

2021 THIRD QUARTER REPORT

QUESTERRE ENERGY CORPORATION



QUESTERRE

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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

The Quebec Premier's announcement of plans to ban oil and gas extraction was very disappointing. This is particularly true for our shareholders, especially from Norway, that believed in the potential of natural gas in Quebec and financed the discovery over the last decade. He has been clear there will be financial compensation though it can never fully compensate us for the size of our giant discovery.

When they were first elected three years ago, the new Government was clear they were looking for social acceptability to support this project. Over the past few years, we co-operated and have achieved material success on this front.

First Nations, farmers, local towns, trade unions all support this project going forward. A very recent poll for the Quebec Energy Association shows that 80% of decided Quebecers support our project with a new technology approach that addresses the risks of fracking. We are confident we have achieved, in all reasonable respects, social acceptability for our project after years of work on the ground.

This Government also announced a new initiative on climate and emissions reductions with ambitious goals. To do our part, we have reoriented our strategy towards net zero emissions energy hubs. Clean Gas production using hydroelectricity combined with carbon capture and recycling or sequestration can achieve real zero emissions without purchasing offsets.

It is widely acknowledged that climate goals simply cannot be met without new emerging carbon technology to reduce the emissions from fossil fuels. Questerre's ambition is to be a leader in the race to net zero and make Quebec a global leader too.

It is not obvious to us why the Quebec Government would be against a project with net zero emissions, social acceptability and large economic benefits. There does not appear to be an obvious public utility in this approach.

Perhaps our approach is disruptive to the existing model. We saw in a recent referendum in Maine that natural gas distributors weighed in to stop the construction of new electricity transmission lines from Quebec presumably because hydroelectricity was seen to be competitive to natural gas. It is possible some see natural gas as potentially disruptive competition.

We intend to maintain the approach that has, step by step, gained supporters and improved public opinion. We plan to be collaborative with Government and other stakeholders, as we advance our compelling option for the environment and energy security. We of course have fiduciary obligations to our shareholders to protect their investment. We are maintaining our legal position and will defend our rights under the *Civil Code of Quebec*, the Quebec Bill of Rights, and the *Expropriation Act* (Quebec).

Norway is an important trading partner and investor for Quebec. With Questerre's majority Norwegian ownership, there is good reason for the province to respect international principles of investor protection within the World Trade Organization and as a matter of international law. Our project is in the traditional territories of the Abenaki First Nation, and we trust the Government will consider the impacts of its decision on reconciliation as well.

While we strongly believe our project is very beneficial to public utility, reconciliation, the global environment, and the economic well-being of Quebecers, we still respect the prerogative of the Government to decide on their behalf. We will do our utmost to cooperate within our fiduciary duties.

A handwritten signature in black ink, appearing to read "Michael Binnion". The signature is fluid and cursive, with a long horizontal stroke at the end.

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 November 10, 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 nine month periods ended September 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:

- clarification by the Government of Quebec of its intentions to end production of fossil fuels in the province

and potential associated compensation;

- 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;
- securing social acceptability in Quebec 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 and increases;
- development plans for the Company’s Kakwa assets;
- the testing of a reservoir in Quebec for carbon storage;
- the assessment of future development costs;
- the need to continue the development of the Company’s producing assets to execute its business strategy;
- legislative and regulatory developments in the Province of Quebec;
- 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:

- clarification by the Government of Quebec of its intentions to end production of fossil fuels in the province and potential associated compensation;

- 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

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net cash from operating activities	\$ 4,202	\$ 76	\$ 10,287	\$ 3,846
Interest received	(54)	(89)	(152)	(261)
Interest paid	111	146	367	477
Change in non-cash operating working capital	(681)	1,490	185	227
Adjusted Funds Flow from Operations	\$ 3,578	\$ 1,623	\$ 10,687	\$ 4,289

This document also contains the terms "operating netbacks" and "working capital surplus (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 surplus (deficit)". Working capital surplus (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 surplus (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

<i>As at/for the period ended September 30,</i>	<i>Three months ended</i>		<i>Nine months ended</i>	
	2021	2020	2021	2020
Financial (\$ thousands, except as noted)				
Petroleum and Natural Gas Sales	7,376	5,391	21,517	15,819
Net Income (Loss)	2,006	(970)	5,806	(117,548)
Basic and diluted (\$/share)	–	–	0.01	(0.27)
Adjusted Funds Flow from Operations	3,578	1,623	10,687	4,289
Basic and diluted (\$/share)	0.01	–	0.02	0.01
Capital Expenditures	541	348	1,488	3,738
Working Capital Surplus (Deficit)	1,698	(8,095)	1,698	(8,095)
Total Assets	192,709	195,925	192,709	195,925
Shareholders' Equity	158,922	152,508	158,922	152,508
Common Shares Outstanding (thousands)	428,516	427,516	428,516	427,516
Weighted average - basic (thousands)	428,516	427,516	427,871	427,646
Weighted average - diluted (thousands)	428,516	427,516	427,992	427,646
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	833	1,187	898	1,309
Natural Gas (Mcf/d)	3,178	4,127	3,655	4,168
Total (boe/d)	1,363	1,875	1,507	2,004
Average Sales Price				
Crude Oil and Natural Gas Liquids (\$/bbl)	80.30	40.95	80.12	39.54
Natural Gas (\$/Mcf)	4.18	2.42	3.39	2.32
Total (\$/boe)	58.83	31.26	52.34	28.82
Netback (\$/boe)				
Petroleum and Natural Gas Sales	58.83	31.26	52.34	28.82
Royalties Expense	(4.12)	(1.83)	(2.54)	(2.00)
Percentage	7%	6%	5%	7%
Direct Operating Expense	(20.62)	(18.27)	(19.74)	(15.94)
Operating Netback	34.09	11.15	30.05	10.88
Wells Drilled				
Gross	1.00	–	1.00	1.00
Net	0.25	–	0.25	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 surplus (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

- Quebec Premier announces plans to renounce oil and gas extraction in Quebec
- Submitted application for carbon storage test in Quebec
- Wolinak Abenaki First Nation in Quebec executes letter of interest for Clean Gas project
- Average daily production of 1,363 boe/d and adjusted funds flow from operations of \$3.6 million in the quarter

Third Quarter 2021 Activities

Kakwa, Alberta

The operator of the Kakwa Central acreage resumed drilling during the quarter. The Company participated in the first well (0.25 net) that should be completed and tied-in during the first half of 2022. The Company intends to participate in the drilling of up to two (0.5 net) additional wells on this acreage over the next quarter.

The Company's participation in any future wells will depend on among other things, sustained strength in long-term oil prices. Should the Company participate, it may 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

Notwithstanding the Quebec Government's recent announcement on renouncing hydrocarbon extraction, Questerre continued to advance the first stage of its Clean Tech Energy pilot, carbon storage.

In the opening speech for the second parliamentary session of the 42nd legislature of the National Assembly, the Quebec Premier announced the intention of the Government to end production of fossil fuels. The Premier subsequently noted that the Government is investing the legal and financial resources required to assess the potential compensation.

To date, the Government has not provided any further clarification on the details of this renunciation and the compensation. The Company will continue to monitor developments relating to these matters and the impact on its Quebec assets. At the present time, the Company remains committed to working with all stakeholders as well as securing social acceptability and regulatory approvals for its Clean Tech Energy project.

During the quarter, Questerre filed an application with the Ministry of Energy and Natural Resources to test a reservoir for carbon storage. The operation will consist primarily of an injectivity test to gather data on both the safe rate of injection and storage potential. The Company identified the storage formation earlier this year after studying its proprietary seismic and well data. It holds the exclusive right to explore for reservoirs over one million acres in Quebec.

With several stakeholders expressing interest in the Clean Tech Energy project, the Company continued to make progress on social acceptability.

The Wolinak Abenaki Council in Quebec executed a letter of interest for the Company's Clean Tech Energy pilot including carbon storage. Earlier this year, a local town adjacent to the Company's discovery well also expressed interest in a similar pilot project. The Company also received a letter from a local farming group interested in the development of local Clean Gas.

Corporate

The Company's credit facilities with a Canadian chartered bank were renewed at \$16 million during the quarter. Any borrowing under the facilities, except letters of credit are subject to the Bank's prime rate and applicable basis point margin. The effective interest rate on the facility for the first nine months of 2021 was 3.45% (2020: 3.45%). As at September 30, 2021, \$7.4 million (2020: \$16.2 million) was drawn on the facility and the Company held unrestricted cash and term deposits of \$9.5 million (2020: \$9.7 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 review is scheduled for the second quarter of 2022.

Production

<i>Three months ended September 30,</i>	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	554	3,178	1,084	861	4,127	1,549
Saskatchewan and Manitoba	279	–	279	326	–	326
	833	3,178	1,363	1,187	4,127	1,875

<i>Nine months ended September 30,</i>	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	602	3,655	1,211	942	4,168	1,637
Saskatchewan and Manitoba	296	–	296	367	–	367
	898	3,655	1,507	1,309	4,168	2,004

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

Production decreased over the prior year both on a quarterly and year to date basis. The variance is attributable to natural declines that were not offset by drilling at Kakwa.

Consistent with prior periods, Kakwa accounted for 80% of corporate volumes with royalty production from Kakwa North accounting for approximately 12% of these volumes (2020: 13%). Approximately 25% of the production decline during the quarter was attributable to a plant turnaround and reduced deep cut processing capacity at Kakwa. The latter reduced natural gas volumes in the last two quarters but increased the heat content, resulting in higher realized prices on a per unit basis.

The Company's oil and liquids weighting remained stable at 60% both for the quarter and year to date. Representing the remaining 20% of corporate volumes in the current year, production from Saskatchewan and Manitoba also declined naturally over the prior year.

With no additional wells scheduled to come on production in the next three to six months, the Company anticipates its production volumes will decline. Depending when the new wells at Kakwa are tied-in, the Company expects its production will increase in the second half of 2022.

Third Quarter 2021 Financial Results

Petroleum and Natural Gas Sales

<i>Three months ended September 30,</i>	2021			2020		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 4,008	\$ 1,201	\$ 5,209	\$ 2,949	\$ 919	\$ 3,868
Saskatchewan and Manitoba	2,167	–	2,167	1,523	–	1,523
	\$ 6,175	\$ 1,201	\$ 7,376	\$ 4,472	\$ 919	\$ 5,391

<i>Nine months ended September 30,</i>	2021			2020		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
<i>(\$ thousands)</i>						
Alberta	\$ 11,868	\$ 3,463	\$ 15,331	\$ 8,737	\$ 2,578	\$ 11,315
Saskatchewan and Manitoba	6,186	–	6,186	4,504	–	4,504
	\$ 18,054	\$ 3,463	\$ 21,517	\$ 13,241	\$ 2,578	\$ 15,819

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

Although production volumes declined in the current year, they were more than offset by higher commodity prices, resulting in a nearly 40% increase in petroleum and natural gas sales for both the quarter and year to date periods.

Pricing

	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2021	2020	2021	2020
Benchmark prices:				
Natural Gas - AECO, daily spot (\$/Mcf)	3.38	2.12	3.03	1.98
Crude Oil - Mixed Sweet Blend (\$/bbl)	83.93	49.31	78.23	45.02
Realized prices:				
Natural Gas (\$/Mcf)	4.18	2.42	3.39	2.32
Crude Oil and Natural Gas Liquids (\$/bbl)	80.30	40.95	80.12	39.54

Improving materially over last year, rising crude oil prices sustained their momentum into the third quarter of this year. The benchmark West Texas Intermediate averaged US\$70.91/bbl (2020: US\$40.43/bbl) for the quarter and US\$64.75/bbl for the first nine months (2020: US\$37.86/bbl).

The supply demand balance has tightened as rising global economic activity restores demand to near pre-pandemic levels and supply is maintained by OPEC+ compliance with unwinding production cuts and fiscal discipline by North American producers. This has resulted in falling global inventories including those in the United States that were also impacted by the supply disruptions caused by Hurricane Ida. In Canada, differentials remained strong due to reduced supply from major turnarounds and increasing egress capacity including the completion of Enbridge's Line 3 replacement. The differential in the quarter between WTI and the Canadian condensate prices was a discount of US\$1.32/bbl compared to a discount of US\$3.38/bbl last year.

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

Natural gas prices improved more significantly during the quarter. The benchmark Henry Hub price averaged US\$4.36/MMBtu for the quarter (2020: US\$1.98/MMBtu) and US\$3.62/MMBtu for the nine months ended September 30, 2021 (2020: US\$1.88/MMBtu).

The price increases in the third quarter reflect a tight market in North America and, to some extent, internationally. Storage levels in the United States are below the five-year average as relatively stable production despite rising rig counts is met by growing demand from exports via LNG and pipeline to Mexico that now account for nearly 18% of total demand. Rising LNG imports in Asia and reduced LNG supplies globally have seen prompt Asian benchmark prices increase to over US\$30/MMBtu with recent spikes to US\$56/MMBtu. Europe has seen a four-fold increase in prices driven by unreliable renewable power and a shortage of supply due to lower imports from Russia and increased LNG demand from Asia. In Canada, the differential between the NYMEX and AECO benchmark prices increased in part due to pipeline maintenance.

Realized natural gas prices, reflecting the higher heat content from Kakwa gas production, averaged \$4.18/Mcf (2020: \$2.42/Mcf) compared to the AECO spot price of \$3.39/Mcf (2020: \$2.12/Mcf).

Royalties

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Alberta	\$ 362	\$ 198	\$ 597	\$ 720
Saskatchewan and Manitoba	155	119	449	379
	\$ 517	\$ 317	\$ 1,046	\$ 1,099
% of Revenue:				
Alberta	7%	5%	4%	6%
Saskatchewan and Manitoba	7%	8%	7%	8%
Total Company	7%	6%	5%	7%

For the quarter ended September 30, 2021, gross royalties increased over the prior year due to higher commodity prices. For the nine months ended September 30, 2021, these amounts remained largely flat due to a \$0.8 million royalty credit received in the second quarter (2020: \$0.4 million).

Royalties on Kakwa production include credits from the Crown for processing its share of production through the Company's facilities. The credit received in 2021 was higher than prior years due to an increase in the facility effective royalty rate at Kakwa. Excluding this credit, royalties on production from Alberta almost doubled due to higher prices and the expiration of royalty incentive programs for older wells.

Royalties on production from Saskatchewan and Manitoba decreased slightly to 7% from 8% for both periods, consistent with the year-end rate of 7%.

Operating Costs

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Alberta	\$ 1,991	\$ 2,473	\$ 6,038	\$ 6,288
Saskatchewan and Manitoba	493	451	1,807	2,078
Quebec	102	227	272	384
	\$ 2,586	\$ 3,151	\$ 8,117	\$ 8,750
\$/boe:				
Alberta	19.96	17.35	18.28	14.03
Saskatchewan and Manitoba	19.23	15.03	22.38	20.64
Total Company	20.62	18.27	19.74	15.94

Operating costs for the quarter ended September 30, 2021, decreased by 20% compared to last year. For the nine-month period then ended, the decrease was more nominal at under 10%. As the majority of the operating costs incurred are fixed and not impacted by the lower production volumes, costs on a boe basis increased in both periods.

In Alberta, Kakwa costs decreased over the prior year due to a restructuring of the Company's firm transportation and processing commitments completed last year. In the current year, the Company also recorded a 20% increase or approximately \$0.15 million for the thirteen-month adjustment that reallocated plant operating costs based on actual volumes. Year to date operating costs declined marginally with reductions in the categories above offset by increases in others including fuel and power.

In Saskatchewan, operating costs in the quarter increased over the prior year due to workovers that were deferred last year due to lower commodity prices. Comparable operating costs in Quebec declined over the prior year as in 2020 they included several one-time items associated with the acquisition that closed effective December 31, 2019.

General and Administrative Expenses

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
General and administrative expenses, gross	\$ 951	\$ 599	\$ 2,463	\$ 2,484
Capitalized expenses and overhead recoveries	(210)	(239)	(731)	(779)
General and administrative expenses, net	\$ 741	\$ 360	\$ 1,732	\$ 1,705

For the quarter ended September 30, 2021, gross general and administrative expenses ("G&A") increased by approximately 60% from the prior year and remained flat for the nine months ended September 30, 2021. This quarter, the Company did not receive any assistance under the Canada Emergency Wages Subsidy, part of the Government's pandemic financial assistance program. In the prior year, the company recorded credits of \$0.2 million under this program. Year to date, the higher salary expense and legal costs offset by reductions in other categories resulted in no change. Capitalized expenses remained constant and represent the overhead related to the Company's projects in Quebec and Jordan.

Depletion, Depreciation, Accretion and Impairment

For the three months ended September 30, 2021, Questerre recorded depletion, depreciation and accretion expense of \$1.4 million (2020: \$2.1 million) with depletion accounting for over 95% of this amount. For the nine months then ended, this totalled \$4.6 million (2020: \$7.6 million). The variance over the prior year in both periods is due to the lower production volumes. With lower future development costs in the current year, this translated into a decline on a boe basis to \$10.81 in 2021 from \$12.15 last year.

Upon an assessment of current market conditions, no potential indicators of impairment or reversals of impairment were noted as of September 30, 2021, and the Company did not assess the carrying values of its cash generating units ("CGUs"). As a result, Questerre recorded no impairment expense or reversal of prior period impairment for the period.

By comparison for the nine month period ended September 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.

Upon an assessment of current market conditions, the Company also determined that there were no impairment indicators relating to its exploration and evaluation (“E&E”) assets as at September 30, 2021. As a result, no impairment was incurred for the period then ended.

For the nine months ended September 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

For the nine months ended September 30, 2021, the Company incurred interest expense of \$0.4 million, nominally less than the prior year amount of \$0.5 million. The amounts relate to its credit facilities with a Canadian chartered bank. As at September 30, 2021, the amount drawn on the facilities was \$7.4 million (2020: \$16.2 million) and the effective interest rate was 3.45% (2020: 3.45%). The Company also earned interest income of \$0.2 million (2020: \$0.4 million) on its cash and term deposits for the period.

Year to date, the Company recorded other income of \$0.4 million (2020: nil) 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 \$0.4 million (2020: \$0.4 million) net of \$0.8 million in expense capitalized during the period (2020: \$0.7 million).

Other Comprehensive Income (Loss) and Expenses

In 2021, the Company recorded other comprehensive income of \$0.4 million for the third quarter (2020: \$0.4 million loss) and a negligible loss year to date (2020: \$0.3 million income). These amounts relate to the impact of changes in foreign exchange for the respective periods. The appreciation of the Jordanian dinar resulted in a gain of \$0.1 million (2020: \$0.2 million loss) on the Company’s dinar denominated assets in the country for the quarter. For the same period, the appreciation in the US dollar resulted in a gain of \$0.2 million (2020: \$0.2 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 \$2.0 million (2020: \$1.0 million loss) and year to date it was \$5.8 million (2020: \$117.6 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 third quarter of the year was \$2.4 million (2020: \$1.3 million loss) and year to date it was \$5.8 million (2020: \$117.2 million loss).

Cash Flow from Operating Activities

For the nine months ended September 30, 2021, net cash from operating activities was \$10.3 million compared to \$3.8 million last year. The variance is due to the higher adjusted funds flow from operations in the current year. For the quarter, the higher adjusted funds flow and increase 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 third quarter was \$0.4 million and increased over the prior year due to higher capital spending partly offset by a smaller increase in non-cash working capital related to capital investing. 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 third quarter of this year, net cash used in financing activities of \$4.6 million reflects the net repayment of its credit facilities. Similarly in the prior year, the Company had a net repayment of \$3.2 million. For the year to date periods, the cash flow from financing reflects the net repayments in both years.

Capital Expenditures

<i>(\$ thousands)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2021	2020	2021	2020
Alberta	\$ 306	\$ 133	\$ 402	\$ 2,219
Saskatchewan, Manitoba and Jordan	31	108	88	581
Quebec	204	107	998	938
Total Company	\$ 541	\$ 348	\$ 1,488	\$ 3,738

For the nine months ended September 30, 2021, the Company incurred capital expenditures of \$1.5 million as follows:

- In Quebec, \$1 million for capitalized overhead related to engineering and securing social acceptability for its Clean Tech Energy project; and
- \$0.5 million was invested in maintenance for the Company's other assets.

For the nine months ended September 30, 2020, the Company incurred capital expenditures of \$3.7 million as follows:

- In Alberta, \$2.2 million was invested to drill a well and expand gas-lift infrastructure on the Kakwa Central joint venture acreage with negligible spending in the second and third quarter of the year;
- In Quebec, \$0.9 million for capitalized overhead related to engineering and securing social acceptability for its Clean Tech Energy project; and
- \$0.6 million for infrastructure for its pressure maintenance pilot in Saskatchewan along with capitalized overhead related to Jordan.

Share Capital

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

<i>(thousands)</i>	November 10, 2021	September 30, 2021	December 31, 2020
Common Shares	428,516	428,516	427,516
Stock Options	30,307	30,307	25,351
Weighted average common shares			
Basic		427,871	427,613
Diluted		427,992	427,613

A summary of the Company’s stock option activity for the nine months ended September 30, 2021, and the year ended December 31, 2020 follows:

	September 30, 2021		December 31, 2020	
	Number of Options <i>(thousands)</i>	Weighted Average Exercise Price	Number of Options <i>(thousands)</i>	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	19,141	\$ 0.43	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. The Company continues to prioritize financial liquidity over growth.

At September 30, 2021, \$7.4 million (September 30, 2020: \$16.2 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 September 30, 2021 was 4.32 and the covenant was met. See Note 11 of the Financial Statements.

The credit facilities were renewed in the third quarter of 2021 for \$16 million. The credit facilities are a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. In the current market the Company may be unable to secure additional financing on acceptable terms, if at all. The next review is scheduled for the second quarter of 2022.

On the assumption that commodity prices continue to remain stable 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.

Subject to the Kakwa operators' plans for future development, 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 September 30, 2021 are as follows:

<i>(\$ thousands)</i>	2021	2022	2023	2024	Thereafter	Total
Transportation and Processing	\$ 2,320	\$ 3,337	\$ 3,062	\$ 2,972	\$ 3,618	\$ 15,309

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, 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 October 2021, the Quebec Premier announced the intention of the Government to end production of fossil fuels. To date, the Government has not provided any further clarification on the details of this renunciation and the compensation. The Company will continue to monitor developments relating to these matters and the impact on its Quebec assets.

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 \$0.05 million at September 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 September 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 September 30, 2021, the Company had credit facilities outstanding of \$7.4 million (September 30, 2020: \$16.4 million) with an effective rate of 3.45% (2020: 3.45%).

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* 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 March 31, 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 July 1, 2021 and ended on September 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

	Sept 30	June 30	Mar 31	Dec 31
<i>(\$ thousands, except as noted)</i>	2021	2021	2021	2020
Production (boe/d)	1,363	1,479	1,679	1,851
Average Realized Price (\$/boe)	58.83	52.72	46.62	35.85
Petroleum and Natural Gas Revenue	7,376	7,095	7,046	6,105
Adjusted Funds Flow from Operations	3,578	4,224	2,885	1,857
Net Income (Loss)	2,006	2,892	908	(75)
Basic and Diluted (\$/share)	–	0.01	–	–
Capital Expenditures, net of acquisitions and dispositions	541	450	497	1,621
Working Capital Surplus (Deficit)	1,698	(1,243)	(5,449)	(7,705)
Total Assets	192,709	194,053	194,417	196,177
Shareholders' Equity	158,922	156,316	153,108	152,120
Weighted Average Common Shares Outstanding				
Basic (thousands)	428,516	427,571	427,516	427,516
Diluted (thousands)	428,516	427,743	427,879	427,516

	Sept 30	June 30	Mar 31	Dec 31
<i>(\$ thousands, except as noted)</i>	2020	2020	2020	2019
Production (boe/d)	1,875	2,058	2,078	2,160
Average Realized Price (\$/boe)	31.26	18.20	37.12	45.52
Petroleum and Natural Gas Revenue	5,391	3,410	7,018	9,033
Adjusted Funds Flow from Operations	1,623	206	2,460	4,108
Net Income (Loss)	(970)	(2,702)	(113,876)	67,414
Basic and Diluted (\$/share)	–	(0.01)	(0.27)	0.14
Capital Expenditures, net of acquisitions and dispositions	348	515	2,875	4,868
Working Capital Surplus (Deficit)	(8,095)	(9,272)	(8,603)	(8,111)
Total Assets	195,925	201,255	204,782	318,062
Shareholders' Equity	152,508	153,509	156,263	268,656
Weighted Average Common Shares Outstanding				
Basic (thousands)	427,516	427,516	427,907	427,907
Diluted (thousands)	427,516	427,516	427,907	428,022

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 generally in 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 in new wells over the last 18 months, the production volumes have declined.

- The level of capital expenditures over the quarters has generally declined as capital spending has been limited to preserve financial liquidity.
- 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, the working capital deficit has been gradually eliminated as adjusted funds flow from operations has exceeded capital expenditures.
- Shareholders' equity has generally decreased due to the net losses realized. For the last three quarters, it increased due to the net income in the periods. 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 September 30, 2021.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended September 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 September 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)*

<i>(\$ thousands)</i>	Note	September 30, 2021	December 31, 2020
Assets			
Current Assets			
Cash and cash equivalents		\$ 9,486	\$ 10,404
Accounts receivable		3,446	2,683
Deposits, government grants and prepaid expenses		1,453	819
		14,385	13,906
Right-of-use assets		209	249
Investments	3	7,999	7,979
Property, plant and equipment	4	46,874	52,484
Exploration and evaluation	5	115,825	114,203
Restricted cash	11	7,417	7,356
		\$ 192,709	\$ 196,177
Liabilities			
Current Liabilities			
Lease liabilities		\$ 51	\$ 50
Accounts payable and accrued liabilities		5,272	6,186
Credit facilities	11	7,415	15,427
		12,738	21,663
Lease liabilities		168	205
Contingent liabilities		1,820	1,820
Asset retirement obligation	6	19,061	20,369
		33,787	44,057
Shareholders' Equity			
Share capital	7	429,878	429,703
Contributed surplus		23,876	23,047
Accumulated other comprehensive loss		(481)	(473)
Deficit		(294,351)	(300,157)
		158,922	152,120
		\$ 192,709	\$ 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)*

(\$ thousands)	Note	Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Revenue					
Petroleum and natural gas sales including royalty revenue		\$ 7,376	\$ 5,391	\$ 21,517	\$ 15,819
Royalties		(517)	(317)	(1,046)	(1,099)
Petroleum and natural gas sales, net of royalties		6,859	5,074	20,471	14,720
Expenses					
Direct operating		2,586	3,151	8,117	8,750
General and administrative		741	360	1,732	1,705
Depletion, depreciation, accretion	4,5,6	1,424	2,137	4,607	7,580
Impairment	4,5	–	–	–	113,019
Lease expiries and farmouts	4,5	–	289	86	717
Share based compensation	8	103	128	396	390
Interest expense		111	146	367	477
Interest and other income		(110)	(165)	(635)	(362)
Net income (loss) before taxes		2,004	(972)	5,801	(117,556)
Deferred tax recovery		(2)	(2)	(5)	(8)
Net income (loss)		2,006	(970)	5,806	(117,548)
Other comprehensive income (loss), net of tax					
<i>Items that may be reclassified subsequently to net income (loss):</i>					
Foreign currency translation adjustment		134	(162)	(12)	71
Gain (loss) on foreign exchange on investments	3	217	(190)	4	230
		351	(352)	(8)	301
Total comprehensive income (loss)		\$ 2,357	\$ (1,322)	\$ 5,798	\$ (117,247)
Net income (loss) per share					
Basic and diluted	7	\$ –	\$ –	\$ 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)

(\$ thousands)	Note	Nine months ended September 30,	
		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		829	1,099
Balance, end of period		23,876	22,799
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of period		(473)	(213)
Other comprehensive income (loss)		(8)	301
Balance, end of period		(481)	88
Deficit			
Balance, beginning of period		(300,157)	(182,534)
Net income (loss)		5,806	(117,548)
Balance, end of period		(294,351)	(300,082)
Total Shareholders' Equity		\$ 158,922	\$ 152,508

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 September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Operating Activities					
Net income (loss)		\$ 2,006	\$ (970)	\$ 5,806	\$ (117,548)
Adjustments for:					
Depletion, depreciation, and accretion	4,5,6	1,424	2,137	4,607	7,580
Impairment	4,5	–	–	–	113,019
Lease expiries and farmouts	4,5	–	289	86	717
Share based compensation	8	103	128	396	390
Deferred tax recovery		(2)	(2)	(5)	(8)
Interest expense		111	146	367	477
Interest and other income		(57)	(89)	(510)	(287)
Abandonment expenditures	6	(7)	(16)	(60)	(51)
Adjusted Funds Flow from Operations		3,578	1,623	10,687	4,289
Interest paid		(111)	(146)	(367)	(477)
Interest received		54	89	152	261
Change in non-cash working capital		681	(1,490)	(185)	(227)
Net cash from operating activities		4,202	76	10,287	3,846
Investing Activities					
Property, plant and equipment expenditures	4	(223)	113	(354)	(1,156)
Exploration and evaluation expenditures	5	(318)	(461)	(1,134)	(2,582)
Change in non-cash working capital		125	342	(1,778)	(4,997)
Net cash used in investing activities		(416)	(6)	(3,266)	(8,735)
Financing Activities					
Proceeds from issue of share capital	7	–	–	175	–
Principal portion of lease payments		(13)	(18)	(39)	(72)
Drawdown under credit facilities		3,397	4,551	13,386	20,495
Repayment of credit facilities		(8,000)	(7,700)	(21,400)	(20,700)
Net cash used in financing activities		(4,616)	(3,167)	(7,878)	(277)
Change in cash, cash equivalents and restricted cash		(830)	(3,097)	(857)	(5,166)
Cash, cash equivalents and restricted cash, beginning of period		17,733	20,468	17,760	22,537
Cash, cash equivalents and restricted cash, end of period		\$ 16,903	\$ 17,371	\$ 16,903	\$ 17,371

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 nine months ended September 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 nine months ended September 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 November 10, 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).

<i>(\$ thousands)</i>	Western Canada	Quebec	Corporate & other	Consolidated
Assets by operating segment				
Exploration and evaluation	\$ 6,710	\$ 103,282	\$ 5,833	\$ 115,825
Property, plant & equipment	46,874	–	–	46,874
Other	4,899	7,417	17,694	30,010
Total assets, September 30, 2021	\$ 58,483	\$ 110,699	\$ 23,527	\$ 192,709
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 nine months ended				
Revenue	\$ 20,471	\$ –	\$ –	\$ 20,471
Expenses	(12,139)	(671)	(1,860)	(14,670)
Segmented income (loss), September 30, 2021	\$ 8,332	\$ (671)	\$ (1,860)	\$ 5,801
Deferred tax recovery				5
Total income, September 30, 2021				\$ 5,806
Revenue	\$ 14,720	\$ –	\$ –	\$ 14,720
Expenses	(129,283)	(783)	(2,210)	(132,276)
Segmented loss, September 30, 2020	\$ (114,563)	\$ (783)	\$ (2,210)	\$ (117,556)
Deferred tax recovery				8
Total loss, September 30, 2020				\$ (117,548)

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 percent 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 nine month period ended September 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 40% of the common share capital of Red Leaf and 288 Series A Preferred Shares of Red Leaf representing less than 16% of the issued and outstanding preferred shares capital of Red Leaf.

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

The Company 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 September 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 September 30, 2021.

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

<i>(\$ thousands)</i>	September 30, 2021	December 31, 2020
Investment	\$ 12,879	\$ 12,856
Equity loss on investment	(4,880)	(4,877)
	\$ 7,999	\$ 7,979

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

<i>(\$ thousands)</i>	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 7,979	\$ 8,439
Equity gain on dividend	–	(228)
Gain (loss) on foreign exchange	20	(232)
Balance, end of period	\$ 7,999	\$ 7,979

For the nine months ended September 30, 2021, the gain on foreign exchange relating to investments was minimal (December 31, 2020: \$0.3 million loss) 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:

<i>(\$ thousands)</i>	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	(1,196)
Balance, September 30, 2021	\$ 289,727
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	4,414
Balance, September 30, 2021	\$ 242,853

<i>(\$ thousands)</i>	Total Assets
Net book value:	
At December 31, 2020	\$ 52,484
At September 30, 2021	\$ 46,874

During the nine months ended September 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 September 30, 2021 depletion calculation are estimated future development costs of \$267.8 million (December 31, 2020: \$267.8 million).

Based on the assessment of the current environment, effective September 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:

<i>(\$ thousands)</i>	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 114,203	\$ 127,081
Acquisition	–	263
Additions	1,848	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	(140)	(132)
Balance, end of period	\$ 115,825	\$ 114,203

During the period ended September 30, 2021, the Company capitalized administrative overhead charges of \$1.4 million (December 31, 2020: \$1.9 million) including \$0.6 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 September 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 October 2021, the Quebec Premier announced the intention of the Government to end production of fossil fuels. To date, the Government has not provided any further clarification on the details of this renunciation and the compensation. The Company will continue to monitor developments relating to these matters and the impact on its Quebec assets. At the present time, the Company remains committed to working with all stakeholders as well as securing social acceptability and regulatory approvals for its Clean Tech Energy project.

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 \$19.1 million as at September 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 1.15% (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:

<i>(\$ thousands)</i>	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 20,369	\$ 19,571
Liabilities settled	(60)	(59)
Revisions due to change in estimates and discount rates	(1,247)	799
Liabilities incurred	(154)	(43)
Accretion	153	101
Balance, end of period	\$ 19,061	\$ 20,369

For the period ended September 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 September 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 September 30, 2021, there were no Class "B" Common voting shares or preferred shares outstanding.

a) Issued and outstanding – Common Shares

	Number <i>(thousands)</i>	Amount <i>(\$ thousands)</i>
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, September 30, 2021	428,516	\$ 429,878

b) *Per share amounts*

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

<i>(thousands, except as noted)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2021	2020	2021	2020
Net income (loss)	\$ 2,006	\$ (970)	\$ 5,806	\$ (117,548)
Issued Common Shares at beginning of period	428,516	427,516	427,516	427,646
Issued on exercised of options	–	–	355	–
Weighted average Common Shares outstanding	428,516	427,516	427,871	427,646
Basic net income (loss) per share	\$ –	\$ –	\$ 0.01	\$ (0.27)

<i>(thousands, except as noted)</i>	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2021	2020	2021	2020
Net income (loss)	\$ 2,006	\$ (970)	\$ 5,806	\$ (117,548)
Weighted average Common Shares outstanding (basic)	428,516	427,516	427,871	427,646
Effect of outstanding options (diluted)	–	–	121	–
Weighted average Common Shares outstanding	428,516	427,516	427,992	427,646
Diluted net income (loss) per share	\$ –	\$ –	\$ 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.

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 nine months ending September 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 nine months ended September 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:

	September 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	19,141	\$ 0.43	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. The Company continues to prioritize financial liquidity over growth.

At September 30, 2021, \$7.4 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.

	September 30, 2021	December 31, 2020
<i>(\$ thousands)</i>		
Credit facilities	\$ 7,415	\$ 15,427
Shareholders' equity	158,922	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 September 30, 2021 included restricted and unrestricted cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at September 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 September 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 September 30, 2021, the credit facilities were renewed at \$16 million, including a revolving operating demand facility of \$16 million ("Facility A"). 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 nine months of 2021 was 3.45% (2020: 3.45%). As at September 30, 2021, \$7.4 million (December 31, 2020: \$15.4 million) was drawn on the facility and the Company held unrestricted cash and term deposits of \$9.5 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 September 30, 2021 was 4.32 and the covenant was met.

The credit facilities are demand facilities and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. The next review is scheduled for 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 September 30, 2021 (December 31, 2020: \$7.4 million).

CORPORATE INFORMATION

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Hans Jacob Holden
Dennis Sykora
Bjorn Inge Tonnessen

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