

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of November 9, 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 and nine-month periods ended September 30, 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 hearings related to Bill 21;
- 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 seeking of opportunities to work with the Government of Quebec to advance the Company's Clean Tech Energy Project;
- 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 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 in light of decisions by OPEC and non-OPEC member countries, including Saudi Arabia and Russia on production levels, the war in Ukraine and hostilities in the Middle East;
- 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 2023 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;
- 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;
- 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;
- 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 hostilities in the Middle East;
- legislative and regulatory developments in the Province of Quebec including the enactment of Bill 21 and revocation of exploration licenses;
- delays or changes in drilling plans on the Kakwa properties;
- the transfer of wells drilled in 2023 from the proved undeveloped to the proved producing category;
- failure to secure funding or otherwise advance the wax processing project 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;
- 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

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net cash from operating activities	\$ 2,382	\$ 8,413	\$ 11,163	\$ 23,477
Change in non-cash operating working capital	652	(3,230)	1,483	(1,823)
Adjusted Fund Flow from Operations	\$ 3,034	\$ 5,183	\$ 12,646	\$ 21,654

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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Financial (\$ thousands, except as noted)				
Petroleum and Natural Gas Sales	10,725	11,602	31,958	38,189
Net Income (Loss)	(337)	2,759	2,295	14,232
Basic and diluted (\$/share)	–	0.01	0.01	0.03
Adjusted Funds Flow from Operations	3,034	5,183	12,646	21,654
Basic and diluted (\$/share)	0.01	0.01	0.03	0.03
Capital Expenditures	845	1,653	6,560	9,422
Working Capital Surplus	30,190	14,433	30,190	14,433
Total Assets	197,715	196,258	197,715	196,258
Shareholders' Equity	169,635	166,235	169,635	166,235
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)	428,516	430,727	430,673	430,591
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	1,050	987	1,077	986
Natural Gas (Mcf/d)	4,677	3,852	4,734	3,739
Total (boe/d)	1,830	1,629	1,866	1,609
Average Sales Price				
Crude Oil and Natural Gas Liquids (\$/bbl)	97.94	106.23	94.26	125.06
Natural Gas (\$/Mcf)	2.84	5.52	3.16	6.18
Total (\$/boe)	63.71	77.40	62.73	86.91
Netback (\$/boe)				
Petroleum and Natural Gas Sales	63.71	77.40	62.73	86.91
Royalties Expense	(8.18)	(6.68)	(8.72)	(6.83)
Percentage	13%	9%	14%	8%
Direct Operating Expense	(32.49)	(27.41)	(24.68)	(22.67)
Operating Netback	23.03	43.31	29.34	57.41
Wells Drilled				
Gross	–	–	1.00	–
Net	–	–	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

- Designing expanded carbon storage pilot project in Quebec
- Red Leaf designing small-scale commercial project in Jordan for oil shale technology
- Average daily production of 1,830 boe/d with adjusted funds flow from operations of \$3 million

Third Quarter 2023 Activities

Kakwa, Alberta

The operator at Kakwa Central announced its plans to drill three (0.75 net) wells in the first quarter of next year and complete them early in the third quarter. The operator is assessing a new completion design that could reduce total well costs, including drilling, completion, equipping and tie-in by approximately 10% or \$1.5 million. The 2024 program follows a two well program earlier this year.

The operator at Kakwa North intends to drill up to three (1.5 net) wells in late 2024 or early 2025. These would be the first wells on this acreage since the original farm-in wells were completed in 2019. Last fall, Questerre converted its 5% royalty interest in the farm-in wells to a 50% working interest following the recovery by the operator of the costs associated with the farm-in program.

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 continues to seek opportunities to work with the Government of Quebec to advance its Clean Tech Energy Project. It is also 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* ("Bill 21").

At a hearing held in October 2023, Questerre and other license holders sought to suspend certain provisions of Bill 21 including those related to the revocation of its exploration licenses, to the requirement related to well abandonments, to the transmission of proprietary data to the Government, pending a hearing on the merits of its case. The Court took the case under advisement, and, until judgment is rendered on the stay applications, ordered the suspension of the Government's notices of reminder of obligations under Bill 21 and ordered that no pilot project be authorized by the Minister of Energy in favor of any third parties.

The Company anticipates that the trial on the merits of the case, including the constitutional validity of Bill 21, the Government's breach of contracts and lack of good faith, and the establishment of the Government's liability could be scheduled in late 2024 or early 2025. Pre-trial examinations are to take place in 2024.

The Company intends to submit an expanded application for a carbon storage pilot project. This follows its presentation to the Quebec Ministry of Natural Resources of its original plans for injectivity test. The expanded pilot could include an injectivity test and a new well to test a prospective formation for storage.

Oil Shale Mining

Questerre continues to assist its investee, Red Leaf Resources Inc. ("Red Leaf"), advance its assets in the Uintah Basin and their proprietary technology to produce oil from shale.

Red Leaf's assets in the Uintah Basin include over 7,000 acres of surface rights and an air quality permit for a 40,000 barrel per day wax processing facility. The company also holds the rights to 7,000 acres for carbon sequestration. Red Leaf is working with prospective partners to evaluate these storage rights.

The Company is also advancing the engineering for a potential project in Jordan in conjunction with local companies. The project is designed to demonstrate its technology at a commercial scale.

Production

	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	776	4,677	1,556	693	3,852	1,335
Saskatchewan and Manitoba	274	–	274	294	–	294
	1,050	4,677	1,830	987	3,852	1,629

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

	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	776	4,734	1,565	683	3,739	1,306
Saskatchewan and Manitoba	301	–	301	303	–	303
	1,077	4,734	1,866	986	3,739	1,609

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

Both on a quarterly and year to date basis, production volumes increased over the prior year with the addition of working interest volumes from Kakwa North. These were marginally lower than the second quarter volumes due to flush production from a new well at Kakwa Central in that quarter.

The Kakwa area continues to account for over 80% of corporate volumes. In the current year, working interest production from Kakwa North represented 572 boe/d or 37% for the quarter and year to date. In the prior year to date, royalty volumes from this area represented 93 boe/d or 5%. The residual production in this area is from Kakwa Central where the Company added one (0.25 net) new well this year compared to three (0.75 net) wells last year.

The remaining 20% of corporate volumes are light oil from Saskatchewan and Manitoba. Volumes decreased by less than 10% for the quarter and less than 1% for the nine-month period. Increases in Manitoba offset natural declines in Saskatchewan. As a result, the Company's oil and liquids weighting remained at just under 60%, unchanged from last year.

Although one new well will be brought on stream in Saskatchewan late in the fourth quarter, the Company anticipates its production volumes will decline over the next three quarters. Subject to the timing and participation of new wells at Kakwa Central next year, production could increase in the second half of 2024.

Third Quarter 2023 Financial Results

Petroleum and Natural Gas Sales

<i>Three months ended September 30,</i>	2023			2022		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 6,785	\$ 1,280	\$ 8,065	\$ 6,515	\$ 1,957	\$ 8,472
Saskatchewan and Manitoba	2,660	–	2,660	3,130	–	3,130
	\$ 9,445	\$ 1,280	\$ 10,725	\$ 9,645	\$ 1,957	\$ 11,602

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

<i>Nine months ended September 30,</i>	2023			2022		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 19,621	\$ 4,287	\$ 23,908	\$ 21,334	\$ 6,730	\$ 28,064
Saskatchewan and Manitoba	8,050	–	8,050	10,125	–	10,125
	\$ 27,671	\$ 4,287	\$ 31,958	\$ 31,459	\$ 6,730	\$ 38,189

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

Lower commodity prices offset the impact of higher production volumes resulting in a decrease of less than 10% for the quarter and under 20% year to date compared to the prior year. For the three months ended September 30, 2023, a 12% increase in volumes was offset by a 20% decrease in realized prices. For the nine months then ended, a 16% increase in volumes was offset by a more material 32% decrease in realized prices.

Pricing

	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2023	2022	2023	2022
Benchmark prices:				
Natural Gas - AECO, daily spot (\$/Mcf)	2.34	4.72	2.73	5.18
Crude Oil - Mixed Sweet Blend (\$/bbl)	107.89	119.34	100.62	124.83
Realized prices:				
Natural Gas (\$/Mcf)	2.84	5.52	3.16	6.18
Crude Oil and Natural Gas Liquids (\$/bbl)	97.94	106.23	94.26	125.06

Although crude oil prices declined over last year, both for the quarter and year to date, they improved over the second quarter of this year. The benchmark West Texas Intermediate averaged US\$82.26 per barrel (2022: US\$93.68 per barrel) for the quarter and US\$77.39 per barrel (2022: US\$98.79 per barrel) for the first three quarters of the year.

Prices were supported during the quarter by the OPEC+ announcement in June it would maintain existing production cuts and Saudi Arabia unilaterally committing to a further cut of one million barrels per day. Despite the concerns about a recession, the IEA reported oil demand hit a record 103 million barrels per day in June. Prices were also supported by US inventories for crude and middle distillates at or near the five-year lows. In Canada, the outlook for heavier crude and associated demand for condensate as a diluent is expected to improve as US refineries complete turnarounds this fall and the TMX pipeline commences service in 2024.

The Company's liquids production consists primarily of condensate and light oil. Realized prices closely track the benchmark with discounts of just under 10% for both the quarter and nine-month periods.

Natural gas prices declined more substantially than oil prices in 2023. The benchmark Henry Hub averaged US\$2.59 per MMBtu for the quarter (2022: US\$7.99 per MMBtu) and US\$2.47 per MMBtu year to date (2022: US\$6.74 per MMBtu).

Natural gas prices in North America remained relatively flat year to date with supply and demand largely in balance. Although weather related demand is expected to play an important role in prices this winter, the outlook for 2024 and beyond is supported by new LNG export capacity coming onstream in the US and Canada over the next two years.

Realized natural gas prices, reflecting the higher heat content of Kakwa natural gas production, averaged \$2.84 per Mcf (2022: \$5.52 per Mcf) for the quarter and \$3.16 per Mcf year to date (2022: \$6.18 per Mcf) compared to AECO benchmark of \$2.34 per Mcf for the quarter (2022: \$4.72 per Mcf) and \$2.73 per Mcf year to date (2022: \$5.18 per Mcf).

Royalties

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Alberta	\$ 1,160	\$ 728	\$ 3,759	\$ 2,242
Saskatchewan and Manitoba	217	273	683	761
	\$ 1,377	\$ 1,001	\$ 4,442	\$ 3,003
% of Revenue:				
Alberta	14%	9%	16%	8%
Saskatchewan and Manitoba	8%	9%	8%	8%
Total Company	13%	9%	14%	8%

Gross royalties increased for both the three and nine-month periods ended September 30, 2023. As a percentage of revenue this also increased to 13% and 14% from 9% and 8% for the respective periods.

Royalties in Alberta reflect the Crown and overriding royalties payable on production from Kakwa. These increased as Crown incentive programs expired, increasing the royalty rate on condensate from 5% to 40%. Additionally, nearly 40% of royalties this year (2022: nil) relate to working interest production from Kakwa North where the Crown incentives have also expired.

Operating Costs

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Alberta	\$ 3,531	\$ 2,910	\$ 8,985	\$ 7,102
Saskatchewan and Manitoba	1,808	1,100	3,247	2,572
Quebec	131	98	339	287
	\$ 5,470	\$ 4,108	\$ 12,571	\$ 9,961
\$/boe:				
Alberta	24.67	23.70	21.03	19.91
Saskatchewan and Manitoba	71.63	40.63	39.56	31.08
Total Company	32.49	27.41	24.68	22.67

Increased production volumes contributed to higher gross operating costs in the quarter and year to date. On a unit of production basis, these increased by nearly 20% for the quarter and under 10% for the year to date.

Gross operating costs at Kakwa increased by 20% for both periods over the prior year due to the incremental working interest volumes from Kakwa North. On a boe basis, this translated to an increase of just over 5%. At Antler, operating costs rose materially by \$0.6 million for the quarter and year to date. This is due to unexpected downhole problems on a well workover.

General and Administrative Expenses

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
General and administrative expenses, gross	\$ 1,147	\$ 1,148	\$ 3,591	\$ 3,119
Capitalized expenses and overhead recoveries	(59)	(58)	(211)	(174)
General and administrative expenses, net	\$ 1,088	\$ 1,090	\$ 3,380	\$ 2,945

For the period ended September 30, 2023, gross General & Administrative expenses (“G&A”) remained unchanged for the quarter and increased by 15% for the first three quarters of the year.

For the year-to-date period, higher costs were incurred for legal fees, government relations and public relations related to Quebec. Costs in the current year also reflect the rollback of cost-cutting measures implemented in 2020. Capitalized expenses are G&A expenses directly attributed to the Company’s exploration and evaluation assets in the Kingdom of Jordan.

Depletion, depreciation, accretion, lease expiries and impairment

Questerre recorded depletion, depreciation and accretion expense (“DD&A”) of \$3.2 million for the quarter ended September 30, 2023 (2022: \$2.3 million) and \$9.4 million for the nine months then ended (2022: \$6.8 million). Depletion accounts for over 90% of these amounts. The variance in both periods is due to the increased production and the increase in the depletable base, on a unit of production basis, to \$17.11/boe from \$14.56/boe year to date. The latter reflects, in part, the increase in future development costs over the prior year.

Net interest, other income and share based compensation expense

During the three months ended September 30, 2023, the Company recorded interest income on its cash and term deposits of \$0.3 million for the quarter (2022: \$0.1 million) and \$1.2 million year to date (2022: \$0.1 million). With effectively no amounts outstanding under its credit facilities, the Company did not record any interest expense for the three and nine months ended September 30, 2023.

Year to date, the Company recorded share-based compensation expense of \$1.1 million (2022: \$1.6 million) net of \$0.2 million in expense capitalized during the period (2022: \$0.3 million).

Other comprehensive gain (loss) and expenses

In 2023, the Company recorded other comprehensive income of \$0.2 million for the quarter (2022: \$1.0 million) and a loss of \$0.1 million year to date (2022: \$1.2 million income). These amounts relate to the impact of changes in foreign exchange for the respective periods. The appreciation of the Jordanian dinar resulted in a gain of \$0.2 million (2022: \$0.6 million) on the Company’s dinar denominated assets in the country for the quarter. For the same period, the minor depreciation in the US dollar resulted in a loss of \$0.02 million (2022: \$0.5 million gain) on its US dollar denominated investment in Red Leaf.

Net income (loss) and total comprehensive income (loss)

The Company recorded a net loss for the current quarter of \$0.3 million (2022: \$2.8 million income) and year to date net income of \$2.3 million (2022: \$14.2 million). For the quarter, lower revenue, higher direct operating and DD&A expense contributed to the loss in the current year compared to the prior year.

Year to date, the lower revenue and higher expenses in the prior quarters, particularly in the second quarter, contributed to a substantial decrease in net income over last year. Including other comprehensive income, the total comprehensive income (loss) was income of \$2.2 million (2022: \$15.4 million income) for the period. For the third quarter of the year it was a loss of \$0.2 million (2022: \$3.8 million income).

Cash flow from operating activities

For the nine months ended September 30, 2023, net cash from operating activities was \$11.2 million compared to \$23.5 million last year. The variance is due to the higher adjusted funds flow from operations in the prior year and a decrease in non-cash working capital compared to an increase last year. For the quarter ended September 30, 2023, the change over the prior year is also attributed to a decrease in adjusted funds flow from operations and a decrease in non-cash working capital compared to an increase in the prior year.

Cash flow used in investing activities

Cash flow used in investing activities for the third quarter decreased very slightly to \$4.3 million this year from \$4.4 million last year. In the current year lower expenditures were offset by a larger decrease in non-cash working capital compared to the prior year where higher expenditures were offset by a smaller decrease in non-cash working capital. The lower capital spending year to date accounts for the decrease in cash used in investing activities over the prior year with the reduction in non-cash working capital decreasing in the current year.

Cash flow used in financing activities

Cash used in financing activities for the third quarter and year to date was effectively nil as the Company had no amounts outstanding under its credit facilities. In the first half of the prior year, the Company made a net repayment of \$3.4 million on its facilities.

Capital Expenditures

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2023	2022	2023	2022
Alberta	\$ 162	\$ 1,325	\$ 3,476	\$ 8,859
Saskatchewan, Manitoba and Jordan	683	328	3,084	563
Total Company	\$ 845	\$ 1,653	\$ 6,560	\$ 9,422

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

For the nine months of 2023, the Company incurred capital expenditures of \$6.6 million as follows:

- In Alberta, \$3.5 million was incurred to finalize drilling and completion operations on one (0.25 net) well at Kakwa Central; and
- In Saskatchewan, \$3.1 million was invested in well workovers and one pressure maintenance scheme.

For the nine months of 2022, the Company incurred capital expenditures of \$9.4 million as follows:

- In Alberta, \$8.9 million was incurred to finalize drilling and commence completion operations on three (0.75 net) wells at Kakwa Central; and
- \$0.5 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 September 30, 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.

<i>(thousands)</i>	November 9, 2023	September 30, 2023	December 31, 2022
Common Shares	428,516	428,516	428,516
Stock Options	38,140	38,140	35,298
Weighted average common shares			
Basic		428,516	428,516
Diluted		430,673	430,524

A summary of the Company's stock option activity for the nine months ended September 30, 2023, and the year ended December 31, 2022, follows:

	September 30, 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	(3,158)	0.48	(6,500)	0.69
Outstanding, end of period	38,140	\$ 0.26	35,298	\$ 0.28
Exercisable, end of period	25,999	\$ 0.25	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 recovered since 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 September 30, 2023, and December 31, 2022, effectively nil 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 September 30, 2023, was 6.10 and the covenant was met. See Note 11 of the Financial Statements.

Following a review conducted in the second quarter, the Company's credit facilities with a Canadian chartered bank remained at \$16 million. 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 September 30, 2023, are as follows:

<i>(\$ thousands)</i>	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 \$0.06 million at September 30, 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 September 30, 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 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 September 30, 2023, the

Company had credit facilities outstanding of effectively nil (December 31, 2022: nil) with an effective rate of 7.87% (2022: 4.78%).

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 July 1, 2023, and ended on September 30, 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

	Sept 30	June 30	Mar 31	Dec 31
<i>(\$ thousands, except as noted)</i>	2023	2023	2023	2022
Production (boe/d)	1,830	1,978	1,790	2,023
Average Realized Price (\$/boe)	63.71	59.46	65.38	72.87
Petroleum and Natural Gas Revenue	10,725	10,702	10,531	13,562
Adjusted Funds Flow from Operations	3,034	5,335	4,277	4,670
Net Income (Loss)	(337)	1,692	940	(122)
Basic and Diluted (\$/share)	–	–	–	–
Capital Expenditures, net of acquisitions and dispositions	845	2,469	3,246	2,169
Working Capital Surplus	30,191	28,013	25,523	24,005
Total Assets	197,716	201,213	199,264	196,486
Shareholders' Equity	169,636	169,444	167,371	166,128
Weighted Average Common Shares Outstanding				
Basic (thousands)	428,516	428,516	428,516	428,516
Diluted (thousands)	428,516	431,100	431,064	428,516

	Sept 30	June 30	Mar 31	Dec 31
<i>(\$ thousands, except as noted)</i>	2022	2022	2022	2021
Production (boe/d)	1,629	1,909	1,288	1,398
Average Realized Price (\$/boe)	77.40	97.95	82.56	69.11
Petroleum and Natural Gas Revenue	11,602	17,013	9,574	8,887
Adjusted Funds Flow from Operations	5,183	12,183	4,290	3,790
Basic and Diluted (\$/share)	–	–	–	–
Net Income (Loss)	2,759	9,051	2,423	(10,107)
Basic and Diluted (\$/share)	0.01	0.02	0.01	(0.02)
Capital Expenditures, net of acquisitions and dispositions	1,653	2,843	4,926	3,177
Working Capital Surplus	14,433	10,564	1,192	1,834
Total Assets	196,258	194,419	186,201	184,264
Shareholders' Equity	166,235	161,969	151,862	148,961
Weighted Average Common Shares Outstanding				
Basic (thousands)	428,516	428,516	428,516	428,516
Diluted (thousands)	430,727	428,747	432,112	428,516

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 increased materially in the first half of 2022 and subsequently declined over the next four quarters, with a nominal increase in the current quarter.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. Since 2021, with the increase in prices, capital investment increased with the

effect of increased production volumes realized in the second quarter of 2022 and subsequently in the second quarter of 2023. Volumes also reflected the conversion of royalty interest to working interest volumes at Kakwa North in the fourth 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 and production volumes. It decreased in the fourth quarter of 2021 as a result of the impairment related to its investment in Quebec.

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 nine-month period ended September 30, 2023.