

Management's Discussion and Analysis

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

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

Basis of Presentation

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

Forward-Looking Statements

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

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

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

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

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

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

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

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

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

BOE Conversions

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

Non-GAAP Measures

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

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

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

Adjusted Funds Flow From Operations Reconciliation

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

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

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

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

Select Information

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

(1) Adjusted Funds Flow from Operations is a non-GAAP measure defined as cash flows from operating activities before changes in non-cash operating working capital and interest paid or received.

(2) Working capital surplus is a non-GAAP measure calculated as current assets less current liabilities excluding the current portion of risk management and lease liabilities.

(3) Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead.

Highlights

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

Second Quarter 2024 Activities

Kakwa, Alberta

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

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

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

St. Lawrence Lowlands, Quebec

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

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

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

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

Corporate

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

Production

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

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

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

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

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

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

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

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

Second Quarter 2024 Financial Results

Petroleum and Natural Gas Sales

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

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

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

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

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

Pricing

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

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

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

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

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

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

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

Royalties

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

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

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

Operating Costs

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

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

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

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

General and Administrative Expenses

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

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

Depletion, depreciation, accretion, lease expiries and impairment

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

Net interest, other income and share based compensation expense

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

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

Other comprehensive income (loss) and expenses

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

Net income and total comprehensive income

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

Cash flow from operating activities

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

Cash flow used in investing activities

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

Cash flow used in financing activities

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

Capital Expenditures

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

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

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

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

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

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

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

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At June 30, 2024, there were no Class "B" Common voting shares or preferred shares outstanding. The following table provides a summary of the outstanding Common Shares and options as at the date of the MD&A, the current quarter-end and the preceding year-end.

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

Commitments

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

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

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

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

Risk Management

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

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

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

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

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

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

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

The Company uses the following guidelines to address financial exposure:

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

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

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

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

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

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

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

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

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

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

Environmental Regulation and Risk

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

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

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

Interest Rate Risk

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

Critical Accounting Estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The use of critical accounting estimates made by management in the preparation of the interim financial statements are discussed under the section “Critical Accounting Estimates” in the MD&A for the year ended December 31, 2023.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

Quarterly Financial Information

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

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

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

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

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

Off-Balance Sheet and Related Party Transactions

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