzgibbon.

Both in the near and long term, our Clean Gas and hydrogen project is, in our view, a very viable solution. It frees up hydroelectricity immediately and can provide near zero-emissions hydrogen as the market develops in the future. This is aligned with the bank report referenced above that recommended 'existing natural gas plants will need to keep operating in provinces facing major energy shortages until at least 2035.' Despite the drop in natural gas prices this year, economics for the project remain strong with gas in Quebec continuing to trade at a premium to the benchmark Henry Hub price.

Red Leaf's wax processing facility could have robust economics too. It would capture the margin between the price for wax that is exported for processing and the price of the finished products such as ultra low sulphur diesel and naphtha. The remainder of the barrel will be shipped to the refineries on the US Gulf

Coast. It would receive a premium to WTI as it is used to make feedstock for the base oil used to manufacture high-value lubricants.

The next steps in this project are the completion of a pre-FEED study to validate the design and costs estimates. Later this year, discussions for potential supply and off-take agreements should commence. In conjunction with securing financing for the project our goal is to facilitate the start of field work as required by our permit from the Utah Department of Air Quality.

Operating & Financial

Year over year, our production volumes increased with the conversion of our royalty interest to a working interest at Kakwa North in the fourth quarter last year. With only one (0.25 net) well expected on-stream in the second quarter, we expect our volumes will decline nominally over the second half of the year.

Crude oil prices were lower in the first quarter of this year compared to last year. With over 80% of our revenue from light oil and liquids, these mostly offset the impact of the increased production volumes. As a result, we generated adjusted funds flow from operations of $4.3 million this year, virtually unchanged from last year.

Net of capital spending of $3.2 million largely for completing the one well at Kakwa, we increased our working capital surplus to $25.5 million at the end of the quarter.

Outlook

With over $30 million in cash and our unutilized credit facility we are well positioned to fund our share of a proposed 50/50 program at Kakwa North for up to three (1.5 net) wells assuming oil prices stay strong. This could start as soon as the fourth quarter of 2023 with initial production in the second quarter of 2024. We expect the operator will confirm their final plans late this summer.

We plan to participate in the public hearings in Quebec for a new clean energy strategy. We are hopeful that they consider the economic and environmental benefits of our project as well as its ability to meet their energy needs on a timely basis. Concurrently, we are protecting our legal position while we seek a political and commercial solution with the next hearing date scheduled for early this summer.

The initial feedback on Red Leaf's wax processing project has been quite positive. We believe the combination of zero-emissions, strong margins and participation by key stakeholders including Indigenous people, make this an attractive opportunity for the investment community.

Michael Binnion
President and Chief Executive Officer

Environmental, Social and Governance

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

From today to 2050, the world's population is estimated to grow from 7.5 billion to almost 9.5 billion people who will expect a better standard of living. We believe providing the increased energy needed tomorrow, with lower environmental impacts than today, is the challenge of our times. 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 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.

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 March 31, 2023, 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	March 31, 2023	December 31, 2022
Assets			
Current Assets			
Cash and cash equivalents		$ 32,857	$ 29,590
Accounts receivable		3,407	4,600
Deposits and prepaid expenses		954	968
		37,218	35,158
Right-of-use assets		225	238
Investments	3	5,749	5,796
Property, plant and equipment	4	139,084	141,067
Exploration and evaluation	5	16,988	14,227
		$ 199,264	$ 196,486
Liabilities			
Current Liabilities			
Lease liabilities		$ 61	$ 59
Accounts payable and accrued liabilities		11,661	10,634
Credit facilities	11	34	33
Current portion of asset retirement obligation		439	484
		12,195	11,210
Lease liabilities		204	191
Asset retirement obligation	6	19,494	18,957
		$ 31,893	$ 30,358
Shareholders' Equity			
Share capital	7	$ 429,878	$ 429,878
Contributed surplus		26,771	26,301
Accumulated other comprehensive loss		129	296
Deficit		(289,407)	(290,347)
		167,371	166,128
		$ 199,264	$ 196,486

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

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

		Three months ended March 31,	
($ thousands)	Note	**2023**	2022
Revenue			
Petroleum and natural gas sales including royalty revenue		**$ 10,531**	$ 9,574
Royalties		**(1,667)**	(974)
Petroleum and natural gas sales, net of royalties		**8,864**	8,600
Expenses			
Direct operating		**3,984**	3,076
General and administrative		**1,128**	842
Depletion, depreciation, accretion and impairment	4,5,6	**2,975**	1,729
Share based compensation	8	**400**	562
Net interest and other income		**(569)**	(45)
Net income before taxes		**946**	2,436
Deferred tax expense		**6**	13
Net income		**$ 940**	$ 2,423
Other comprehensive loss, net of tax			
Items that may be reclassified subsequently to net income:			
Foreign currency translation adjustment		**(121)**	(86)
Loss on foreign exchange on investments	3	**(46)**	(100)
		(167)	(186)
Total comprehensive income		**$ 773**	$ 2,237
Net income per share			
Basic and diluted	7	**$ –**	$ 0.01

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

Condensed Consolidated Interim Statements of Changes in Equity
(unaudited)

		Three months ended March 31,	
($ thousands)	Note	**2023**	2022
Share Capital			
Balance, beginning and end of period		**$ 429,878**	$ 429,878
Contributed Surplus			
Balance, beginning of period		**26,301**	24,068
Share based compensation		**470**	664
Balance, end of period		**$ 26,771**	$ 24,732
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of period		**296**	(527)
Other comprehensive income		**(167)**	(186)
Balance, end of period		**$ 129**	$ (713)
Deficit			
Balance, beginning of period		**(290,347)**	(304,458)
Net income		**940**	2,423
Balance, end of period		**$ (289,407)**	$ (302,035)
Total Shareholders' Equity		**$ 167,371**	$ 151,862

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

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

		Three months ended March 31,	
($ thousands)	Note	**2023**	2022
Operating Activities			
Net income (loss)		**$ 940**	$ 2,423
Adjustments for:			
Depletion, depreciation, accretion and impairment	4,5,6	**2,975**	1,729
Share based compensation	8	**400**	562
Deferred tax expense		**6**	13
Other income		**(5)**	(4)
Abandonment expenditures	6	**(39)**	(405)
		4,277	4,318
Change in non-cash working capital		**371**	586
Net cash from operating activities		**$ 4,648**	$ 4,904
Investing Activities			
Property, plant and equipment expenditures	4	**(402)**	30
Exploration and evaluation expenditures	5	**(2,844)**	(4,956)
Change in non-cash working capital		**1,877**	2,732
Net cash used in investing activities		**$ (1,369)**	$ (2,194)
Financing Activities			
Principal portion of lease payments		**(13)**	(13)
Drawdown under credit facilities		**1**	4,648
Repayment of credit facilities		**–**	(7,300)
Net cash used in financing activities		**$ (12)**	$ (2,665)
Change in cash, cash equivalents and restricted cash		**3,267**	45
Cash, cash equivalents and restricted cash, beginning of period		**29,590**	16,190
Cash, cash equivalents and restricted cash, end of period		**$ 32,857**	$ 16,235

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

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023, and 2022 (unaudited)

1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high-quality resources. These condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2023, and 2022 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 May 10, 2023.

2. Significant Accounting Policies

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

The unaudited condensed interim consolidated financial statements follow the same accounting policies as the most recent annual audited consolidated financial statements. The interim consolidated financial statements note disclosures do not include all of those required by International Financial Reporting Standards ("IFRS") applicable for annual consolidated financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2022, 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 three-month period ended March 31, 2023, 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, 2022.

3. Investment in Red Leaf

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

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

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

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

($ thousands)	March 31, 2023	December 31, 2022
Balance, beginning of year	**$ 5,796**	$ 7,965
Gain (loss) on equity investment	**6**	(2,540)
Gain (loss) on foreign exchange	**(53)**	371
Balance, end of period	**$ 5,749**	$ 5,796

For the three months ended March 31, 2023, the loss on foreign exchange relating to investments was $0.05 million (year ended December 31, 2022: $0.4 million gain) which was recorded in other comprehensive income (loss) net of a deferred tax recovery.

4. Property, Plant and Equipment

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

($ thousands)		Total Assets
Cost or deemed cost:		
Balance, December 31, 2021	$	292,617
Change to asset retirement net of additions		1,361
Transfer from exploration and evaluation assets		9,848
Balance, December 31, 2022		303,826
Change to asset retirement net of additions		799
Balance, March 31, 2023	**$**	**304,625**
Accumulated depletion, depreciation and impairment losses:		
Balance, December 31, 2021	$	152,497
Depletion and depreciation		9,405
Impairments		857
Balance, December 31, 2022		162,759
Depletion and depreciation		2,782
Balance, March 31, 2023	**$**	**165,541**

($ thousands)		Total Assets
Net book value:		
At December 31, 2022	$	141,067
At March 31, 2023	**$**	**139,084**

During the period ended March 31, 2023, the Company did not capitalize any administrative overhead or share based compensation expense directly related to development activities (year ended December 31, 2022: nil). Included in the March 31, 2023, depletion calculation is estimated future development costs of $317.4 million (December 31, 2022: $317.9 million).

No indicators of impairment nor indicators to reverse previously recorded impairment were identified as at March 31, 2023.

5. Exploration and Evaluation

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

($ thousands)		March 31, 2023		December 31, 2022
Balance, beginning of year	$	14,227	$	14,710
Additions		2,882		8,955
Transfers to property, plant and equipment		–		(9,849)
Undeveloped lease expiries and farmouts		–		(129)
Foreign currency translation adjustment - Jordan		(121)		540
Balance, end of period	$	16,988	$	14,227

During the period ended March 31, 2023, the Company capitalized administrative overhead charges of $0.1 million (December 31, 2022: $0.3 million) and $0.1 million of share-based compensation expense (December 31, 2022: $0.3 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 March 31, 2023.

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 $19.9 million as at March 31, 2023 (December 31, 2022: $19.4 million) based on an undiscounted total future liability of $22.5 million (December 31, 2022: $23.3 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 3.41% (December 31, 2022: 3.63%). An inflation rate of 2% (December 31, 2022: 2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

The following table provides a reconciliation of the Company's total asset retirement obligation on a year-to-date basis:

($ thousands)	March 31, 2023	December 31, 2022
Balance, beginning of year	$ 19,441	$ 21,495
Liabilities settled	(39)	(878)
Revisions due to change in estimates and discount rates	341	(2,330)
Liabilities incurred	17	335
Accretion	173	819
Balance, end of period	$ 19,933	$ 19,441

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 March 31, 2023, 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, 2022 and March 31, 2023	428,516	$ 429,878

b) *Per share amounts*

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

(thousands, except as noted)	*Three months ended March 31,* 2023	2022
Net income	$ 940	$ 2,423
Weighted average Common Shares beginning of period and outstanding	428,516	428,516
Basic net income per share	$ –	$ 0.01

(thousands, except as noted)	Three months ended March 31, 2023	2022
Net income	$ 940	$ 2,423
Weighted average Common Shares outstanding (basic)	428,516	428,516
Effect of outstanding options	2,548	3,596
Weighted average Common Shares outstanding (diluted)	431,064	432,112
Diluted net income per share	$ –	$ 0.01

Under the current stock option plan, options can be exchanged for Common Shares, or for cash at the Company's discretion. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. For the three months ended March 31, 2023, 26.5 million options (March 31, 2022: 26.9 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. 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 March 31, 2023, the Company issued 6.0 million options with a weighted estimated fair value of $0.18 per option. The grant price was equivalent or greater than the market price on the date of issuance. The options were valued using the Black-Scholes option pricing model. The weighted average assumptions used by the Company in this pricing model were as follows: Volatility (%): 103.83, Risk Free Rate (%): 3.18, Expected Life (years): 5.0 and Unvested Forfeiture Rate (%): 9.35.

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

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 March 31, 2023, included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at March 31, 2023, excluding the investment in Red Leaf, the fair values of the Company's financial assets and liabilities equaled their carrying values due to the short-term maturity.

c) *Market risk*

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

<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 March 31, 2023, the Company had no outstanding commodity risk management contracts.

<u>Currency risk</u>

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 March 31, 2023, 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 March 31,	
($ thousands)	**2023**	2022
Crude oil and natural gas liquids	**$ 8,782**	$ 7,842
Natural gas	**1,714**	1,227
Royalty revenue	**35**	505
	$ 10,531	$ 9,574

11. Credit Facilities

As at March 31, 2023, the credit facilities consisted primarily of a revolving operating demand facility of $16 million. The facility can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. The effective interest rate on the facility for the three months ended March 31, 2023, was 7.70% (2022: 3.62%). As at March 31, 2023, and December 31, 2022, effectively nil was drawn on the facility and the Company held cash of over $30 million. The credit facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the credit facility, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at March 31, 2023, was 4.37 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.

CORPORATE INFORMATION

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

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

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

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

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

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

AUDITORS
Ernst & Young LLP
2200, 215 Second Street SW
Calgary, Alberta T2P 1M4

INDEPENDENT
RESERVOIR ENGINEERS
McDaniel & Associates Consultants Ltd.
2000, 525 Eighth Avenue SW
Calgary, Alberta T2P 1G1

GLJ Ltd.
1920, 401 Ninth Avenue SW
Calgary, Alberta T2P 3C5

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

STOCK INFORMATION
Toronto Stock Exchange
Oslo Stock Exchange
Symbol: QEC

QUESTERRE

QUESTERRE
ENERGY CORPORATION

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

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

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