2021 SECOND QUARTER REPORT

QUESTERRE ENERGY CORPORATION

CONTENTS

President's Message	Page	1
Management's Discussion & Analysis	Page	4
Condensed Consolidated Interim Financial Statements	Page	26
Notes to the Condensed Consolidated Interim Financial Statements	Page	31

QUESTERRE ENERGY CORPORATION is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high-quality resources. We believe we can successfully transition our energy portfolio. With new clean technologies and innovation to responsibly produce and use energy, we can sustain both human progress and our natural environment.

Questerre is a believer that the future success of the oil and gas industry depends on a balance of economics, environment and society. We are committed to being transparent and are respectful that the public must be part of making the important choices for our energy future. Questerre's common shares are traded on the Toronto Stock Exchange and Oslo Stock Exchange under the symbol QEC.

President's Message

We took advantage of higher prices to reduce net debt in the first half of the year. Our net debt stands at under $2 million compared to approximately $8 million at year-end. Although capital spending has been limited to date, if prices remain strong, we could see additional drilling at Kakwa late this fall or early winter.

During the quarter, we also began work on the carbon dioxide recycling and storage elements for the circular economy in Quebec. These are essential to reducing not only the emissions from production but also usage of our clean gas. We are planning for permits for a small-scale project to demonstrate this storage potential.

This quarter, along with the run-up in prices, we also saw growing calls by shareholders, regulators and most recently, legislators, requiring E&P companies to reduce their emissions.

In May, shareholders of Chevron Corp. approved a resolution for the supermajor to reduce Scope III emissions, essentially from the use of their products. The Hague District Court in the Netherlands ruled that Royal Dutch Shell has a 'obligation of result' to reduce CO2 emissions from their activities and a 'best-efforts obligation" to reduce emissions generated by its businesses, including suppliers and end-users.

In Quebec, the Ministry of Environment ruled against the LNG Energie Saguenay project on the grounds that, among other things, the project would not reduce GHG emissions in the province. The local gas distribution company also announced its plans to partner with the largest hydro provider in the province to reduce the emissions from consumption by providing electricity as an alternative to natural gas for heating demand.

To us, these developments only emphasize how important the circular economy is to deliver a net-zero solution.

Nearly five years ago, we developed a plan to produce natural gas with zero emissions. This is fast becoming the objective for many energy projects. Addressing the consumption side of the equation was the natural next step. As a result, late last year we began adding two other key components – zero-emissions hydrogen and carbon dioxide capture for recycling into new products or storing underground.

Combining these three elements in a circular economy is, in our view, an ideal solution to both reducing emissions and providing sustainable energy. Although it requires some infrastructure, the technologies to implement this are available today. Because the emissions are recycled or stored, it is a true "zero emission" approach. It is, to us, a more effective long-term solution than, for example, purchasing carbon offsets.

Though they support the circular economy approach as the key to social acceptability and ultimately government approvals, some shareholders are understandably growing anxious about the lack of progress. Our biggest challenges on this front are building a critical mass and encouraging the key groups that privately back the project, including farmers, commercial gas users, First Nations and towns, to become public advocates. The recent agreement with the town where we made our discovery is a step in the right direction. We plan to execute at least one other agreement before year-end.

In the interim, we have started the engineering and permitting for a carbon dioxide storage project. As we hold the storage rights to deeper formations in Quebec, the project will test areas on our permits that could be prospective for long-term storage. We are also permitting seismic programs to identify potential locations for storage and expect to submit our applications later this year.

Our investee company, Red Leaf, is also assessing the benefits of carbon dioxide storage and sequestration. The re-design of the EcoShale process has targeted improved economics and a lower emissions footprint. The process now produces industrial

quality carbon dioxide that can either be sequestered or used for enhanced oil recovery in adjacent oil fields in the basin. They are also evaluating the potential to co-produce rare earth elements along with oil from their Seep Ridge project.

Operating & Financial

Our production declined naturally over the last year with no new Kakwa wells spud since last January. For the second quarter, production averaged 1,479 boe/d compared to 1,679 boe/d last quarter and 2,058 boe/d for the same period last year. We anticipate this will continue until drilling recommences.

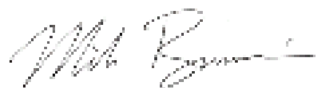
The production declines were more than offset by the higher prices for both liquids and natural gas. Realized prices for the second quarter were $52.72/boe compared to $18.20/boe last year. These contributed to adjusted funds flow from operations of $4.2 million for the quarter up from $0.2 million last year and $7.1 million for the first half of the year compared to $2.9 million last year.

Capital expenditures of $0.5 million in the quarter and $0.9 million year to date consisted primarily of capitalized overhead associated with Quebec. No major investments are planned for the remainder of the year, subject to the timing of additional drilling in Kakwa.

Outlook

We are optimistic the rally in prices, particularly gas prices, will continue as existing supplies are outpaced by the recovering demand from reopening economies.

The circular economy is a real solution for global emissions and the path forward in Quebec. The carbon dioxide storage project will demonstrate how the first phase can be successfully permitted and implemented. This, we believe, will open the door to the production of clean gas.



Michael Binnion
President and Chief Executive Officer

Environmental, Social and Governance

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

From today to 2050, the world's population is estimated to grow from 7.9 billion to almost 9.7 billion people who will expect a better standard of living. We believe providing the increased energy needed tomorrow, with lower environmental impacts than today, is the challenge of our times. We refer to this as the '7 to 9 challenge'. Transitioning our energy diet to lower emissions is essential to meet this challenge and we believe the oil and gas industry has the biggest improvements to make.

Our Clean Tech Energy project to deliver the world's first zero emissions natural gas production is an example of meeting this challenge. It will have a dramatic impact on the emissions from production. It will also contribute to reducing the emissions from consumption by providing a cleaner burning alternative domestically and internationally through exports. With zero emissions hydrogen, carbon recycling and carbon capture, our Clean Tech Energy project can further reduce emissions from consumption.

It involves a new way of thinking to become leaders on environmental issues. Our industry runs most of today's energy systems. We have the experience, expertise, capital and technology to meet the planet's energy and environmental challenges. Delivering on projects like our zero emissions natural gas project is just one example of how our industry can be leaders on transitioning our global energy systems.

Questerre has also taken leadership in working with communities for local benefits. We have committed to share 3% of our profits with communities. We have also engaged with local First Nations in Quebec to include them in our contracting and benefits program.

We unilaterally made the decision not to work in communities where the plurality of the community does not want development. Our approach of consulting first and applying for permits second is consistent with this approach.

People know they need energy to maintain progress for their families and communities. They want to know the providers of that energy are being responsible and sustainable in the way it is produced. Questerre is an entrepreneurial leader in making the seemingly impossible task of producing more with less impact, possible. Our zero emissions Clean Tech Energy project is our contribution to meeting this '7 to 9 challenge'.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of August 11, 2021. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") for the three and six month periods ended June 30, 2021 and 2020, and the audited annual consolidated financial statements of the Company for the year ended December 31, 2020 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, 2020, is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high quality resources. 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 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, 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 by 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.

Management has not adjusted or revised any forward-looking statements in this MD&A to account for the potential disruption to the Company's business from the coronavirus ("COVID-19") pandemic, the impact of which is not immediately known or quantifiable.

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

- The limiting of capital spending planned for the next six months;
- future commodity prices in light of recent decisions by the Organization of the Petroleum Exporting Countries ("OPEC") and non-OPEC member countries, including Saudi Arabia and Russia, on production levels as well as the impacts of the COVID-19 pandemic;
- the evaluation of third-party blue hydrogen technology for the Clean Tech Energy project;
- further capital investment requiring additional financial liquidity through potential asset dispositions, equity or debt;
- future production of oil, natural gas and natural gas liquids and the weighting thereof;

- production declines;
- development plans for the Company's Kakwa assets;
- the assessment of future development costs;
- requirement of significant additional capital to develop the Company's Quebec assets;
- legislative and regulatory developments in the Province of Quebec;
- the timing of the hearing in Quebec Superior Court regarding the Quebec oil and gas regulations introduced in 2018;
- liquidity and capital resources;
- the Company's compliance with the terms of its credit facility;
- the 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;
- the Company's objectives when managing its capital;
- the Company's methods to address financial exposure;
- Questerre's reserves and resources;
- impacts of capital expenditures on the Company's reserves and resources;
- 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, related provisions for credit losses and the fulfillment of obligations by counterparties;
- joint venture partner willingness to participate in capital programs;
- 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:

- volatility in market prices for oil, natural gas liquids and natural gas due to, among other things, the commitments to production levels by OPEC and non-OPEC member countries, including Saudi Arabia and Russia, as well as the impact of the coronavirus pandemic;
- access to capital;
- the terms and availability of credit facilities;
- counterparty credit risk;
- changes or fluctuations in oil, natural gas liquids and natural gas production levels;
- liabilities inherent in oil and natural gas operations;
- adverse regulatory rulings, orders and decisions;
- attracting, retaining and motivating skilled personnel;
- uncertainties associated with estimating oil and natural gas reserves and resources;
- competition for, cost and availability of, among other things, capital, acquisitions of reserves, undeveloped lands, equipment, skilled personnel and services;
- incorrect assessments of the value of acquisitions and targeted exploration and development assets;
- fluctuations in foreign exchange or interest rates;
- stock market volatility, market valuations and the market value of the securities of Questerre;
- failure to realize the anticipated benefits of acquisitions;

- the outcome of the Company’s challenge of the validity of certain restrictive Regulations;
- actions by Governmental or regulatory authorities, including changes in royalty structures and programs, and income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry;
- limitations on insurance;
- changes in environmental, tax, or other legislation applicable to the Company’s operations, and its ability to comply with current and future environmental and other laws; and
- geological, technical, drilling and processing problems, and other difficulties in producing oil, natural gas liquids and natural gas reserves.

Statements relating to “reserves” or “resources” 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 and resources described can be profitably produced in the future. The discounted and undiscounted net present values of future net revenue attributable to reserves and resources do not represent the fair market value thereof.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A 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 laws. 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 by 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 Questerre’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. Questerre’s determination of adjusted funds flow from operations may not be comparable to that reported by other companies. Questerre considers adjusted funds flow from operations to be a key measure as it demonstrates the Company’s ability to generate the cash necessary to fund operations and support activities related to its major assets.

Adjusted Funds Flow From Operations Reconciliation

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2021**	2020	**2021**	2020
Net cash from (used in) operating activities	**$ 3,006**	$ (791)	**$ 6,085**	$ 3,770
Interest received	**(48)**	(34)	**(98)**	(172)
Interest paid	**123**	144	**256**	331
Change in non-cash operating working capital	**1,143**	887	**866**	(1,263)
Adjusted Funds Flow from Operations	**$ 4,224**	$ 206	**$ 7,109**	$ 2,666

This document also contains the terms "operating netbacks" and "working capital deficit", which are non-GAAP measures. The Company considers operating netbacks to be a key measure as it demonstrates its profitability relative to current commodity prices. Operating 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. Netbacks are generally discussed and presented on a per boe basis.

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

Select Information

As at/for the period ended June 30,	*Three months ended* 2021	2020	*Six months ended* 2021	2020
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	**7,095**	3,410	**14,141**	10,428
Net Income (Loss)	**2,892**	(2,701)	**3,800**	(116,577)
Basic and diluted ($/share)	**0.01**	(0.01)	**0.01**	(0.27)
Adjusted Funds Flow from Operations	**4,224**	206	**7,109**	2,666
Basic and diluted ($/share)	**0.02**	–	**0.02**	0.01
Capital Expenditures	**450**	515	**947**	3,390
Working Capital Deficit	**(1,243)**	(9,272)	**(1,243)**	(9,272)
Total Assets	**194,053**	201,255	**194,053**	201,255
Shareholders' Equity	**156,316**	153,509	**156,315**	153,509
Common Shares Outstanding (thousands)	**428,516**	427,516	**428,516**	427,516
Weighted average - basic (thousands)	**427,571**	427,516	**427,543**	427,711
Weighted average - diluted (thousands)	**427,743**	427,516	**427,806**	427,711
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**887**	1,352	**929**	1,370
Natural Gas (Mcf/d)	**3,549**	4,238	**3,898**	4,190
Total (boe/d)	**1,479**	2,058	**1,579**	2,068
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	**74.99**	21.30	**76.14**	37.22
Natural Gas ($/Mcf)	**3.22**	2.05	**3.08**	2.23
Total ($/boe)	**52.72**	18.20	**49.49**	27.71
Netback ($/boe)				
Petroleum and Natural Gas Sales	**52.72**	18.20	**49.49**	27.71
Royalties Expense	**1.87**	(0.33)	**(1.85)**	(2.08)
Percentage	**(4)%**	2%	**4%**	8%
Direct Operating Expense	**(18.96)**	(13.51)	**(19.36)**	(14.88)
Operating Netback	**35.63**	4.36	**28.29**	10.75
Wells Drilled				
Gross	**–**	–	**–**	1.00
Net	**–**	–	**–**	0.25

(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 and received.
(2) Working capital deficit 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

- Assessing carbon dioxide storage project as first phase of Clean Tech Energy project in Quebec
- Average daily production of 1,479 boe/d with adjusted funds flow from operations of $4.2 million

Second Quarter 2021 Activities

Kakwa, Alberta

Development drilling on both Kakwa joint ventures remained suspended following the curtailment of activity in the spring of 2020. Questerre anticipates the operators could recommence drilling late this fall or early next winter.

The Company's participation in any future wells will depend on among other things, a continued improvement in long-term oil prices. Should the Company participate, it will require additional financial liquidity through potential asset dispositions, equity or debt issuances. There is no certainty that such liquidity will be available when required on terms acceptable to Questerre.

St. Lawrence Lowlands, Quebec

The recent decision by the Ministry of Environment in Quebec to withhold approval for a proposed LNG facility on the basis that it will not reduce emissions in the province highlights the growing importance of net-zero emissions to social acceptability and government approvals for energy projects.

The first phase of the Clean Tech Energy project has been designed to eliminate the emissions associated with the production of natural gas. With the engineering for this phase largely complete, the Company is assessing blue hydrogen production and carbon capture to minimize the emissions from consumption.

During the quarter, the Company executed a Letter of Intent with ZEG Power AS, a private Norwegian company to evaluate their proprietary blue hydrogen technology for the Clean Tech Energy project.

The Company also commenced engineering for a small-scale carbon dioxide storage project. The project will assess the prospectivity of a deeper formation for sequestering produced carbon dioxide. The Company continues to evaluate potential carbon recycling technologies, including those producing concrete and plastics, that could be incorporated into this project.

Corporate

Following a preliminary review conducted in the third quarter, the Company anticipates its $17 million revolving operating demand facility will be reduced to $16 million and its uncommitted non-conforming revolving facility of $3 million will be terminated. The renewal will take effect upon receipt of final requisite approvals late in the third quarter. The effective interest rate on the facility for the first half of 2021 was 3.45% (2020: 3.58%). As at June 30, 2021, $12 million was drawn on the facility and the Company held unrestricted cash and term deposits of $10.3 million.

The facilities are secured by a revolving credit agreement, a debenture including a first floating charge over all assets of the Company and a general assignment of book debts. The next scheduled review is the second quarter of 2022.

Production

Three months ended June 30,		2021			2020	
	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	**585**	**3,549**	**1,177**	1,009	4,238	1,715
Saskatchewan and Manitoba	**302**	**–**	**302**	343	–	343
	887	**3,549**	**1,479**	1,352	4,238	2,058

Six months ended June 30,		2021			2020	
	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	**624**	**3,898**	**1,274**	982	4,190	1,680
Saskatchewan and Manitoba	**305**	**–**	**305**	388	–	388
	929	**3,898**	**1,579**	1,370	4,190	2,068

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, volumes declined over the prior year. This is due to natural declines that were not offset by new drilling at Kakwa.

Kakwa represents over 80% of total production with 1,271 boe/d (2020: 1,675 boe/d) inclusive of royalty production at Kakwa North that accounts for 11% of volumes (2020: 13%). Approximately 10% of the decline in natural gas volumes from this area relates to reduced availability of deep-cut processing capacity, resulting in lower natural gas volumes but with higher heat content.

The lower natural gas volumes contributed to an oil and liquids weighting of 60% for the quarter (2020: 66%) and year to date. This partly reflects the lower light oil production from Saskatchewan and Manitoba which fell over the prior year but remained consistent with the prior quarter. Prospectively, Questerre anticipates its liquids weighting to trend towards 50%, reflecting the approximate split between natural gas and liquids at Kakwa.

With no additional wells expected for the next three to six months, the Company anticipates its production will continue to decline. The Company is assessing its participation in future drilling at Kakwa based on among other factors, commodity prices.

Second Quarter 2021 Financial Results

Petroleum and Natural Gas Sales

Three months ended June 30,		2021			2020	
($ thousands)	**Oil and Liquids**	**Natural Gas**	**Total**	Oil and Liquids	Natural Gas	Total
Alberta	**$ 3,755**	**$ 1,201**	**$ 4,956**	$ 1,699	$ 789	$ 2,488
Saskatchewan and Manitoba	**2,139**	**–**	**2,139**	922	–	922
	$ 5,894	**$ 1,201**	**$ 7,095**	$ 2,621	$ 789	$ 3,410

Six months ended June 30,	2021			2020		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Alberta	$ 7,881	$ 2,241	$ 10,122	$ 5,787	$ 1,659	$ 7,446
Saskatchewan and Manitoba	4,019	–	4,019	2,982	–	2,982
	$ 11,900	$ 2,241	$ 14,141	$ 8,769	$ 1,659	$ 10,428

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

For the first half of 2021, petroleum and natural gas sales more than doubled over the same period last year. Price increases of over 130% were partly offset by a nearly 30% decline in production volumes due to limited drilling activity. For the six-month period, the increase in revenue was almost 40% with a 60% increase in prices that were offset by a 20% decrease in volumes.

Pricing

	Three months ended June 30,		*Six months ended June 30,*	
	2021	2020	**2021**	2020
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	**2.82**	1.85	**2.85**	1.91
Crude Oil - Mixed Sweet Blend ($/bbl)	**77.60**	28.57	**74.51**	42.83
Realized prices:				
Natural Gas ($/Mcf)	**3.22**	2.05	**3.08**	2.23
Crude Oil and Natural Gas Liquids ($/bbl)	**74.99**	21.30	**76.14**	37.22

Crude oil prices continued their recovery in the second quarter of this year. The benchmark West Texas Intermediate averaged US$66.07/bbl (2020: US$27/bbl) for the quarter and US$61.67/bbl for the first six months (2020: US$36.60/bbl).

As economies have reopened after successful vaccination programs, demand for crude oil and finished products, excluding aviation fuel, is recovering to near pre-COVID-19 levels, particularly in the United States. The compliance by OPEC+ members with maintaining production cuts and continued fiscal discipline by US operators has helped deplete global inventories and tighten the supply demand balance. In Canada, the turnarounds at oilsands facilities increased demand for light oil and condensate. The differential between WTI and the Canadian condensate prices was a nominal premium of US$0.27/bbl compared to a discount of US$5.55/bbl last year.

Questerre's liquids production consists primarily of condensate and light oil. As a result, realized prices closely tracked the benchmark prices with discounts of less than 10% for both periods in the current year.

Driven in part by warmer weather, natural gas prices strengthened during the quarter. The benchmark Henry Hub spot price averaged US$2.94/MMBtu for the quarter (2020: US$1.71/MMBtu) and US$3.25/MMBtu for the six months ended June 30, 2021 (2020: US$1.81/MMBtu).

The recent strength reflects, in part, the shift in North American and European natural gas inventories from a surplus to deficit position relative to their five-year averages over the quarter. With US production expected to remain relatively flat, demand growth for exports has more than offset decreases in other sectors. In the United States, exports to Mexico via pipeline and to Asia and Europe via LNG have grown 5% year to date and now account for 17% of total US demand. This has been

supported by international LNG prices reaching multi-year highs for the summer of approximately US$12/MMBtu this year. In Canada, the AECO price continued to benefit from a much narrower differential with the Henry Hub price.

Realized natural gas prices, reflecting the higher heat content from Kakwa gas production, averaged $3.22/Mcf (2020: $2.05/Mcf) compared to the AECO spot price of $2.82/Mcf (2020: $1.85/Mcf).

Royalties

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2021**	2020	**2021**	2020
Alberta	**$ (406)**	$ (13)	**$ 236**	$ 522
Saskatchewan and Manitoba	**155**	75	**293**	260
	$ (251)	$ 62	**$ 529**	$ 782
% of Revenue:				
Alberta	**-**	-	**2%**	7%
Saskatchewan and Manitoba	**7%**	8%	**7%**	9%
Total Company	**-**	2%	**4%**	8%

Excluding credits received from the Crown in Alberta, gross royalties on a three and six month basis increased over the prior year with the increase in petroleum and natural gas sales.

Royalties for the three months ended June 30, 2021, reflect a credit of $0.8 million (2020: $0.2 million) from the government for processing its share of production through the Company's facilities. The increase in the credit over the prior year is due to a higher effective royalty rate for production from Kakwa. Without the credit, the royalty rate on production averaged 7% compared to 8% last year for the quarter and 10% for the first six months of the year unchanged from last year. Royalties on production from Saskatchewan and Manitoba remained relatively stable over the same periods at approximately 7%.

Operating Costs

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2021**	2020	**2021**	2020
Alberta	**$ 1,864**	$ 1,611	**$ 4,123**	$ 3,675
Saskatchewan and Manitoba	**612**	693	**1,314**	1,627
Quebec	**76**	227	**94**	297
	$ 2,552	$ 2,531	**$ 5,531**	$ 5,599
$/boe:				
Alberta	**17.40**	10.32	**17.88**	12.02
Saskatchewan and Manitoba	**22.28**	22.22	**23.84**	23.02
Total Company	**18.96**	13.51	**19.36**	14.88

Gross operating costs of $2.5 million for the second quarter and $5.5 million for the first half year remained flat over the last year. On a boe basis, with lower production volumes in the current quarter operating costs increased to $18.96 from $13.51 last year.

In Alberta, operating costs at Kakwa were approximately 12% higher for the quarter and year to date. with higher fuel, power and equipment maintenance costs accounting for half the variance. On a boe basis, the relatively high proportion of fixed costs and lower production volumes in the current year translated to an increase in costs to $17.40 (2020: $10.32) and $17.88 (2020: $12.02) for the three and six-month periods respectively.

In Saskatchewan, operating costs decreased by approximately 12% for the quarter and nearly 20% year-to-date due to lower workover and lease maintenance costs. With lower production volumes offsetting these lower costs, on a per unit of production basis, costs remained flat at $22 and $23 for the respective quarterly and year-to-date periods.

In Quebec, operating costs were lower in the current year due to the comparable numbers for the prior year including one-time items associated with the acquisition that closed in 2019.

General and Administrative Expenses

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2021**	2020	**2021**	2020
General and administrative expenses, gross	**$ 771**	$ 827	**$ 1,512**	$ 1,885
Capitalized expenses and overhead recoveries	**(251)**	(232)	**(521)**	(540)
General and administrative expenses, net	**$ 520**	$ 595	**$ 991**	$ 1,345

For the quarter ended June 30, 2021, gross general and administrative expenses ("G&A") decreased by approximately 7% from the prior year and 20% for the six months ending June 30, 2021. The variance in both periods reflects the overhead reductions introduced in the second quarter of last year in response to the collapse in prices and the impacts of the pandemic. Capitalized expenses remained constant and represent the overhead related to the Company's projects in Quebec and Jordan.

Depletion, Depreciation, Accretion and Impairment

In the second quarter of 2021, Questerre recorded depletion, depreciation and accretion expense of $1.5 million (2020: $2.3 million) with depletion accounting for over 95% of this amount. The variance over the prior year is mainly due to the lower production volumes. Combined with lower future development costs in the current year, this translated into a decline on a boe basis to $10.81 in 2021 from $12.19 last year.

No potential indicators of impairment or reversals of impairment were noted as of June 30, 2021, and the Company did not assess the carrying values of its cash generating units ("CGUs"). As a result, it recorded no impairment expense or reversal of prior period impairment for the period.

By comparison for the six month period ended, June 30, 2020, the material decline in future crude oil prices as at March 31, 2020 was an indicator of potential impairment in the carrying value of its Plant, Property and Equipment ("PP&E"). The Company subsequently tested its CGUs for impairment in accordance with its accounting policy by comparing the carrying value to the estimated fair value less costs of disposal ("FVLCD") using a discounted cash flow model. As a result of the impairment testing, the Company recorded an impairment expense of $96.3 million in aggregate.

The Company also determined that there were no impairment indicators relating to its exploration and evaluation ("E&E") assets as at June 30, 2021. As a result, no impairment was incurred for the period then ended. For the six months ended June 30, 2020, the Company incurred an impairment expense of $14.4 million relating to its E&E assets in the Kakwa area. The Company determined that there were no impairment indicators for its Quebec assets and no impairment was incurred. Furthermore, the Company incurred an impairment expense of $2.3 million related to goodwill on the basis that the FVLCD of its PP&E assets was below the carrying value at March 31, 2020.

Interest expense, other income and share based compensation expense

During the six months ended June 30, 2021, the Company incurred interest expense of $0.3 million, unchanged from the prior year. The amounts relate to its credit facilities with a Canadian chartered bank. As at June 30, 2021, the amount drawn on the facilities was $12 million (2020: $19.3 million) and the effective interest rate was 3.45% (2020: 3.58%). The Company also earned interest income of $0.1 million (2020: $0.2 million) on its cash and term deposits for the period.

The Company recorded other income of $0.4 million representing grants received from the provincial governments of Alberta and Saskatchewan for rehabilitation of existing leases, including abandonment and reclamation work.

Year to date, the Company recorded share based compensation expense of $0.3 million (2020: $0.3 million) net of $0.3 million in expense capitalized during the period (2020: $0.5 million).

Other Comprehensive Income and Expenses

In 2021, the Company recorded other comprehensive loss of $0.2 million for the quarter (2020: $0.4 million loss) and $0.4 million year to date (2020: $0.7 million income). These amounts relate to the impact of changes in foreign exchange for the respective periods. The depreciation for Jordanian dinar resulted in a loss of $0.1 million (2020: $0.1 million loss) on the Company's dinar denominated assets in the country for the quarter. For the same period, the depreciation in the US dollar resulted in a loss of $0.1 million (2020: $0.4 million loss) on its US dollar denominated investment in Red Leaf Resources Inc. ("Red Leaf").

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

Net income for the current quarter was $2.9 million (2020: $2.7 million loss) and year to date it was $3.8 million (2020: $117 million loss). The variance in the quarter is attributable to the higher petroleum and natural gas revenue, lower depletion and higher other income. Year to date, the variance relates to the $113 million impairment expense in 2020. Including other comprehensive income (loss), the total comprehensive income for the second quarter of the year was $2.7 million (2020: $3.1 million loss) and year to date it was $3.4 million (2020: $116 million loss).

Cash Flow from Operating Activities

For the six months ended June 30, 2021, net cash from operating activities was $6.1 million compared to $3.8 million last year. The variance is due to the higher adjusted funds flow from operations in the current year offset by a decrease in non-cash working capital compared to an increase last year. For the quarter, the higher adjusted funds flow and larger decrease in non-cash working capital accounted for the difference over the prior year.

Cash Flow used in Investing Activities

Cash flow used in investing activities for the second quarter was $0.6 million and decreased substantially over the prior year with the reduced capital spending. Year to date the lower capital spending and a smaller reduction in non-cash working capital in 2021 accounts for the variance over the prior year.

Cash Flow from Financing Activities

For the second quarter of this year, net cash used in financing activities of $2.4 million reflects the net repayment of its credit facilities. In the prior year, the Company had a net drawdown of $2 million. For the year to date periods the cash flow from financing reflects the net repayments and drawdowns in 2021 and 2020 respectively.

Capital Expenditures

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2021**	2020	**2021**	2020
Alberta	**$ 17**	$ 31	**$ 96**	$ 2,086
Saskatchewan, Manitoba and Jordan	**41**	191	**57**	473
Quebec	**392**	293	**794**	831
Total Company	**$ 450**	$ 515	**$ 947**	$ 3,390

For the six months ended June 30, 2021, the Company incurred capital expenditures of $0.9 million as follows:

- In Quebec, $0.8 million for capitalized overhead related to engineering and securing social acceptability for its Clean Tech Energy project; and
- $0.1 million was invested in maintenance for the Company's other assets.

For the six months ended June 30, 2020, the Company incurred capital expenditures of $3.4 million as follows:

- In Alberta, $2.1 million was invested to drill a well and expand gas-lift infrastructure on the Kakwa Central joint venture acreage;
- In Quebec, $1.0 million for capitalized overhead related to engineering and securing social acceptability for its Clean Tech Energy project; and
- In Saskatchewan, the Company invested $0.3 million for infrastructure for its pressure maintenance pilot.

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At June 30, 2021, 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.

	August 11,	June 30,	December 31,
(thousands)	**2021**	**2021**	2020
Common Shares	**428,516**	**428,516**	427,516
Stock Options	**30,307**	**30,307**	25,351
Weighted average common shares			
Basic		**427,543**	427,613
Diluted		**427,806**	427,613

A summary of the Company's stock option activity for the six months ended June 30, 2021 and the year ended December 31, 2020 follows:

	June 30, 2021		December 31, 2020	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	25,351	$ 0.38	27,087	$ 0.40
Granted	8,350	0.18	6,475	0.20
Forfeited/cancelled	(2,344)	0.18	(846)	0.43
Expired	(50)	0.18	(7,365)	0.29
Exercised	(1,000)	0.18	–	–
Outstanding, end of period	30,307	$ 0.35	25,351	$ 0.38
Exercisable, end of period	17,153	$ 0.45	16,191	$ 0.42

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 crude oil prices have recovered, the volatility arising from the actions of OPEC+ last year and the fallout from the COVID-19 pandemic has impacted the Company's liquidity. The Company continues to prioritize financial liquidity over growth.

At June 30, 2021, $12 million (June 30, 2020: $19.3 million) was drawn on the credit facilities and the Company is compliant with all its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with the covenants for its credit facilities. Under the terms of the credit facilities, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2021 was 5.10 and the covenant was met. See Note 11 of the Financial Statements.

While the credit facilities are expected to be renewed in the third quarter of 2021 for $16 million, the facilities could be reduced at their next review scheduled for the second quarter of 2022. 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.

On the assumption that commodity prices stabilize and improve over the next 12 to 18 months, the Company believes that it should have access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations.

In light of current market conditions, the Company is assessing its investment in the 2021 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2020. It anticipates that, as a result, reserves associated with wells not drilled in 2021 will remain in the proved undeveloped category.

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

Commitments

A summary of the Company's net commitments at June 30, 2021 are as follows:

($ thousands)	2021	2022	2023	2024	Thereafter	Total
Transportation and Processing	$ 1,580	$ 3,156	$ 2,881	$ 2,791	$ 3,255	$ 13,663

In order 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 and Government regulations 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, 2020.

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, conflict between the U.S. and Iran, isolationist and punitive trade policies, 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. 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 last year have 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 or have to raise funds on unfavourable and highly dilutive terms.

A significant risk to Questerre's ability to advance its Clean Tech Energy project and the development of its assets in Quebec is the legal and regulatory environment in the province. In September 2018, the Ministry of Energy and Natural Resources in

Quebec introduced regulations effectively prohibiting any exploitation of natural gas in the province including the selective prohibition of hydraulic fracturing and increasing setbacks for activity. The Company filed a legal motion requesting a temporary stay and judicial review to have the specific regulations relating to the ban on hydraulic fracturing be set aside. The Company has requested a new hearing date for this judicial review in 2021. Should the Company be unsuccessful in resolving the situation to its satisfaction and the Company's legal motion subsequently denied, the carrying value of its exploration and evaluation assets in Quebec could be materially impaired by such an outcome.

In addition, the global market is also currently volatile due to the uncertainty around how severely COVID-19 will affect long-term global energy consumption. The global economy is reliant on the manufacturing and trade of products and the movement of people, and any slowdown in this process has a chain reaction that impacts energy consumption by both manufacturers and consumers. Travel restrictions announced by various countries as a measure to reduce the spread of COVID-19 have impacted and continued to impact global energy consumption.

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 in particular. 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 essential 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 expenses 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. The Company anticipates that future development of its Quebec assets will require significant additional capital to be financed by potential future equity issuances, asset dispositions or other means.

Questerre faces a number of 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, including flow-through shares, 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 managed.
- 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. Management does not expect any counterparty to fail to meet its obligations. 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.

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 the accounts receivable are with oil and natural gas marketers and, to a much lesser extent, 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. Pursuant to IFRS 9 *Financial Instruments*, the Company made a provision of $0.04 million at June 30, 2021 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.

The Company has issued and may continue in the future to issue flow-through shares to investors. The Company uses its best efforts to ensure that qualifying expenditures of Canadian Exploration Expense ("CEE") are incurred in order to meet its flow-through obligations. In 2017, the Federal Government amended the law regarding what expenses constitute CEE. Generally, oil and gas drilling expenses are now Canadian Development Expense rather than CEE. In the event that the Company has CEE expenditures reclassified under audit by the Canada Revenue Agency or fails to incur expenditures required under a flow-through share agreement, the Company may be required to liquidate certain of its assets in order to meet the indemnity obligations under flow-through share subscription agreements.

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

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

As at June 30, 2021, the Company had no outstanding commodity risk management contracts.

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 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. At June 30, 2021, the Company had credit facilities outstanding of $12 million (June 30, 2020: $19.3 million) with an effective rate of 3.45% (2020: 3.58%).

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 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.

Petroleum and Natural Gas Reserves

Questerre's petroleum and natural gas reserves and resources are evaluated and reported on by independent petroleum engineering consultants in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators* ("NI 51-101") and the COGE Handbook. For further information, please refer to "Statement of Reserves Data and Other Oil and Gas Information" in the AIF.

The estimation of reserves and resources is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves and resources will change to reflect updated information. Reserve and resource estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices. These estimates are evaluated by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. If probabilistic methods are used, there should be at least a 50 percent probability that the quantities recovered will equal or exceed the estimated proved plus probable reserves and there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves.

Reserve and resource estimates impact a few areas, in particular, the valuation of property, plant and equipment, exploration and evaluation assets and the calculation of depletion.

Cash Generating Units

A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations. Factors considered in the classification include geography and the manner in which Management monitors and makes decisions about its operations.

Impairment of Property, Plant and Equipment, Exploration and Evaluation and Goodwill

The Company assesses its oil and natural gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Determining if there are facts and circumstances present that indicate that carrying values of the assets may not be recoverable requires Management's judgment and analysis of the facts and circumstances.

The recoverable amounts of CGUs have been determined based on the higher of value in use ("VIU") and the fair value less cost of disposal ("FVLCD"). The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes, the discount rate, future operating and development costs and recent land transactions. Changes to these assumptions will affect the recoverable amounts of the CGUs and may require a material adjustment to their related carrying value.

Goodwill is the excess of the purchase price paid over the fair value of the net assets acquired. Since goodwill results from purchase accounting, it is imprecise and requires judgment in the determination of the fair value of assets and liabilities. Goodwill is assessed for impairment on an operating segment level based on the recoverable amount for each CGU of the Company. Following the reduction in the recoverable amounts of the Company's CGUs as of June 30, 2020, goodwill was assessed and fully impaired. This impairment cannot be reversed should the recoverable amount of the Company's CGUs increase in the future.

Asset Retirement Obligation

Determination of the Company's asset retirement obligation is based on internal estimates using current costs and technology in accordance with existing legislation and industry practice and must also estimate timing, a risk-free rate and inflation rate in the calculation. These estimates are subject to change over time and, as such, may impact the charge against profit or loss. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a risk-free rate. The associated abandonment and retirement costs are capitalized as part of the carrying amount of the related asset. The capitalized amount is depleted on a unit of production basis in accordance with the Company's depletion policy. Changes to assumptions related to future expected costs, risk-free rates and timing may have a material impact on the amounts presented.

Share Based Compensation

The Company has a stock option plan enabling employees, officers and directors to receive Common Shares or cash at exercise prices equal to the market price or above on the date the option is granted. Under the equity settled method, compensation costs attributable to stock options granted to employees, officers or directors are measured at fair value using the Black-Scholes option pricing model. The assumptions used in the calculation are the volatility of the stock price, risk-free rates of return and the expected lives of the options. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Changes to assumptions may have a material impact on the amounts presented.

Income Tax Accounting

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

The determination of the Company's income and other tax assets or liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax asset or liability may differ significantly from that estimated and recorded by Management.

Investment in Red Leaf

Questerre has investments in certain private companies, including Red Leaf, which it classifies as an equity investment and assesses for indicators of impairment at each period end. For the purposes of impairment testing, the Company measures the fair value of Red Leaf by valuation techniques such as the net asset value approach.

Accounting Policy Changes

IFRS 3 *Business Combinations*, has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 Business Combinations is effective for the years beginning on or after January 1, 2020. The adoption of this amendment did not have a material impact on its financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on April 1, 2021 and ended on June 30, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such

period that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

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

Quarterly Financial Information

($ thousands, except as noted)	**June 30, 2021**	March 31, 2021	Dec 31, 2020	Sept 30, 2020
Production (boe/d)	**1,479**	1,679	1,851	1,875
Average Realized Price ($/boe)	**52.72**	46.62	35.85	31.26
Petroleum and Natural Gas Revenue	**7,095**	7,046	6,105	5,391
Adjusted Funds Flow from Operations	**4,224**	2,885	1,857	1,623
Net Profit (Loss)	**2,892**	908	(75)	(970)
Basic and Diluted ($/share)	**0.01**	–	–	–
Capital Expenditures, net of acquisitions and dispositions	**450**	497	1,621	348
Working Capital Deficit	**(1,243)**	(5,449)	(7,705)	(8,095)
Total Assets	**194,053**	194,417	196,177	195,925
Shareholders' Equity	**156,316**	153,108	152,120	152,508
Weighted Average Common Shares Outstanding				
Basic (thousands)	**427,571**	427,516	427,516	427,516
Diluted (thousands)	**427,743**	427,879	427,516	427,516

($ thousands, except as noted)	June 30, 2020	March 31, 2020	Dec 31, 2019	Sept 30, 2019
Production (boe/d)	2,058	2,078	2,160	2,343
Average Realized Price ($/boe)	18.20	37.12	45.52	40.33
Petroleum and Natural Gas Revenue	3,410	7,018	9,033	8,690
Adjusted Funds Flow from Operations	206	2,460	4,108	5,038
Net Profit (Loss)	(2,702)	(113,876)	67,414	1,331
Basic and Diluted ($/share)	(0.01)	(0.27)	0.14	–
Capital Expenditures, net of acquisitions and dispositions	515	2,875	4,868	6,756
Working Capital Surplus (Deficit)	(9,272)	(8,603)	(8,111)	(2,573)
Total Assets	201,255	204,782	318,062	251,454
Shareholders' Equity	153,509	156,263	268,656	200,966
Weighted Average Common Shares Outstanding				
Basic (thousands)	427,516	427,907	427,907	427,907
Diluted (thousands)	427,516	427,907	428,022	428,591

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

- Petroleum and natural gas revenues and adjusted funds flow from operations have fluctuated with production volumes and realized commodity prices. These increased materially in the first half of 2021 following the improvement in commodity prices. They declined materially for the quarter ended June 30, 2020, following the collapse in oil prices.
- Production volumes reflect the capital investment in drilling and completing wells at Kakwa in preceding quarters. With limited capital spending planned for the next six months, the Company anticipates production volumes will continue to decline over the remainder of this year.
- The level of capital expenditures over the quarters has varied largely due to the timing and number of wells drilled and completed as well as the timing of the infrastructure investment at Kakwa.

- The working capital deficit has generally increased when capital expenditures and other investments have been higher than adjusted funds flow from operations and cash from financing activities. In the last three quarters, this has decreased as adjusted funds flow from operations has exceeded capital expenditures.
- Shareholders' equity has generally decreased due to the net losses realized. For the period ended June 2021, it increased due to the net income in the period. For the quarter ended March 2020, the significant decrease was attributable to the $113 million impairment expense incurred in the period. In December 2019, it increased due to the gain of $58.5 million on the acquisition of assets in Quebec.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended June 30, 2021.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended June 30, 2021.

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

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

The accompanying unaudited consolidated interim financial statements of Questerre Energy Corporation for the interim reporting period ended June 30, 2021 have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the International Accounting Standards Board, and are the responsibility of the Company's management.

The Corporation's independent auditors, PricewaterhouseCoopers LLP, Chartered Professional Accountants, have not performed a review of these unaudited consolidated interim financial statements in accordance with the standards established by Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note	June 30, 2021	December 31, 2020
Assets			
Current Assets			
Cash and cash equivalents		$ 10,335	$ 10,404
Accounts receivable		3,483	2,683
Deposits, government grants and prepaid expenses		1,439	819
		15,257	13,906
Right-of-use assets		222	249
Investments	3	7,776	7,979
Property, plant and equipment	4	48,303	52,484
Exploration and evaluation	5	115,097	114,203
Restricted cash	11	7,398	7,356
		$ 194,053	$ 196,177
Liabilities			
Current Liabilities			
Lease liabilities		$ 51	$ 50
Accounts payable and accrued liabilities		4,484	6,186
Credit facilities	11	12,016	15,427
		16,551	21,663
Lease liabilities		180	205
Contingent liabilities		1,820	1,820
Asset retirement obligation	6	19,186	20,369
		37,737	44,057
Shareholders' Equity			
Share capital	7	429,878	429,703
Contributed surplus		23,627	23,047
Accumulated other comprehensive loss		(832)	(473)
Deficit		(296,357)	(300,157)
		156,316	152,120
		$ 194,053	$ 196,177

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

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

		Three months ended June 30,		Six months ended June 30,	
($ thousands)	Note	**2021**	2020	**2021**	2020
Revenue					
Petroleum and natural gas sales including royalty revenue		**$ 7,095**	$ 3,410	**$ 14,141**	$ 10,428
Royalties		**251**	(62)	**(529)**	(782)
Petroleum and natural gas revenue, net of royalties		**7,346**	3,348	**13,612**	9,646
Expenses					
Direct operating		**2,552**	2,531	**5,531**	5,599
General and administrative		**520**	595	**991**	1,345
Depletion, depreciation, accretion	4,5,6	**1,515**	2,282	**3,183**	5,461
Impairment	4,5	**–**	–	**–**	113,001
Lease expiries and farmouts	4,5	**9**	427	**86**	427
Share based compensation	8	**138**	131	**293**	262
Interest expense		**123**	144	**256**	331
Interest and other income		**(402)**	(59)	**(525)**	(197)
Net income (loss) before taxes		**2,891**	(2,703)	**3,797**	(116,583)
Deferred tax recovery		**(1)**	(2)	**(3)**	(6)
Net income (loss)		**2,892**	(2,701)	**3,800**	(116,577)
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income (loss):					
Foreign currency translation adjustment		**(83)**	(78)	**(146)**	233
Gain (loss) on foreign exchange on investments	3	**(114)**	(363)	**(213)**	420
		(197)	(441)	**(359)**	653
Total comprehensive income (loss)		**$ 2,695**	$ (3,142)	**$ 3,441**	$ (115,924)
Net income (loss) per share					
Basic and diluted	7	**$ 0.01**	$ (0.01)	**$ 0.01**	$ (0.27)

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

Condensed Consolidated Interim Statements of Changes in Equity

(unaudited)

		Six months ended June 30,	
($ thousands)	Note	**2021**	2020
Share Capital			
Balance, beginning of period		**$ 429,703**	$ 429,703
Options exercised	7	**175**	–
Balance, end of period		**429,878**	429,703
Contributed Surplus			
Balance, beginning of period		**23,047**	21,700
Share based compensation		**580**	777
Balance, end of period		**23,627**	22,477
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of period		**(473)**	(213)
Other comprehensive income (loss)		**(359)**	653
Balance, end of period		**(832)**	440
Deficit			
Balance, beginning of period		**(300,157)**	(182,534)
Net income (loss)		**3,800**	(116,577)
Balance, end of period		**(296,357)**	(299,111)
Total Shareholders' Equity		**$ 156,316**	$ 153,509

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

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

($ thousands)	Note	*Three months ended June 30,* 2021	2020	*Six months ended June 30,* 2021	2020
Operating Activities					
Net income (loss)		$ 2,892	$ (2,701)	$ 3,800	$ (116,577)
Adjustments for:					
Depletion, depreciation, and accretion	4,5,6	1,515	2,282	3,183	5,461
Impairment	4,5	–	–	–	113,001
Lease expiries and farmouts	4,5	9	427	86	427
Share based compensation	8	138	131	293	262
Deferred tax recovery		(1)	(2)	(3)	(6)
Interest expense		123	144	256	331
Interest and other income		(400)	(60)	(453)	(198)
Abandonment expenditures	6	(52)	(15)	(53)	(35)
Adjusted Funds Flow from Operations		4,224	206	7,109	2,666
Interest paid		(123)	(144)	(256)	(331)
Interest received		48	34	98	172
Change in non-cash working capital		(1,143)	(887)	(866)	1,263
Net cash from (used in) operating activities		3,006	(791)	6,085	3,770
Investing Activities					
Property, plant and equipment expenditures	4	(72)	(58)	(131)	(1,269)
Exploration and evaluation expenditures	5	(378)	(457)	(816)	(2,121)
Change in non-cash working capital		(154)	(2,920)	(1,903)	(5,339)
Net cash used in investing activities		(604)	(3,435)	(2,850)	(8,729)
Financing Activities					
Proceeds from issue of share capital	7	175	–	175	–
Principal portion of lease payments		(13)	(27)	(26)	(54)
Drawdown under credit facilities		4,466	6,154	9,989	15,944
Repayment of credit facilities		(7,000)	(4,100)	(13,400)	(13,000)
Net cash from (used in) financing activities		(2,372)	2,027	(3,262)	2,890
Change in cash, cash equivalents and restricted cash		30	(2,199)	(27)	(2,069)
Cash, cash equivalents and restricted cash, beginning of period		17,703	22,667	17,760	22,537
Cash, cash equivalents and restricted cash, end of period		$ 17,733	$ 20,468	$ 17,733	$ 20,468

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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2021 and 2020 (unaudited)

1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high quality resources. These condensed consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2021 and 2020 comprise the Company and its wholly-owned subsidiaries.

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

These unaudited condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on August 11, 2021.

Segmented Disclosure

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by Questerre's chief operating decision makers comprising of the Chief Executive Officer and other members of Management. The operating segments have been aggregated based on several factors including geographic location and stage of development as well as the assignment of reserves and resources.

The accounting policies applied by the segments are the same as those applied by the Company.

The Company's operating segments are as follows:

- Western Canada – Exploration and development activities in Western Canada including Alberta, Saskatchewan and Manitoba with existing production of natural gas, crude oil and natural gas liquids.
- Quebec – Development of a significant natural gas discovery in the province with a focus on securing social acceptability and regulatory approvals for a clean technology energy project.
- Corporate & other – General and administrative resources to manage the respective operating segments. Includes exploration activities in the Kingdom of Jordan and an investment in Red Leaf Resources Inc. ("Red Leaf").

Segmented assets are those assets associated with each operating segment as recorded on the consolidated balance sheets.

The table below details the breakdown of assets by operating segment to the consolidated balance sheets and the reconciliation of income by operating segment to the consolidated statements of net income (loss) and comprehensive income (loss).

($ thousands)	Western Canada	Quebec	Corporate & other	Consolidated
Assets by operating segment				
Exploration and evaluation	$ 6,436	$ 102,993	$ 5,668	$ 115,097
Property, plant & equipment	48,303	–	–	48,303
Other	4,922	7,398	18,333	30,653
Total assets, June 30, 2021	$ 59,661	$ 110,391	$ 24,001	**$ 194,053**
Exploration and evaluation	$ 6,381	$ 101,946	$ 5,876	$ 114,203
Property, plant & equipment	52,484	–	–	52,484
Other	3,502	7,356	18,632	29,490
Total assets, December 31, 2020	$ 62,367	$ 109,302	$ 24,508	**$ 196,177**
Results by operating segment for six months ended				
Revenue	$ 13,612	$ –	$ –	$ 13,612
Expenses	(8,307)	(493)	(1,015)	(9,815)
Segmented income (loss), June 30, 2021	$ 5,305	$ (493)	$ (1,015)	**$ 3,797**
Deferred tax recovery				3
Total income, June 30, 2021				**$ 3,800**
Revenue	$ 9,646	$ –	$ –	$ 9,646
Expenses	(123,792)	(696)	(1,741)	(126,229)
Segmented loss, June 30, 2020	$ (114,146)	$ (696)	$ (1,741)	**$ (116,583)**
Deferred tax recovery				6
Total loss, June 30, 2020				**$ (116,577)**

2. Significant Accounting Policies

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

The impacts of the global pandemic create significant risks and uncertainties for the Company, its operations and financial performance. These known and unknown risks may materially impact the estimates and assumptions used by Management in preparing these financial statements.

The unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual audited consolidated financial statements. The interim consolidated financial statements note disclosures do not include all of those required by IFRS applicable for annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2020 which have been prepared in accordance with IFRS as issued by the IASB with the exception of deferred taxes. Taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual net income (loss). The disclosures provided below are incremental to those included with the annual consolidated financial

statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only.

The Company has qualified for the Canada Emergency Wage Subsidy ("CEWS") announced by the Federal Government as part of its COVID-19 Economic Response Plan. CEWS provides a 75 per cent wage subsidy to eligible employers subject to the terms and conditions of the program. The amounts received were deducted from the gross expenses incurred by the Company.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the six month period ended June 30, 2021, that are applicable to the Company in future periods. A detailed description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2020.

3. Investment in Red Leaf

Red Leaf is a private Utah-based oil shale and technology company whose principal assets are its proprietary EcoShale technology to recover oil from shale and its oil shale leases in the state of Utah.

Questerre holds 132,293 common shares, representing approximately 38% of the common share capital of Red Leaf and 288 Series A Preferred Shares of Red Leaf representing less than 16% of the issued and outstanding preferred shares capital of Red Leaf.

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

The Company measured the fair market value of its equity investment using a net asset valuation approach. The net assets are estimated as the net current assets of Red Leaf less US$1.3 million representing the original issue price plus accrued but unpaid dividends of the issued and outstanding Series A Preferred Shares as of June 30, 2021. No value was assigned to the non-current assets of Red Leaf for the purposes of determining the fair value of the Company's investment. The Company also evaluated the fair value of the preferred shares held based on the face value including accrued but unpaid dividends as of June 30, 2021.

The investment balance in Red Leaf is comprised of the following:

($ thousands)	**June 30, 2021**	December 31, 2020
Investment	**$ 12,523**	$ 12,856
Equity loss on investment	**(4,747)**	(4,877)
	$ 7,776	$ 7,979

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

($ thousands)	June 30, 2021	December 31, 2020
Balance, beginning of year	$ 7,979	$ 8,439
Equity gain on dividend	–	(228)
Gain (loss) on foreign exchange	(203)	(232)
Balance, end of period	$ 7,776	$ 7,979

For the six months ended June 30, 2021, the loss on foreign exchange relating to investments was $0.2 million (December 31, 2020: $0.3 million) which was recorded in other comprehensive income (loss) net of a deferred tax recovery.

4. Property, Plant and Equipment

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

($ thousands)	Total Assets
Cost or deemed cost:	
Balance, December 31, 2019	$ 285,740
Additions	2,496
Transfer from exploration and evaluation assets	2,687
Balance, December 31, 2020	290,923
Change to asset retirement	(1,116)
Balance, June 30, 2021	$ 289,807
Accumulated depletion, depreciation and impairment losses:	
Balance, December 31, 2019	$ 132,946
Depletion and depreciation	9,236
Impairments	96,257
Balance, December 31, 2020	238,439
Depletion and depreciation	3,065
Balance, June 30, 2021	$ 241,504

($ thousands)	Total Assets
Net book value:	
At December 31, 2020	$ 52,484
At June 30, 2021	$ 48,303

During the six months ended June 30, 2021, the Company did not capitalize any administrative overhead or share based compensation expense directly related to development activities (December 31, 2020: nil). Included in the June 30, 2021 depletion calculation are estimated future development costs of $267.8 million (December 31, 2020: $267.8 million).

Effective June 30, 2021, no indicators of impairment nor indicators to reverse previously incurred impairment were noted.

Effective March 31, 2020, the Company reviewed the carrying amounts of its oil and natural gas assets following the decrease in forward commodity prices at that time. Based on this indicator of impairment, the Company tested its CGUs for impairment in accordance with its accounting policy.

The recoverable amount of the CGUs was estimated based on the fair value less cost of disposal ("FVLCD") using a discounted cash flow model. The impairment testing concluded that the carrying amounts of Montney, Antler and Other Alberta CGUs exceeded their FVLCD. As a result, the Company recorded an impairment expense of $96.3 million in aggregate for the period ended March 31, 2020. The amount attributable to the Montney, Antler and Other Alberta CGUs was respectively $78.2 million, $17.9 million and $0.2 million.

5. Exploration and Evaluation

The following table provides a reconciliation of the Company's exploration and evaluation assets:

($ thousands)		June 30, 2021		December 31, 2020
Balance, beginning of year	$	114,203	$	127,081
Acquisition		–		263
Additions		1,259		4,811
Transfers to property, plant and equipment		–		(2,687)
Undeveloped lease impairments		–		(14,416)
Undeveloped lease expiries and farmouts		(86)		(717)
Foreign currency translation adjustment - Jordan		(279)		(132)
Balance, end of period	$	115,097	$	114,203

During the period ended June 30, 2021, the Company capitalized administrative overhead charges of $1.0 million (December 31, 2020: $1.9 million) including $0.4 million of share based compensation expense (December 31, 2020: $0.9 million) directly related to exploration and evaluation activities.

The Company determined that there were no impairment indicators for its exploration and evaluation assets as of June 30, 2021.

Effective March 31, 2020, as a result of the decline in commodity prices and no future plans to pursue development of its wholly-owned and operated exploration and evaluation assets in Kakwa, the Company impaired exploration and evaluation assets in Kakwa totaling $14.4 million.

In September 2018, the Ministry of Energy and Natural Resources in Quebec (the "Ministry") introduced regulations effectively prohibiting any exploitation of natural gas in the province including the selective prohibition of hydraulic fracturing and increasing setbacks for activity. The Company filed a legal motion requesting a temporary stay and judicial review to have the specific regulations relating to the ban on hydraulic fracturing be set aside. The Company has requested a new hearing date for this judicial review in 2021. Should the Company be unsuccessful in resolving the situation to its satisfaction and the Company's legal motion subsequently denied, the carrying value of its exploration and evaluation assets in Quebec of $102 million as of June 30, 2021, could be materially impaired.

6. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be $19.2 million as at June 30, 2021 (December 31, 2020: $20.4 million) based on an undiscounted total future liability of $21.6 million (December 31, 2020: $22.1 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 1.05% (December 31, 2020: 0.65%). An inflation rate of 2% (June 30, 2020: 2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

The following table provides a reconciliation of the Company's total asset retirement obligation:

($ thousands)	June 30, 2021	December 31, 2020
Balance, beginning of year	$ 20,369	$ 19,571
Liabilities settled	(53)	(59)
Revisions due to change in estimates and discount rates	(1,033)	799
Liabilities incurred	(189)	(43)
Accretion	92	101
Balance, end of period	$ 19,186	$ 20,369

For the period ended June 30, 2021, the Company was awarded government grants for site rehabilitation totaling $0.4 million (2020: nil). $0.1 million in expenditures was incurred in the period and qualified under these grants. The remaining amount under these grants is $0.3 million as of June 30, 2021, and is recorded under deposits, government grants and prepaid expenses.

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At June 30, 2021, there were no Class "B" Common voting shares or preferred shares outstanding.

a) Issued and outstanding – Common Shares

	Number *(thousands)*	Amount *($ thousands)*
Balance, December 31, 2019	427,907	$ 429,703
Shares returned to treasury	(391)	-
Balance, December 31, 2020	427,516	$ 429,703
Options exercised	1,000	175
Balance, June 30, 2021	**428,516**	**$ 429,878**

b) *Per share amounts*

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

	Three months ended June 30,		*Six months ended June 30,*	
(thousands, except as noted)	**2021**	2020	**2021**	2020
Net income (loss)	$ **2,892**	$ (2,701)	$ **3,800**	$ (116,577)
Issued Common Shares at beginning of period	**427,516**	427,516	**427,516**	427,907
Shares returned to treasury	**–**	–	**–**	(196)
Issued on exercised of options	**55**	–	**27**	–
Weighted average Common Shares outstanding	**427,571**	427,516	**427,543**	427,711
Basic net income (loss) per share	$ **0.01**	$ (0.01)	$ **0.01**	$ (0.27)

	Three months ended June 30,		*Six months ended June 30,*	
(thousands, except as noted)	**2021**	2020	**2021**	2020
Net income (loss)	**$ 2,892**	$ (2,701)	**$ 3,800**	$ (116,577)
Weighted average Common Shares outstanding (basic)	**427,571**	427,516	**427,543**	427,711
Effect of outstanding options (diluted)	**172**	–	**263**	–
Weighted average Common Shares outstanding	**427,743**	427,516	**427,806**	427,711
Diluted net income (loss) per share	**$ 0.01**	$ (0.01)	**$ 0.01**	$ (0.27)

Under the current stock option plan, options can be exchanged for Common Shares, or for cash at the Company's discretion. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. During the quarter 1 million options were exercised for proceeds of $0.2 million.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date or one year from the grant date. The grants expire five years from the grant date. The Company accounts for its share based compensation awards on the basis that the options will be equity settled.

For the six months ending June 30, 2021, the Company issued 8.4 million options with a weighted estimated fair value of $0.14 per option. The options were valued using the Black-Scholes option pricing model. The assumptions used by the Company in this pricing model were as follows: Volatility (%): 104.5, Risk Free Rate (%): 0.42, Expected Life (years): 5.0.

For the three months ended June 30, 2021, Questerre cash settled 2.34 million expiring options for a payment of $0.1 million (2020: nil) representing the difference between the exercise and market price on the date of the settlement.

The number and weighted average exercise prices of the stock options are as follows:

	June 30, 2021		December 31, 2020	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	25,351	$ 0.38	27,087	$ 0.40
Granted	8,350	0.18	6,475	0.20
Forfeited/cancelled	(2,344)	0.18	(846)	0.43
Expired	(50)	0.18	(7,365)	0.29
Exercised	(1,000)	0.18	–	–
Outstanding, end of period	30,307	$ 0.35	25,351	$ 0.38
Exercisable, end of period	17,153	$ 0.45	16,191	$ 0.42

9. Liquidity and Capital Management

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 crude oil prices have largely recovered, the volatility arising from the actions of OPEC+ last year and the fallout from the COVID-19 pandemic has impacted the Company's liquidity. The Company continues to prioritize financial liquidity over growth.

At June 30, 2021, $12 million (December 31, 2020: $15.4 million) was drawn on the credit facilities and the Company is compliant with all its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with the covenants for its 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). See Note 11.

The Company considers its capital structure to include shareholders' equity and any outstanding amounts under its credit facilities. The Company will adjust its capital structure to minimize its cost of capital through the issuance of shares, securing credit facilities and adjusting its capital spending. Questerre monitors its capital structure based on the current and projected adjusted funds flow from operations.

($ thousands)	June 30, 2021	December 31, 2020
Credit facilities	$ 12,016	$ 15,427
Shareholders' equity	156,316	152,120

10. Financial Risk Management and Determination of Fair Values

a) *Overview*

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

b) *Fair value of financial instruments*

The Company's financial instruments as at June 30, 2021 included restricted and unrestricted cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at June 30, 2021, the fair values of the Company's financial assets and liabilities approximate their carrying values due to the short-term maturity, with the exception of the Company's investments which are recorded at fair value.

Disclosures about the inputs to fair value measurements are required, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

The Company does not hold any Level 1 financial instruments.

Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

The Company's risk management contracts when held are considered a Level 2 instrument. The Company's derivative instruments are carried at fair value as determined by reference to independent monthly forward settlement prices and currency rates. As of the date of the financial statements the Company does not hold any risk management contracts.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

The Company's fair value measurements included in the impairment calculations for its capital assets and Red Leaf investment are considered Level 3 instruments. The fair values are determined using a discounted cash flow approach.

As at each reporting period, the Company will assess whether a financial asset is impaired, other than those classified as fair value through profit or loss. Any impairment loss will be included in net income (loss) for the period.

c) *Market risk*

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

Commodity price risk

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

As at June 30, 2021, the Company holds no risk management contracts.

d) *Credit risk*

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises principally from the Company's receivables from joint venture partners and oil and gas marketers. The Company manages the credit risk associated with its oil and gas marketers by transacting with high quality counterparties, establishing concentration limits, monitoring credit ratings and if required the posting of guarantees.

11. Credit Facilities

As at June 30, 2021, the credit facilities include a revolving operating demand facility of $17 million ("Facility A") and a uncommitted demand non-conforming revolving facility of $3 million ("Facility D"). Facility A can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. The effective interest rate on the facility for the first half of 2021 was 3.45% (2020: 3.58%). As at June 30, 2021, $12 million was drawn on the facility and the Company held unrestricted cash and term deposits of $10.3 million. The credit facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the credit facility, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2021 was 5.10 and the covenant was met. At June 30, 2021, $12 million (December 31, 2020: $15.4 million) was drawn on the facility.

Following a preliminary review conducted in the third quarter, the Company anticipates Facility A will be reduced from $17 million to $16 million and Facility D will be terminated. The renewal will take effect upon receipt of the final requisite approvals in the third quarter. The next scheduled review is the second quarter of 2022.

In addition to the credit facilities, the lender has issued letters of credit on the Company's behalf to support its operating activities. These letters of credit are secured by restricted cash deposits of $7.4 million at June 30, 2021 (December 31, 2020: $7.4 million).

The credit facilities are demand facilities and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity.

CORPORATE INFORMATION

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

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

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

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

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

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

AUDITORS
PricewaterhouseCoopers LLP
3100, 111 Fifth Avenue SW
Calgary, Alberta T2P 5L3

INDEPENDENT
RESERVOIR ENGINEERS
McDaniel & Associates Consultants Ltd.
2200, 255 Fifth Avenue SW
Calgary, Alberta T2P 3G6

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

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

STOCK INFORMATION
Toronto Stock Exchange
Oslo Stock Exchange
Symbol: QEC

QUESTERRE
ENERGY CORPORATION

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

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

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