

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of November 12, 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 nine month periods ended September 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.sedarplus.ca.

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;
- Government of Quebec's introduction of Bill 69 and the impact thereof;
- the reserved decision of the Quebec Court of Appeal regarding the suspension of key provisions of Bill 21;
- the Government of Canada's proposed *Oil and Gas Sector Greenhouse Gas Emissions Cap Regulations*;
- 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;
- 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 Court's decision to suspend certain aspects of Bill 21;
- the impact of the Government of Canada's proposed *Oil and Gas Sector Greenhouse Gas Emissions Cap Regulations*;
- 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 September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net cash from operating activities	\$ 4,060	\$ 2,382	\$ 9,829	\$ 11,163
Change in non-cash operating working capital	(632)	652	1,027	1,483
Adjusted Fund Flow from Operations	\$ 3,428	\$ 3,034	\$ 10,856	\$ 12,646

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

<i>As at/for the period ended,</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2024	2023	2024	2023
Financial (\$ thousands, except as noted)				
Petroleum and Natural Gas Sales	9,460	10,725	27,305	31,958
Net Income (Loss)	(273)	(337)	814	2,295
Adjusted Funds Flow from Operations	3,428	3,034	10,856	12,646
Basic and diluted (\$/share)	0.01	0.01	0.03	0.02
Capital Expenditures	3,433	845	13,097	6,560
Working Capital Surplus	27,608	30,191	27,608	30,191
Total Assets	178,731	197,716	178,731	197,716
Shareholders' Equity	145,887	169,636	145,887	169,636
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	428,516	431,439	430,673
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	1,106	1,050	1,006	1,077
Natural Gas (Mcf/d)	4,842	4,677	4,236	4,734
Total (boe/d)	1,913	1,830	1,712	1,866
Average Sales Price				
Crude Oil and Natural Gas Liquids (\$/bbl)	94.38	97.94	92.54	94.26
Natural Gas (\$/Mcf)	0.81	2.84	1.64	3.16
Total (\$/boe)	53.75	63.71	58.21	62.73
Netback (\$/boe)				
Petroleum and Natural Gas Sales	53.75	63.71	58.21	62.73
Royalties Expense	(5.65)	(8.18)	(4.53)	(8.72)
Percentage	11%	13%	8%	14%
Direct Operating Expense	(21.04)	(32.49)	(24.15)	(24.68)
Operating Netback	27.06	23.03	29.52	29.34
Wells Drilled				
Gross	–	–	3.00	1.00
Net	–	–	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.

(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

- Expert witness report filed for legal claim in Quebec
- Three (1.5 net) well program approved at Kakwa North and three (0.75 net) wells tied-in at Kakwa Central
- Average daily production of 1,913 boe per day with adjusted funds flow from operations of \$3.4 million

Third Quarter 2024 Activities

Kakwa, Alberta

During the quarter, the operator tied-in three (0.75 net) wells recently completed at Kakwa Central. Gross production from these wells over the first thirty days is approximately 2,755 boe per day consisting of 6.8 MMcf per day of natural gas and 1,625 bbls per day of condensate and natural gas liquids. The Company holds a 25% interest in these wells. While the initial rates are encouraging, they are not indicative of the long-term performance or ultimate recovery.

The Company committed to a three (1.5 net) well program at Kakwa North. The wells spud early in the fourth quarter. Questerre holds a 50% interest in these wells. Subject to the timing for completing these wells, they are scheduled to be on production in the second quarter of 2025.

The Company plans to participate in the future drilling programs at Kakwa North and Kakwa Central subject to, among other things, proposed drilling and completion programs including inter-well spacing and commodity prices.

Utica, Quebec

Through the Quebec Energy Association, the Company participated in the public consultation for Bill 69, *An Act to ensure the responsible governance of energy resources and to amend various legislative provisions*. 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.

Following the permission granted to the Attorney General of Quebec to appeal the Quebec Superior Court (Civil Division) ruling from earlier this year suspending key provisions of Bill 21, *An Act mainly to end petroleum exploration and production and the public financing of those activities in Quebec* ("Bill 21") pending a hearing on the merits of the case, Questerre and other license holders filed a joint motion for review and annulment of the judgement granting the application for the leave to appeal (the "Motion"). In October, the Quebec Court of Appeal heard the Motion and the appeal by the Attorney General. The Company is awaiting a decision from the Court of Appeal.

The Company continues to follow the legal process for the main hearing on the merits of its case. The questioning of key Government representatives will take place next year to be followed by the establishment of a trial date for the hearing.

Corporate

Following a review conducted in the second quarter, the Company's credit facilities with a Canadian chartered bank were renewed at \$16 million. The renewed facilities consist of a revolving operating demand loan of \$16 million. Any borrowings under the renewed facilities except letters of credit are subject to the Bank's prime rate and applicable basis point margin. The effective interest rate on the facility is 8.01% (2023: 7.87%). As at September 30, 2024, there were no material amounts drawn on the facilities and the Company held unrestricted cash and term deposits of \$36 million.

Production

<i>Three months ended September 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	814	4,842	1,621	776	4,677	1,556
Saskatchewan and Manitoba	292	–	292	274	–	274
	1,106	4,842	1,913	1,050	4,677	1,830

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

<i>Nine months ended September 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	697	4,236	1,403	776	4,734	1,565
Saskatchewan and Manitoba	309	–	309	301	–	301
	1,006	4,236	1,712	1,077	4,734	1,866

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

Production volumes increased over the same period last year with the three (0.75 net) new wells at Kakwa Central that came on-stream in September. With no other wells drilled during the year, year to date production volumes decreased over the prior year. Representing over 80% of corporate volumes, production from the Kakwa area is split 67/33 between Kakwa Central and Kakwa North with an approximately equal weighting between natural gas and liquids.

The remaining 20% of corporate volumes are light oil from Saskatchewan and Manitoba. Production from these areas remained relatively stable, with a minor increase compared to the same quarter last year and a nominal decrease for the nine-month period. These light oil volumes contribute to the corporate liquids weighting of just over 60% for both the quarter and year to date periods in both years.

Production volumes will decline over the next two quarters until the new wells at Kakwa North are completed and brought on-stream in early 2025.

Third Quarter 2024 Financial Results

Petroleum and Natural Gas Sales

Three months ended September 30,	2024			2023		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
(\$ thousands)						
Alberta	\$ 6,368	\$ 507	\$ 6,875	\$ 6,785	\$ 1,280	\$ 8,065
Saskatchewan and Manitoba	2,585	–	2,585	2,660	–	2,660
	\$ 8,953	\$ 507	\$ 9,460	\$ 9,445	\$ 1,280	\$ 10,725

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

Nine months ended September 30,	2024			2023		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
(\$ thousands)						
Alberta	\$ 17,203	\$ 1,957	\$ 19,160	\$ 19,621	\$ 4,287	\$ 23,908
Saskatchewan and Manitoba	8,145	–	8,145	8,050	–	8,050
	\$ 25,348	\$ 1,957	\$ 27,305	\$ 27,671	\$ 4,287	\$ 31,958

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

Lower commodity prices lowered revenue for both the quarter and year to date periods over the prior year. For the quarter, the increased production volumes offset the 16% decline due to prices and resulted in a 12% decrease over the third quarter last year. Year to date, lower prices and production volumes contributed equally to a 15% decrease in revenue.

Pricing

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Benchmark prices:				
Natural Gas - AECO, daily spot (\$/Mcf)	0.68	2.34	1.45	2.73
Crude Oil - Mixed Sweet Blend (\$/bbl)	97.85	107.89	98.94	100.62
Realized prices:				
Natural Gas (\$/Mcf)	0.81	2.84	1.64	3.16
Crude Oil and Natural Gas Liquids (\$/bbl)	94.38	97.94	92.54	94.26

Crude oil prices in the third quarter decreased compared to last year but remained unchanged over last year for the first nine months of the year. The benchmark West Texas Intermediate averaged US\$75 per barrel (2023: US\$82 per barrel) in the quarter and US\$77 per barrel for the year to date period (2023: US\$77 per barrel).

Volatility in prices during the quarter reflected the risks to demand from China's economy despite recent government stimulus packages, and, to supply from OPEC+ members non-compliance with voluntary supply cuts and their potential unwinding. In the near-term, concerns about the conflict in the Middle East expanding into a regional war and loosening monetary policy in the US and Canada continued to support prices. In Canada, the expansion of the TMX pipeline improved market egress and differentials for domestic crude. Condensate differentials however widened in part due to the increased production of liquids-rich gas for the startup of LNG Canada next year.

Questerre's realized prices averaged \$94.38 per barrel for the quarter (2023: \$97.94 per barrel) compared to the benchmark light Mixed Sweet Blend at \$97.85 per barrel (2023: \$107.89 per barrel).

Natural gas prices declined both over the three and nine-month periods ended September 30 compared to last year. The benchmark Henry Hub averaged US\$2.11 per MMBtu (2023: US\$2.59 per MMBtu) in the quarter and US\$2.11 per MMBtu year to date (2023: US\$2.47 per MMBtu).

Growing inventory levels in the US, estimated at 10% above the five-year average, reflect increased supply relative to demand with associated gas from liquids-rich natural gas plays such as the Permian offsetting declines from dry-gas plays such as the Haynesville. Going forward, LNG exports are anticipated to increase demand in North America as new facilities come on-stream next year.

These include LNG Canada with a capacity for 1.8 Bcf/d or about 10% of the country's current production volumes. Notwithstanding, inventory levels reached new highs in the third quarter with supply rapidly outpacing demand. This led some of the largest gas producers to curtail gas production. As a result, natural gas prices reached a near five-year lows with the benchmark AECO averaging under \$1 per GJ for the quarter.

The higher heat content from gas production at Kakwa contributed to realized prices of \$0.81 per Mcf compared to the benchmark of \$0.68 per Mcf in the quarter.

Royalties

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Alberta	\$ 806	\$ 1,160	\$ 1,508	\$ 3,759
Saskatchewan and Manitoba	188	217	620	683
	\$ 994	\$ 1,377	\$ 2,128	\$ 4,442
% of Revenue:				
Alberta	12%	14%	8%	16%
Saskatchewan and Manitoba	7%	8%	8%	8%
Total Company	11%	13%	8%	14%

Gross royalties decreased for both the three and nine-month periods ended September 30, 2024. As a percentage of revenue this also decreased to 11% and 8% from 13% and 14% for the respective periods.

Royalties in Alberta reflect the Crown and overriding royalties payable on production from Kakwa. These decreased in part due to the lower petroleum and natural gas revenue for the period and increased gas cost allowance for processing the Crown's share of production through the Company's facilities. On a year to date basis, this decrease was more substantial, reflecting a larger annual credit received for gas cost allowance in the second quarter of the year.

Operating Costs

(\$ thousands)	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2024	2023	2024	2023
Alberta	\$ 2,855	\$ 3,531	\$ 8,503	\$ 8,985
Saskatchewan and Manitoba	670	1,808	2,310	3,247
Quebec	178	131	514	339
	\$ 3,703	\$ 5,470	\$ 11,327	\$ 12,571
<i>\$/boe:</i>				
Alberta	\$ 19.15	\$ 24.67	\$ 22.12	\$ 21.03
Saskatchewan and Manitoba	24.90	71.63	27.28	39.56
Total Company	\$ 21.04	\$ 32.49	\$ 24.15	\$ 24.68

For the three months ended September 30, 2024, operating costs decreased by \$1.8 million or nearly one third over last year to \$3.7 million. For the nine months then ended, they decreased by \$1.2 million or 10% over last year to \$11.3 million.

The operating costs at Kakwa in the current quarter reflect, in part, lower workover expenses at Kakwa Central compared to last year. Operating costs at Saskatchewan and Manitoba were consistent with prior quarters. In 2023, operating costs in this area included \$0.6 million for unexpected downhole problems for a well workover.

General and Administrative Expenses

(\$ thousands)	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2024	2023	2024	2023
General and administrative expenses, gross	\$ 1,668	\$ 1,147	\$ 4,115	\$ 3,591
Capitalized expenses and overhead recoveries	(88)	(59)	(268)	(211)
General and administrative expenses, net	\$ 1,580	\$ 1,088	\$ 3,847	\$ 3,380

For the quarter ended September 30, 2024, gross General & Administrative ("G&A") increased by \$0.5 million over the prior year. With G&A for the first six months relatively flat over the prior year, the increase in the current quarter accounts for the variance in the year to date periods.

Higher costs in the current quarter are due to legal and advisory services related to the Company's assets in Quebec. Capitalized expenses are G&A expenses directly attributed to the Company's exploration and evaluation assets in the Kingdom of Jordan.

Depletion, Depreciation and Accretion

Questerre recorded depletion, depreciation and accretion expense of \$3.5 million for the quarter ended September 30, 2024 (2023: \$3.2 million) and \$9.2 million for the nine months then ended (2023: \$9.4 million). Depletion accounts for over 95% of these amounts. The variance in both periods is due to the increase in the depletable base, on a unit of production basis, to \$18.44 per boe from \$17.11 per boe year to date.

Net Interest, Other Income and Share Based Compensation Expense

During the three months ended September 30, 2024, the Company reported net interest and other income of \$0.3 million (2023: \$0.3 million) and, for the nine months then ended, it reported \$0.9 million (2023: \$1.2 million). This represents interest earned on its cash deposits.

Year to date, the Company recorded share based compensation expense of \$0.9 million (2023: \$1.1 million) net of \$0.2 million in expense capitalized during the period (2023: \$0.2 million).

Other Comprehensive Income (Loss)

In 2024, the Company recorded other comprehensive loss of \$0.1 million for the quarter (2023: \$0.2 million income) and income of \$0.3 million for the year to date (2023: \$0.1 million loss). These amounts relate to the impact of changes in foreign exchange for the respective periods. The depreciation of the Jordanian dinar resulted in loss of \$0.04 million (2023: \$0.2 million income) on the Company's dinar denominated assets in the country for the quarter. Similarly, the depreciation in the US dollar resulted in a loss of \$0.1 million (2023: \$0.02 million loss) on its US dollar denominated investment in Red Leaf.

Net Income (Loss) and Total Comprehensive Income (Loss)

Net loss for the current quarter was \$0.3 million (2023: \$0.3 million loss) and year to date, the Company reported \$0.8 million of net income (2023: \$2.3 million income). The decline year to date over the prior year is attributable to the decline in petroleum and natural gas sales offset by the reduction in royalties and operating costs in the current quarter. Including other comprehensive income, the total comprehensive loss for the quarter was \$0.4 million (2023: \$0.2 million loss) and for the year to date period income of \$1.1 million (2023: \$2.2 million income).

Cash Flow From Operating Activities

For the nine months ended September 30, 2024, net cash from operating activities was \$9.8 million compared to \$11.2 million last year. The variance is due to the lower oil and gas revenue in the current year partially offset by a smaller reduction in non-cash working capital compared to last year. For the current quarter, net cash from operating activities increased due to higher adjusted funds flow and an increase in non-cash working capital compared to a decrease last year.

Cash Flow Used In Investing Activities

Cash flow used in investing activities for the first nine months of the year increased to \$9 million this year from \$7.4 million last year. Total capital expenditures of \$13.1 million for the period include three (0.75 net) new wells at Kakwa, a portion of which were payable at the period end. This contributed to the increase in non-cash working capital this year. For the current quarter, higher capital expenditures partly offset by a small reduction in non-cash working capital increased net cash used in activities last year.

Cash Flow Used In Financing Activities

For the third 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

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2024	2023	2024	2023
Alberta	\$ 3,270	\$ 162	\$ 11,982	\$ 3,476
Saskatchewan, Manitoba and Jordan	163	683	1,115	3,084
Total Company	\$ 3,433	\$ 845	\$ 13,097	\$ 6,560

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

For the first nine months of 2024, the Company incurred capital expenditures of \$13.1 million as follows:

- In Alberta, \$12 million was incurred to drill and complete three (0.75 net) wells at Kakwa Central; and
- \$1.1 million was invested in other assets.

For the first 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) wells at Kakwa Central;
- In Saskatchewan, \$3.1 million was invested in well workovers and a pressure maintenance scheme.

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, 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>	November 12, 2024	September 30, 2024	December 31, 2023
Common Shares	428,516	428,516	428,516
Stock Options	38,295	38,670	38,140
Weighted average common shares			
Basic		428,516	428,516
Diluted		431,439	428,516

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

	September 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	6,950	0.25	6,000	0.24
Forfeited/cancelled	(620)	0.27	–	–
Expired	(5,800)	0.29	(3,158)	0.48
Outstanding, end of period	38,670	\$ 0.25	38,140	\$ 0.26
Exercisable, end of period	28,004	\$ 0.25	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 September 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 September 30, 2024, was 4.21 and the covenant was met. See Note 11 of the Financial Statements.

The Company's credit facilities with a Canadian chartered bank remain 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 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 September 30, 2024, are as follows:

<i>(\$ thousands)</i>	2024	2025	2026	2027	Total
Transportation and Processing	\$ 857	\$ 2,515	\$ 1,566	\$ 545	\$ 5,483

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 \$0.04 million at September 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 September 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.

In furtherance of Canada's 2030 Emissions Reductions Plan, the Government of Canada has proposed *Oil and Gas Sector Greenhouse Gas Emissions Cap Regulations* for the capping of greenhouse gas (GHG)

emissions in the oil and gas sector which, subject to the implementation of the proposed regulations, will require companies to register in 2025 and “covered operators” (over 365,000 barrels of light oil equivalent per year) to start reporting their emissions and production to the Minister of Environment in 2026 (2028 for small operators) with the remittance by covered operators of compliance units for all covered emissions beginning in 2030. The emissions cap would be set to achieve an estimated 35% reduction of GHG emissions from 2019 levels. These regulations may have a material impact on Questerre’s profitability and financial condition.

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, 2024, the Company had credit facilities outstanding of effectively nil (December 31, 2023: nil) with an effective rate of 8.01% (September 30, 2023: 7.87%).

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 July 1, 2024, and ended on September 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

	Sep 30	Jun 30	Mar 31	Dec 31
<i>(\$ thousands, except as noted)</i>	2024	2024	2024	2023
Production (boe/d)	1,913	1,559	1,664	1,794
Average Realized Price (\$/boe)	53.75	62.36	59.43	59.04
Petroleum and Natural Gas Revenue	9,460	8,847	8,998	9,743
Adjusted Funds Flow from Operations	3,428	4,455	2,973	3,209
Net Income (Loss)	(273)	1,262	(175)	(26,003)
Basic and Diluted (\$/share)	–	–	–	(0.06)
Capital Expenditures, net of acquisitions and dispositions	3,433	7,034	2,630	3,588
Working Capital Surplus	27,608	27,620	30,211	29,866
Total Assets	178,731	179,248	172,968	172,346
Shareholders' Equity	145,887	145,941	144,148	143,667
Weighted Average Common Shares Outstanding				
Basic (thousands)	428,516	428,516	428,516	428,516
Diluted (thousands)	428,516	431,327	428,516	428,516

	Sep 30	Jun 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	946	(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	25,085	24,491
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

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 second quarter of 2024, it has decreased for the last three quarters with the largest decrease due to the impairments related to its assets in Kakwa and Antler in the fourth quarter of 2023.

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, 2024.