

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

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

The accompanying unaudited consolidated interim financial statements of Questerre Energy Corporation for the interim reporting period ended June 30, 2024, 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 Company'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)*

<i>(\$ thousands)</i>	Note	June 30, 2024	December 31, 2023
Assets			
Current Assets			
Cash and cash equivalents		\$ 37,081	\$ 35,038
Accounts receivable		3,648	3,016
Deposits and prepaid expenses		1,445	1,419
		42,174	39,473
Right-of-use assets		157	180
Investments	3	4,638	4,471
Property, plant and equipment	4	110,838	115,935
Exploration and evaluation	5	21,441	12,287
		\$ 179,248	\$ 172,346
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 14,357	\$ 9,387
Lease liabilities		59	58
Credit facilities	11	38	36
Current portion of asset retirement obligation	6	159	184
		14,613	9,665
Lease liabilities		109	134
Asset retirement obligation	6	18,585	18,880
		\$ 33,307	\$ 28,679
Shareholders' Equity			
Share capital	7	\$ 429,878	\$ 429,878
Contributed surplus		28,725	27,908
Accumulated other comprehensive income (loss)		350	(20)
Deficit		(313,012)	(314,099)
		145,941	143,667
		\$ 179,248	\$ 172,346

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 June 30,		Six months ended June 30,	
(\$ thousands)	Note	2024	2023	2024	2023
Revenue					
Petroleum and natural gas sales including royalty revenue	10	\$ 8,847	\$ 10,702	\$ 17,845	\$ 21,233
Royalties		(87)	(1,398)	(1,134)	(3,065)
Petroleum and natural gas sales, net of royalties		8,760	9,304	16,711	18,168
Expenses					
Direct operating		3,546	3,118	7,624	7,102
General and administrative		1,078	1,164	2,267	2,292
Depletion, depreciation, accretion and impairment	4,5,6	2,858	3,252	5,726	6,227
Share based compensation	8	345	404	662	804
Net interest and other income		(329)	(326)	(655)	(889)
		7,498	7,612	15,624	15,536
Net income		\$ 1,262	\$ 1,692	\$ 1,087	\$ 2,632
Other comprehensive income (loss), net of tax					
<i>Items that may be reclassified subsequently to net income:</i>					
Foreign currency translation adjustment		69	(135)	214	(256)
Gain (loss) on foreign exchange on investments	3	38	41	156	(5)
		107	(94)	370	(261)
Total comprehensive income		\$ 1,369	\$ 1,598	\$ 1,457	\$ 2,371
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)

	Six months ended June 30,	
(\$ thousands)	2024	2023
Share Capital		
Balance, beginning and end of period	\$ 429,878	\$ 429,878
Contributed Surplus		
Balance, beginning of period	27,908	26,301
Share based compensation	817	945
Balance, end of period	\$ 28,725	\$ 27,246
Accumulated Other Comprehensive Income		
Balance, beginning of period	(20)	296
Other comprehensive income (loss)	370	(261)
Balance, end of period	\$ 350	\$ 35
Deficit		
Balance, beginning of period	(314,099)	(290,347)
Net income	1,087	2,632
Balance, end of period	\$ (313,012)	\$ (287,715)
Total Shareholders' Equity	\$ 145,941	\$ 169,444

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

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(\$ thousands)	Note	Three months ended June 30,		Six months ended June 30,	
		2024	2023	2024	2023
Operating Activities					
Net income		\$ 1,262	\$ 1,692	\$ 1,087	\$ 2,632
Adjustments for:					
Depletion, depreciation, accretion and impairment	4,5,6	2,858	3,252	5,726	6,227
Share based compensation	8	345	404	662	804
Other income		(6)	(10)	(14)	(9)
Abandonment expenditures	6	(4)	(3)	(33)	(42)
		4,455	5,335	7,428	9,612
Change in non-cash working capital		(1,314)	(1,202)	(1,659)	(831)
Net cash from operating activities		\$ 3,141	\$ 4,133	\$ 5,769	\$ 8,781
Investing Activities					
Property, plant and equipment expenditures	4	(817)	(2,087)	(768)	(2,488)
Exploration and evaluation expenditures	5	(6,217)	(382)	(8,896)	(3,227)
Change in non-cash working capital		5,076	725	5,967	2,602
Net cash used in investing activities		\$ (1,958)	\$ (1,744)	\$ (3,697)	\$ (3,113)
Financing Activities					
Principal portion of lease payments		(16)	(14)	(31)	(27)
Drawdown under credit facilities		1	1	2	2
Net cash used in financing activities		\$ (15)	\$ (13)	\$ (29)	\$ (25)
Change in cash, cash equivalents		1,168	2,376	2,043	5,643
Cash, cash equivalents, beginning of period		35,913	32,857	35,038	29,590
Cash, cash equivalents, end of period		\$ 37,081	\$ 35,233	\$ 37,081	\$ 35,233

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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2024, and 2023 (unaudited)

1. Reporting Entity 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 and six months ended June 30, 2024, and 2023 comprise the Company and its wholly owned subsidiaries.

Questerre is incorporated under the laws of the Province of Alberta and is domiciled in Canada. The address of its registered office is 1650, 801 – 6 Avenue SW, Calgary, Alberta.

These unaudited condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on August 8, 2024.

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, 2023, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these condensed interim consolidated financial statements.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the six month period ended June 30, 2024, 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, 2023.

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 Uinta 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 Company measures the fair market value of its investment using a net liquidation approach. The net liquidation value is calculated as the net current assets of Red Leaf less abandonment and other liabilities, the accrued and unpaid dividends associated with the preferred shares and an estimate of research and development and general and administrative expenses for the current fiscal year.

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

	June 30, 2024	December 31, 2023
<i>(\$ thousands)</i>		
Balance, beginning of year	\$ 4,471	\$ 5,796
Gain (loss) on equity investment	11	(1,232)
Gain (loss) on foreign exchange	156	(93)
Balance, end of period	\$ 4,638	\$ 4,471

For the six months ended June 30, 2024, the gain on foreign exchange relating to investments was \$0.2 million (December 31, 2023: \$0.1 million loss).

4. Property, Plant and Equipment

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

<i>(\$ thousands)</i>		
Cost or deemed cost:		
Balance, December 31, 2022	\$	303,826
Change to asset retirement net of additions		4,188
Transfer from exploration and evaluation assets		6,307
Balance, December 31, 2023		314,321
Change to asset retirement net of additions		282
Balance, June 30, 2024	\$	314,603

Accumulated depletion, depreciation and impairment losses:		
Balance, December 31, 2022	\$	162,759
Depletion and depreciation		11,890
Impairments		23,737
Balance, December 31, 2023		198,386
Depletion and depreciation		5,379
Balance, June 30, 2024	\$	203,765

<i>(\$ thousands)</i>		
Net book value:		
At December 31, 2023	\$	115,935
At June 30, 2024	\$	110,838

During the period ended June 30, 2024, and year ended December 31, 2023, the Company did not capitalize any administrative overhead or share based compensation expense directly related to development activities. Included in the June 30, 2024, depletion calculation is estimated future development costs of \$319.6 million (December 31, 2023: \$319.6 million).

No indicators of impairment nor indicators to reverse previously recorded impairment were identified as at June 30, 2024.

5. Exploration and Evaluation

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

<i>(\$ thousands)</i>	June 30, 2024	December 31, 2023
Balance, beginning of year	\$ 12,287	\$ 14,227
Additions	8,899	5,591
Transfers to property, plant and equipment	–	(6,307)
Undeveloped lease impairments	–	(826)
Undeveloped lease expiries and farmouts	41	(139)
Foreign currency translation adjustment - Jordan	214	(259)
Balance, end of period	\$ 21,441	\$ 12,287

During the period ended June 30, 2024, the Company capitalized administrative overhead charges of \$0.2 million (December 31, 2023: \$0.4 million) and \$0.1 million of share based compensation expense (December 31, 2023: \$0.2 million) directly related to exploration and evaluation activities.

The Company determined that there were no impairment indicators for its exploration and evaluation assets as of June 30, 2024.

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 \$18.7 million as at June 30, 2024 (December 31, 2023: \$19.1 million) based on an undiscounted total future liability of \$24.3 million (December 31, 2023: \$24.3 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 3.66% (December 31, 2023: 3.39%). An inflation rate of 2% (December 31, 2023: 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:

	June 30, 2024	December 31, 2023
<i>(\$ thousands)</i>		
Balance, beginning of year	\$ 19,064	\$ 19,441
Liabilities settled	(33)	(255)
Revisions due to change in estimates and discount rates	(723)	(878)
Liabilities incurred	79	73
Accretion	357	683
Balance, end of period	\$ 18,744	\$ 19,064
Current portion	159	184
Non-current portion	18,585	18,880
Balance, end of period	\$ 18,744	\$ 19,064

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At June 30, 2024, 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, 2023 and June 30, 2024	428,516	\$ 429,878

b) Per share amounts

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

	Three months ended June 30,		Six months ended June 30,	
<i>(thousands, except as noted)</i>	2024	2023	2024	2023
Net income	\$ 1,262	\$ 1,692	\$ 1,087	\$ 2,632
Weighted average Common Shares beginning of period and outstanding	428,516	428,516	428,516	428,516
Basic net income per share	\$ –	\$ –	\$ –	\$ 0.01

(thousands, except as noted)	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net income	\$ 1,262	\$ 1,692	\$ 1,087	\$ 2,632
Weighted average Common Shares outstanding (basic)	428,516	428,516	428,516	428,516
Effect of outstanding options	2,811	2,584	2,732	2,544
Weighted average Common Shares outstanding (diluted)	431,327	431,100	431,248	431,060
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 six months ended June 30, 2024, 23.9 million options (June 30, 2023: 26.5 million options) 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 six months ending June 30, 2024, the Company issued 6.7 million options with an estimated fair value of \$0.19 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 (%): 103.50, Risk Free Rate (%): 3.57, Expected Life (years): 5.0 and Unvested Forfeiture Rate (%): 8.86.

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

	June 30, 2024		December 31, 2023	
	Number of Options (thousands)	Weighted Average Exercise Price	Number of Options (thousands)	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

9. Financial Risk Management and Determination of Fair Values

a) *Overview*

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

b) *Fair value of financial instruments*

The Company's financial instruments as at June 30, 2024, included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at June 30, 2024, 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.

Commodity price risk

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

As at June 30, 2024, the Company had no outstanding commodity risk management contracts.

Currency risk

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

As at June 30, 2024, 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

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Crude oil and natural gas liquids	\$ 8,328	\$ 9,428	\$ 16,232	\$ 18,210
Natural gas	502	1,267	1,581	2,981
Royalty revenue	17	7	32	42
	\$ 8,847	\$ 10,702	\$ 17,845	\$ 21,233

11. Credit Facilities

As at June 30, 2024, 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 six months ended June 30, 2024, was 8.16% (2023: 7.74%). As at June 30, 2024, and December 31, 2023, a very nominal amount was drawn on the facility and the Company held unrestricted 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 June 30, 2024, was 3.99 and the covenant was met.

The credit facilities are demand facilities and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. Following a review conducted in the second quarter, the Company's credit facilities with a Canadian chartered bank are expected to remain at \$16 million.