Q3

2013

QUARTERLY REPORT

QUESTERRE ENERGY CORPORATION

2013

QUESTERRE ENERGY CORPORATION IS LEVERAGING ITS EXPERTISE GAINED THROUGH EARLY EXPOSURE TO SHALE AND OTHER NON-CONVENTIONAL RESERVOIRS.

THE COMPANY HAS BASE PRODUCTION AND RESERVES IN THE TIGHT OIL BAKKEN/TORQUAY OF SOUTHEAST SASKATCHEWAN.

IT IS BRINGING ON PRODUCTION FROM ITS LANDS IN THE HEART OF THE HIGH-LIQUIDS MONTNEY SHALE FAIRWAY.

IT IS A LEADER ON SOCIAL LICENSE TO OPERATE ISSUES FOR ITS GIANT UTICA SHALE GAS DISCOVERY IN QUEBEC.

IN CONJUNCTION WITH A SUPERMAJOR, IT IS AT THE LEADING EDGE OF COMMERCIALIZING A PROVEN PROCESS TO UNLOCK THE MASSIVE RESOURCE POTENTIAL OF OIL SHALE.

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 TRADE ON THE TORONTO STOCK EXCHANGE AND OSLO STOCK EXCHANGE UNDER THE SYMBOL QEC.

President's Message

This quarter we laid the groundwork for developing our Montney acreage in the Kakwa-Resthaven area of Alberta.

We executed the first of several take-or-pay contracts representing 6,000 boe/d for our gas and liquids. These will take all our products from the 'wellhead to the burner tip', an approach that is critical in the current NGL market. These agreements also leverage third party capital to finance infrastructure costs for full development.

To meet our take-or-pay commitments, we have embarked on an aggressive drilling plan for the fourth quarter. We will see two gross wells in north Kakwa and will also spud a high-impact 100% well in south Kakwa. In addition, we will see four wells in Antler. In spite of losing an estimated 500 boe/d due to the control of well incident on the 09-01Well, we may yet reach our exit target of 1,500 boe/d with the activity ramp up and our new central facilities at Kakwa.

Highlights

- Concluded processing agreement for 20 MMcf/d plus liquids at Kakwa-Resthaven area to guarantee market access
- Fifth liquids-rich Montney well tests at gross rates of 1,400 boe/d with condensate rates of 195 bbls/MMcf
- Successful drilling program in Pierson, Manitoba adds 230 bbls/d of light oil production in September
- Expanded pilot waterflood for light oil pool at Antler, Saskatchewan
- Average daily production in quarter of 880 boe/d with shut-in production of 170 boe/d and cash flow of $3.64 million

Kakwa-Resthaven, Alberta

A recent report by the National Energy Board, the Alberta Energy Regulator, the BC Oil & Gas Commission and the BC Ministry of Natural Gas Development estimates the Montney to be larger than some of the US shale plays including the Marcellus and the Haynesville. Marketable volumes are estimated at 449 Tcf of natural gas, 14.5 billion barrels of liquids and 1.1 billion barrels of oil.

We believe our wells, and the offsetting industry wells, position us in one of the most economic sweet spots for this play in Alberta. Condensate rates for our producing wells have averaged between 140 to 180 bbls/MMcf with our last well, the 05-23 Well, testing at over 190 bbls/MMcf. It is these high condensate rates that contribute to the robust economics for this play. We think these economics can be enhanced further with the benefits of the learning curve in reducing capital costs and increasing recoveries on a per well basis.

Some of these benefits are materializing sooner than we expected. We have lowered our drilling and completion costs from about $10 million to about $8 million per well over our first four wells. These are all based on single wells with laterals of about one mile. As we move to multi-well pads with 1.5 to 2 mile laterals in full development, we should see further cost reductions. We are also assessing alternative completion programs with our first slickwater frac on the 05-23 Well. We expect to see results of the new completion in the first six to nine months of production.

Access to infrastructure for this well and our other joint venture wells remains a key issue in the short term.

Although the operator is able to knock out condensate at the wellhead for all of our joint venture wells, they are currently unable to extract other natural gas liquids due to a lack of available processing and transportation capacity. These are 'rejected into' or included in the natural gas production that is only paid based on the heating value of these products. On average, this is approximately 20% of their value as spec products. Excluding the economic impact, we do not believe this is a long term solution for development as there are limits to how much liquids can be included to meet pipeline specifications for natural gas. With growth in liquids volumes in the area rapidly outpacing proposed infrastructure expansions, this could ultimately lead to liquids-rich wells with no access to market to be shut-in.

Since all these liquids cannot be included in the natural gas stream, some such as butane must be included in the condensate stream and the joint venture is only paid for a portion of the volumes. On the remaining volumes of liquids included in the condensate stream, the joint venture is paid nothing. This however allows wells to be kept on production in the short term. We estimate that the benefits of market access, or processing and marketing these liquids, represent about $2.4 million or about 15% of our NPV-10 on a per well basis.

It is these economics benefits and, more importantly, the ability to produce wells consistently under full field development of our operated acreage that underscore the importance of our infrastructure strategy.

The drilling program to meet our infrastructure commitments will focus on the north Kakwa acreage where there are approximately 190 gross (90 net) locations based on eight wells per section and just over 11 net sections. On our south Kakwa acreage, we are planning more drilling to validate condensate rates and prove up the scale of the resource.

On this south Kakwa acreage, covering almost 9 net sections, we were able to re-establish high pressure gas from the 09-01 Well after the control of well incident and fishing operations. Based on the anomalous sour gas it appears that we have contribution from a shallower zone and possibly an up-hole gas discovery. We have learnt that another Montney well completed last year, adjacent to our Wapiti acreage, had a similar result – a completion in the Montney had high pressure gas with anomalous sour gas likely from the same up-hole zone. We have since suspended the 09-01 Well as we do not have the facilities to test and produce this sour gas. In the meantime, we have begun building the lease for our next well which is scheduled to spud this November.

Antler, Saskatchewan & Pierson, Manitoba

Our oil assets in Antler and Pierson represent a reserve of value and potential capital to fund development of our other assets. Work in the field was setback and production shut-in with heavy rain during the quarter. We were however able to complete a successful drilling program in Pierson in late August and expand our pilot waterflood at Antler.

The waterflood has the potential to materially add long life reserves. An internal assessment suggests that under a fully implemented waterflood, we could add about 1.8 million barrels at an incremental capital cost of less than $3 million. We are very encouraged that the early results from our pilot are consistent with offsetting waterfloods with vertical wells demonstrating increased production and horizontals demonstrating lower natural declines. By year-end we will have expanded the original one well pilot to four wells and plan further conversions in 2014 to realize this potential.

Oil Shale Mining

We have been very encouraged by the recent progress made by the Red Leaf and Total S.A. joint venture to commercialize the EcoShale process to recover oil from shale.

The engineering and design of the large scale capsule and the associated processing facilities are being optimized to further reduce costs and the environmental footprint, particularly with respect to carbon dioxide emissions. We expect these improvements will allow the joint venture to ultimately accelerate the transition from the EPS (Early Production System) to full commercial development. The final regulatory permits are being issued and Red Leaf expects to begin work in the field this December.

Concurrently, we are advancing our own oil shale acreage at Pasquia Hills in east central Saskatchewan.

The data from our core program is being analyzed by a third party engineering firm to validate our assessment of oil yields. This core data is essential as it will form the basis of a resource report to be commissioned early next year. Capitalizing on the engineering work done by Red Leaf, we recently conducted some field work to determine the best approach to mine the shale for use in the EcoShale process. We are also testing the shale to determine the oil quality and composition under this process.

We too are looking at opportunities to improve economics in Saskatchewan and minimize our environmental impacts. With extensive infrastructure in the area for both electricity and natural gas, we are evaluating co-generation opportunities. These include purchasing natural gas from the local distribution network and burning it to create electricity that would then be sold to the electrical grid. The heat produced as a by-product of this process would be used to heat the capsules. From an emissions perspective, this compared very favorably to the current design that would burn natural gas to produce heat for the capsules.

Operational & Financial

We grew our production over the prior quarter, albeit marginally. This was due to heavy rainfall that shut-in about 90 bbls/d of production in Antler and Pierson and prevented us from drilling and completing wells in Antler. At Kakwa, approximately 80 boe/d of additional production was also shut-in due to limited processing capacity.

As a result, we averaged 880 boe/d for the quarter and 900 boe/d for the year-to-date with oil and liquids representing almost three quarters of our volumes. These oil and condensate volumes benefitted from higher prices and generated $3.64 million in cash flow for the quarter and $10.25 million year to date.

We invested $9.43 million in our assets in the quarter. Approximately 80% was invested in the Montney in Alberta, drilling and completing the 05-23 Well and testing the 09-01 Well. The remainder was invested in our five well program in Pierson, Manitoba targeting the Spearfish formation. Over the last quarter, we intend to invest an additional $15 million split 75/25 between Kakwa and Antler. This will be funded by our existing cash, cash flow and credit facility.

Outlook

We have met several milestones towards our goal of ramping up the development of the Montney.

The resource report commissioned earlier this summer confirmed the significant scale and value of this dense resource at over 130 million barrels of oil equivalent with over 40% condensate. Our market access strategy will ensure we are able to process, transport and market our production. We are seeing the benefits of the learning curve with well costs approaching $8 million from initial well costs of over $10 million.

While we are focused on the development of the Montney we have not lost sight of our goal of commercializing our shale gas discovery in Quebec. Our continued work to secure our social license to operate is yielding a positive shift in attitudes towards oil and gas.

The province recently conducted a series of hearings to develop their energy strategy. One of their energy policy goals is the ‘responsible exploration and exploitation of Quebec’s hydrocarbon reserves’ to address the significant imports of oil and natural gas. As transportation in Quebec accounts for over 40% of their greenhouse gas emissions, the government has announced subsidies of up to 30% for the incremental cost of purchasing natural gas fuelled vehicles to reduce their emissions. We are looking forward to the report from the oversight committee for the strategic environmental assessment of shale gas development later this year.

Michael Binnion
President and Chief Executive Officer

Management's Discussion and Analysis ("MD&A") was prepared as of November 13, 2013. 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") as at September 30, 2013 and for the three and nine month periods ended September 30, 2013 and 2012, and the 2012 MD&A and audited annual consolidated financial statements of the Company for the year ended December 31, 2012. Additional information relating to Questerre, including Questerre's Annual Information Form for the year ended December 31, 2012 is available on SEDAR at www.sedar.com.

Questerre is an independent energy company focused on non-conventional oil and gas resources. The Company is currently developing a portfolio of oil shale assets in North America. It is securing a social license to commercialize its Utica natural gas discovery in Quebec. The Company is underpinned by light oil and other conventional assets. Questerre is committed to the economic development of its resources in an environmentally conscious and socially responsible manner.

The Company's 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.

All financial information is reported in Canadian dollars, unless otherwise noted. Certain amounts in prior years have been reclassified to conform to the current year's presentation.

Forward Looking Statements

Certain statements contained within this MD&A constitute forward-looking statements. These statements relate to future events or Questerre's 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 "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" 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. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A.

This MD&A contains forward-looking statements pertaining to the following:

- the performance of the Company's oil and natural gas properties;
- the size of the Company's oil, natural gas liquids and natural gas reserves and production levels;
- estimates of future cash flow;
- projections of prices and costs;
- drilling plans and timing of drilling, completion and tie-in of wells by Questerre and its partners;
- weighting of production between different commodities;

- commodity prices, foreign exchange rates and interest rates;
- expected levels of royalty rates, operating costs, general and administrative costs, costs of services and other costs and expenses;
- capital expenditure programs and other expenditures and the timing and method of financing thereof;
- supply of and demand for oil, natural gas liquids and natural gas;
- expectations regarding Questerre's ability to raise capital and to continually add to reserves through acquisitions and development;
- the Company's ability to grow or sustain production and reserves through prudent management;
- the emergence of accretive growth opportunities and continued access to capital markets;
- the Company's future operating and financial results;
- schedules and timing of certain projects and Questerre's strategy for future growth; and
- treatment under existing and future governmental and other regulatory regimes and tax, environmental and other laws.

In particular, this MD&A contains the following forward-looking statements pertaining to the following:

- production volumes;
- the future ability to alleviate field processing constraints;
- timing of drilling programs and resulting cash flows;
- future oil and natural gas prices;
- the size of the Company's oil, natural gas liquids and natural gas resource;
- the Company's ability to enter into and timing of processing, transportation and marketing agreements;
- future development, exploration and acquisition activities, and related expenditures; and
- future liquidity and financial capacity.

With respect to forward-looking statements contained in this MD&A we have made assumptions regarding, among other things:

- future oil, natural gas liquids and natural gas prices;
- the continued availability of capital, undeveloped lands and skilled personnel;
- the costs of expanding the Company's property holdings;
- the ability to obtain equipment in a timely manner to carry out exploration, development and exploitation activities;
- the ability to obtain financing on acceptable terms;
- the ability to add production and reserves through exploration, development and exploitation activities; and
- the continuation of the current tax and regulatory regimes.

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:

- volatility in market prices for oil, natural gas liquids and natural gas;
- counterparty credit risk;
- access to capital;
- 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;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands 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;
- 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 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 resources and reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities law.

BOE Conversions

Barrel of oil equivalent ("boe") and billion cubic feet equivalent ("Bcfe") 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 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.

Additional IFRS and Non-IFRS Measures

This document contains the term "cash flow from operations", which is an additional IFRS measure. The Company uses this measure to help evaluate its performance.

As an indicator of Questerre's performance, cash 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 IFRS. Questerre's determination of cash flow from operations may not be comparable to that reported by other companies. Questerre considers cash 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.

Cash Flow from Operations Reconciliation

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	2013	2012	2013	2012
Net cash from operating activities	$ 2,437	$ 3,507	$ 10,009	$ 7,786
Change in non-cash operating working capital	1,204	(673)	242	(440)
Cash flow from operations	$ 3,641	$ 2,834	$ 10,251	$ 7,346

This document also contains the terms "netbacks" and "working capital surplus", which are non-IFRS measures.

The Company considers netbacks to be a key measure as it demonstrates its profitability relative to current commodity prices. Operating netbacks per boe equal total petroleum and natural gas sales per boe adjusted for royalties per boe and direct operating expenses per boe.

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

Select Information

As at/for the period ended September 30,	Three months ended 2013	2012	Nine months ended 2013	2012
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	6,574	4,843	18,599	13,610
Cash Flow from Operations	3,641	2,834	10,251	7,346
Per share - Basic ($/share)	0.02	0.01	0.04	0.03
Per share - Diluted ($/share)	0.02	0.01	0.04	0.03
Net Profit (Loss)	(894)	(111)	(3,141)	(1,813)
Per share - Basic ($/share)	-	-	(0.01)	(0.01)
Per share - Diluted ($/share)	-	-	(0.01)	(0.01)
Capital Expenditures, net of acquisitions and dispositions	9,428	9,389	39,188	29,369
Working Capital Surplus	4,729	40,597	4,729	40,597
Total Assets	245,814	257,814	245,814	257,814
Shareholders' Equity	220,046	234,846	220,046	234,846
Common Shares Outstanding (thousands)	235,298	230,804	235,298	230,804
Weighted average - basic (thousands)	235,298	230,793	234,493	230,950
Weighted average - diluted (thousands)	235,442	232,420	234,922	232,735
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	656	602	679	553
Natural Gas (Mcf/d)	1,344	562	1,329	570
Total (boe/d)	880	696	900	648
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	103.21	85.14	93.63	87.29
Natural Gas ($/Mcf)	2.81	2.44	3.50	2.39
Total ($/boe)	81.20	75.64	75.70	76.60
Netback ($/boe)				
Petroleum and Natural Gas Sales	81.20	75.64	75.70	76.60
Royalties Expense	(5.34)	(5.14)	(6.00)	(4.89)
Percentage	7%	7%	8%	6%
Direct Operating Expense	(16.01)	(16.05)	(15.62)	(17.31)
Operating Netback	59.85	54.45	54.07	54.40
Wells Drilled				
Gross	7.00	2.00	8.00	11.00
Net	2.25	1.25	3.25	6.88

Highlights

- Concluded processing agreement for 20 MMcf/d plus liquids at Kakwa-Resthaven area to guarantee market access
- Fifth liquids-rich Montney well tests at gross rates of 1,400 boe/d with condensate rates of 195 bbls/MMcf
- Successful drilling program in Pierson, Manitoba adds 230 bbls/d of light oil production in September
- Expanded pilot waterflood for light oil pool at Antler, Saskatchewan
- Average daily production in quarter of 880 boe/d with shut-in production of 170 boe/d and cash flow of $3.64 million

Third Quarter 2013 Activities

Western Canada

<u>Kakwa-Resthaven, Alberta</u>

In the third quarter, Questerre concluded the first of several agreements to guarantee market access for its future production from this area. These include processing agreements with third parties that reduce the infrastructure capital required for development.

Through its agreement with a subsidiary of Pembina Pipeline Corporation, Questerre will participate in the planned expansion of an existing facility currently processing its liquids in the area. The expansion will consist of a new propane plus (C3+) shallow cut gas plant. Questerre has secured firm processing capacity for 20 MMcf/d of raw gas and associated liquids for ten years at this expansion. The in-service date is scheduled for early-mid 2015. In conjunction with this contract, the Company expects to conclude additional agreements for transportation, processing and marketing for the natural gas and liquids by year-end.

During the quarter, the Company also continued drilling and testing on its non-operated and operated acreage in the area.

The Company participated in the drilling of two non-operated wells, the 05-23 well (the “05-23 Well”) and the 16-25 well (the “16-25 Well”). Questerre holds a 25% working interest in both wells. The 05-23 Well was successfully drilled and completed with a seven-stage slickwater fracture stimulation. Over the last 24 hours of a 170 hour production test, the well flowed 815 bbls/d of condensate and 3.7 MMcf/d of natural gas against anticipated gathering system pressure of approximately 2000 kPa (290 psi) on choke sizes ranging from half inch to one inch.

Drilling operations on the 16-25 Well were completed early in the fourth quarter. Drilling time from spud to total measured depth took approximately 34 days, 12 days shorter than previous wells on its joint venture acreage. Subject to weather and equipment availability the well is scheduled to be tested in late November. Both wells are expected to be tied in to the local gathering system by the end of the year.

Testing operations were also conducted on the 15-01 well, now designated as the 09-01 well (the “09-01 Well”). The 09-01 Well is situated approximately 6 miles south of the Company’s producing wells in the area.

A chemical soak and squeeze on the Montney formation was successful in re-establishing gas flows and high pressure on surface. The flow from the 09-01 Well included very anomalous hydrogen sulphide rates. The Company believes that the high sour and low liquids rates are unusual and could reflect contribution from another zone with the possibility of a new up-hole gas discovery.

Regulatory restrictions on testing of critical sour wells limit Questerre's ability to conduct an extended cleanup and flow back for the 09-01 Well. Further testing of this well will require critical sour processing facilities and pipelines that currently do not exist in the immediate area. As a result, the 09-01 Well is currently suspended as a potential gas producer while the Company evaluates options for producing the well and new drilling on this block.

Questerre plans to participate in the drilling of one (0.25 net) additional well on its joint venture acreage prior to year-end. The joint venture has contracted a drilling rig and initially plans to drill up to six (1.5 net) wells in 2014. In addition, the Company plans to drill one net well adjacent to the 09-01 Well in late 2013.

Antler, Saskatchewan and Pierson, Manitoba

The Company resumed the planned expansion of its pilot waterflood at Antler, Saskatchewan in the quarter.

Two additional producing horizontal wells were converted to water injector wells. This follows the positive results from the first horizontal well that was converted into an injector in the third quarter of 2012. The Company currently has one and a quarter sections that are under waterflood. One additional conversion is scheduled for the fourth quarter. The Company is monitoring production and pressure data in the offsetting wells and, based on regulatory approvals and results, plans to expand this pilot to additional sections in early 2014.

While the Company was able to expand the pilot waterflood, unusually wet weather setback drilling and completion operations. With improving ground conditions, Questerre is conducting this work in the fourth quarter. In addition to drilling and completing two horizontal wells, the Company intends to also complete two existing wells.

Questerre also participated in a five (1.75 net) well program in Pierson, Manitoba. The wells were drilled on schedule and under budget. They were placed on production in early September and an initial combined gross rate of approximately 1,000 bbls/d (350 bbls/d net). Production for the first thirty days averaged approximately 660 bbls/d (230 bbls/d net).

Oil Shale Mining

Red Leaf Resources Inc. ("Red Leaf") continued its work with a US affiliate of the French-based supermajor, Total S.A. ("Total"), to jointly develop their oil shale assets in Utah.

Red Leaf is a private Utah-based oil shale and technology company. Its principal assets are its proprietary EcoShale In-Capsule process to recover oil from shale in addition to oil shale leases in the states of Utah and Wyoming. Questerre currently holds approximately 6% of the equity capital of Red Leaf. It has partnered with Red Leaf to develop its oil shale acreage in the state of Wyoming and has an option to obtain licenses to utilize the Red Leaf process.

In 2012, the Red Leaf and Total joint venture began an Early Production System ("EPS") phase to prove the technical and environmental attributes of the process at large scale in Utah. It follows a successful field pilot that was completed in 2009. Total will fund an 80% share of the EPS expenses estimated at US$200 million. Red Leaf and Total subsequently plan to launch an advanced commercial pilot on their jointly held acreage for oil shale in Utah. Total will also fund an 80% share of the first US$200 million of the commercial production phase of operations.

The joint venture is currently optimizing the design and engineering for the construction of the first commercial scale capsule. Engineering is also being completed on the associated production facilities. Final government permits are being secured and field work scheduled to begin in December. Concurrently, the joint venture is finalizing the engineering, procurement, construction and management contract for the EPS project.

Questerre continued to assess the potential of its oil shale acreage at Pasquia Hills, Saskatchewan during the quarter. Data from it second core program will be analyzed by an independent engineering firm to validate initial estimates of oil yields. Further testing is scheduled for the next six months and will include characterization of the oil quality. Results are expected in early 2014. Utilizing this data, the Company plans to commission an independent resource assessment later in the year.

Corporate

In July, the Company secured a $26.5 million credit facility with a Canadian chartered bank. Structured as a revolving operating demand loan, any borrowing under the facility, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The facility is secured by a $50 million debenture with a first floating charge over all assets of the Company and a general assignment of books debts.

Production

Three months ended September 30,	2013			2012		
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Saskatchewan	383	-	383	571	-	571
Alberta	188	1,232	393	31	526	119
Manitoba	85	-	85	-	-	-
British Columbia	-	112	19	-	36	6
	656	1,344	880	602	562	696

Nine months ended September 30,	2013			2012		
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Saskatchewan	413	-	413	521	-	521
Alberta	207	1,215	409	32	528	120
Manitoba	59	-	59	-	-	-
British Columbia	-	114	19	-	42	7
	679	1,329	900	553	570	648

Despite weather related delays in Saskatchewan and Manitoba and facility constraints in the Kakwa-Resthaven area of Alberta, production in the third quarter of 2013 grew over the prior quarter and the third quarter of 2012. For the three months ended September 30, 2013, daily volumes increased to 880 boe/d from 820 boe/d in the second quarter of 2013 and 696 boe/d in the third quarter of 2012. On a year-to-date basis, production averaged 900 boe/d (2012: 648 boe/d). The increased production for the three and nine months ended September 30, 2013 from the same periods in the prior year is mainly due to increased drilling activity in the Kakwa-Resthaven area.

Consistent with prior quarters in 2013, oil and liquids accounted for approximately 75% of company volumes as compared to 86% in the third quarter of 2012. The lower oil and liquids weighting resulted from the increased natural gas production from the Montney in Alberta. Oil volumes were lower than expected in the third quarter of 2013 due to weather-related production shut-ins in Antler and Pierson.

Approximately 90 bbls/d of oil production was shut-in due to limited road access to truck produced oil or workover wells. Heavy rainfall during the quarter also delayed the drilling and completion of several oil wells at Antler. In the third quarter of 2012, weather at Antler improved over a wet second quarter and led to the completion and tie-in of several wells, resulting in total oil production of 521 bbls/d from Saskatchewan as compared to 413 bbls/d in 2013.

With ground conditions gradually improving, Questerre anticipates resuming field operations at Antler in the fourth quarter. The Company plans to drill and complete two horizontal wells and complete two additional horizontal wells in the quarter. Subject to weather, it expects these wells will be tied-in and put on production prior to year-end.

In the Kakwa-Resthaven area, wellhead condensate volumes for the Company's three producing wells have averaged between 140 bbls/MMcf to 190 bbls/MMcf for the first nine months of 2013. Production remains impacted however by the lack of compression and liquids lifting facilities in the area. During the quarter, 80 boe/d was shut-in due to these facility constraints. Furthermore, limited pipeline capacity has resulted in an apportionment of the associated condensate volumes.

Questerre expects that the field processing constraints will be alleviated by the central compression and condensate stabilization facility currently under construction. The facility will have a capacity of 15 MMcf/d of natural gas and associated liquids and is scheduled to be operational by year-end. In conjunction with the operator, Questerre is also evaluating firm commitments to proposed pipeline expansions and other transportation options to ensure sufficient takeaway capacity is in place.

Third Quarter 2013 Financial Results

Petroleum and Natural Gas Sales

Three months ended September 30,	2013			2012		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 3,750	$ -	$ 3,750	$ 4,481	$ -	$ 4,481
Alberta	1,692	319	2,011	236	118	354
Manitoba	783	-	783	-	-	-
British Columbia	-	30	30	-	8	8
	$ 6,225	$ 349	$ 6,574	$ 4,717	$ 126	$ 4,843

Nine months ended September 30,	2013			2012		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 10,806	$ -	$ 10,806	$ 12,484	$ -	$ 12,484
Alberta	5,039	1,177	6,216	749	348	1,097
Manitoba	1,477	-	1,477	-	-	-
British Columbia	-	100	100	-	29	29
	$ 17,322	$ 1,277	$ 18,599	$ 13,233	$ 377	$ 13,610

Increased oil and condensate volumes benefitted from materially higher prices, resulting in higher sales for the quarter over the prior year. Likewise, increased natural gas prices and volumes also contributed to higher petroleum and natural gas sales of $6.57 million (2012: $4.84 million). For the nine months ended September 30, 2013, higher volumes and prices for all products resulted in sales of $18.60 million (2012: $13.61 million).

Pricing

	Three months ended September 30,		*Nine months ended September 30,*	
	2013	2012	2013	2012
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	2.44	2.30	3.06	2.12
Crude Oil - Edmonton light ($/bbl)	104.69	84.33	95.13	86.84
Realized prices:				
Natural Gas ($/Mcf)	2.81	2.44	3.50	2.39
Crude Oil and Natural Gas Liquids ($/bbl)	103.21	85.14	93.63	87.29

International crude oil prices rose significantly in the quarter with ongoing political unrest in the Middle East and North Africa region. The benchmark West Texas Intermediate ("WTI") price experienced a similar increase driven by near record refinery utilization, increased use of rail for transporting oil and the startup of the Seaway pipeline reversal. This translated into higher prices for the reference Edmonton Light benchmark. While the differential between the two benchmarks narrowed to $7.04 in the quarter, it remains fairly volatile.

Realized prices continued to track the Edmonton Light benchmark with condensate production from the Kakwa-Resthaven area receiving a premium to this price. In the third quarter, the realized price averaged $103.21/bbl (2012: $85.14/bbl) as compared to the average Edmonton Light price of $104.69/bbl (2012: $84.33/bbl).

Natural gas prices remain affected by the persistent supply and demand imbalance in the United States. Dry gas supply in the US averaged approximately 65 Bcf/d for the year-to-date, up almost 2% over 2012, which was a record year. Demand for power generation is estimated at 4 Bcf/d lower than prior years due to natural gas being more expensive than coal in 2013. In Alberta, this was exacerbated by the widening differential between the benchmark NYMEX and AECO prices. Due primarily to substantial increases in the cost of interruptible service on a major pipeline, the differential increased from approximately US$0.60/Mcf historically to over US$1.67/Mcf in September.

Questerre continued to realize a premium to the benchmark AECO spot price during the quarter due to the higher heat content of its natural gas from Alberta.

Royalties

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	2013	2012	2013	2012
Saskatchewan	$ 231	$ 279	$ 680	$ 857
Alberta	149	50	695	24
Manitoba	52	-	99	-
British Columbia	-	-	-	-
	$ 432	$ 329	$ 1,474	$ 881
% of Revenue:				
Saskatchewan	6%	6%	6%	7%
Alberta	7%	14%	11%	2%
Manitoba	7%	0%	7%	0%
British Columbia	0%	0%	0%	0%
Total Company	7%	7%	8%	6%

Questerre's royalty rate as a percentage of revenue increased from 6% for the nine months ended September 30, 2012 to 8% for the same period in the current year. The increase is due to higher production in the Kakwa-Resthaven area of Alberta, which is subject to Crown and gross overriding royalties.

Operating Costs

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	2013	2012	2013	2012
Saskatchewan	$ 513	$ 808	$ 1,834	$ 2,354
Alberta	661	208	1,735	682
Manitoba	90	-	172	-
British Columbia	33	12	97	40
	$ 1,297	$ 1,028	$ 3,838	$ 3,076
$/boe:				
Saskatchewan	14.56	15.38	16.28	16.49
Alberta	18.25	18.99	15.55	20.75
Manitoba	11.51	-	10.66	-
British Columbia	19.19	21.52	18.71	21.08
Total Company	16.01	16.05	15.64	17.31

For the three months ended September 30, operating costs on a boe basis remained relatively unchanged at $16.01 in 2013 as compared to $16.05 in 2012. For the nine months ended September 30, the operating costs decreased to $15.64 in the current year from $17.31 in the prior year.

Operating costs in Saskatchewan continued to decline over the prior year. With the tie-in of existing wells to the main battery and the local electrical grid, lower rental, fuel and trucking costs were incurred.

Operating costs in Alberta decreased from $20.75/boe to $15.55/boe for the nine months ended September 30, 2012 and 2013, respectively. In 2012, production from Alberta was primarily from the Vulcan area where the relatively large proportion of fixed costs was borne by declining production in the area. In 2013, the majority of Alberta production was from the Kakwa-Resthaven area, which has lower per unit operating costs. The Company expects its operating costs in this area to decrease next year once its planned central facility is commissioned and operational.

General and Administrative Expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2013**	2012	**2013**	2012
General and administrative expenses, gross	**$ 1,489**	$ 1,702	**$ 4,564**	$ 5,474
Capitalized expenses and overhead recoveries	**(486)**	(699)	**(1,341)**	(2,203)
General and administrative expenses, net	**$ 1,003**	$ 1,003	**$ 3,223**	$ 3,271

Gross general and administrative expenses ("G&A") was $4.56 million for the nine months ended September 30, 2013 compared to $5.47 million for the same period in the prior year. The decrease was mainly due to lower staffing costs, public relations costs and legal expenses. Capitalized expenses and overhead recoveries as a percentage of gross G&A was 29% for the nine months ended September 30, 2013 compared to 40% for the same period in the prior year. This is attributable to higher capital expenditures on operated properties in 2012, a portion of which is recoverable from its partners.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded $2.47 million of depletion and depreciation expense for the quarter ended September 30, 2013 compared to $2.51 million for the same period in 2012. For the nine months ended September 30, 2013, the Company recorded $7.39 million of depletion and depreciation expense compared to $6.90 million for the same period in 2012. The increase in year-to-date depletion and depreciation expense is due to an increase in production from 2012. This was partially offset by a higher production weighting from cash generating units with lower finding and development costs. This resulted in a decrease on a unit of production basis to $30.06/boe from $38.82/boe for the nine months ended September 30, 2012.

The impairment of assets of $0.07 million in the third quarter of 2013 (2012: $0.02 million) and $0.96 million for the nine months of 2013 (2012: $1.77 million) mainly relates to undeveloped land expiries within the exploration and evaluation asset pool.

Share Based Compensation

Under the Company's current share based compensation plan, fair values are determined at each reporting date using the Black-Scholes option pricing model. Periodic changes in fair value are recognized in net profit or loss as share based compensation expense or recovery with a corresponding change to the liability. Potential commitments for cash payments under the share based compensation plan are recorded as a share based compensation liability based on the fair value of the liability at the reporting date.

Share based compensation expense for the third quarter of 2013 was $1.0 million as compared to a recovery of $0.03 million in the third quarter of 2012. Share based compensation expense for the nine months ended September 30, 2013 was $2.10 million as compared to $1.33 million for the nine months ended September 30, 2012. Due to the increase in the Company's share price in 2013, the Black-Scholes values have increased resulting in an expense in 2013.

Deferred Taxes

For the three and nine months ended September 30, 2013, Questerre reported a deferred tax expense of $0.47 million and $0.28 million, respectively. For the three and nine months ended September 30, 2012, Questerre reported a deferred tax recovery of $0.26 million. The increase in deferred tax expense for the nine months ended September 30, 2013 from the same period in the prior year mainly relates to higher net income before tax and stock based compensation. In addition, the Company does not consider it probable that it will utilize the capital loss relating to its loss on investment in convertible bonds.

Other Income and Expenses

Changes to the fair value of the Company's risk management contracts are recorded through net profit or loss. For the Company's outstanding risk management contracts at September 30, 2013, the unrealized loss recorded for the nine months ended September 30, 2013 was $0.91 million compared to the unrealized gain of $0.53 million for the same period in 2012. For the Company's settled risk management contracts at September 30, 2013, the realized loss recorded for the nine months ended September 30, 2013 was $0.06 million compared to the realized gain of $0.27 million for the same period in 2012.

In connection with the disposition of its interest in Questerre Beaver River Inc. to Transeuro Energy Corp. ("Transeuro") in 2011, the Company invested in senior convertible bonds of Transeuro in the second quarter of 2012. During the third quarter of 2013, the Company converted the bonds into common shares and subsequently disposed of the majority of these shares. The Company recognized a loss on its investment of $0.92 million and $1.53 million for the three and nine months ended September 30, 2013 ($0.31 million and $0.43 million for the three and nine months ended September 30, 2012).

Questerre reported interest income of $0.31 million for the first nine months of the year (2012: $0.83 million) and $0.05 million for the three months ended September 30, 2013 (2012: $0.27 million). The interest is from the cash invested in Guaranteed Investment Certificates issued by Canadian chartered banks and credit unions and from the Company's investment in convertible bonds. The decrease in the interest income is a result of the Company's lower cash balance in the current year.

The Company recorded a loss on foreign exchange, net of deferred tax, through other comprehensive income or loss of $0.86 million for the third quarter of 2013 and a gain on foreign exchange, net of deferred tax, of $1.27 million for the first nine months of 2013. On these same investments in the prior year, the Company realized a loss on foreign exchange, net of deferred tax, of $1.37 million and $0.78 million for the three and nine months ended September 30, 2012. The changes are due to fluctuations in the exchange rate relating to its US dollar investments.

Marketable securities represent investments in shares of public companies which are designated as available for sale and are stated at fair value. During the nine months ended September 30, 2012, the Company sold its marketable securities and recorded a realized gain of $0.29 million through net profit or loss and an unrealized gain, net of deferred tax, of $1.90 million through other comprehensive income or loss on this disposition.

Questerre holds investments in private companies which are designated as available for sale and are stated at fair value. For the three and nine months ended September 30, 2012, the Company recorded an unrealized gain net of deferred tax, of $1.96 million in other comprehensive income or loss related to these investments.

Total Comprehensive Income or Loss

Questerre's total comprehensive loss for the third quarter of 2013 was $1.75 million as compared to the total comprehensive income of $0.48 million in the third quarter of 2012. The decrease in the Company's total comprehensive income for this period is mainly attributable to the lower gain on marketable securities and investments and the higher stock based compensation expense, partially offset by higher petroleum and natural gas revenue.

The Company's total comprehensive loss for the nine months ended September 30, 2013 was $1.87 million as compared to the total comprehensive income of $0.97 million for the nine months ended September 30, 2012. The decrease in the Company's total comprehensive income for this period is mainly attributable to the lower gain on sale of marketable securities and investments recorded and the higher loss on investment in convertible bonds, partially offset by higher petroleum and natural gas revenue, a higher gain on foreign exchange relating to the Company's US dollar investments and lower impairment charges.

Capital Expenditures

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2013**	2012	**2013**	2012
Alberta	**$ 7,205**	$ 4,319	**$ 34,952**	$ 8,073
Saskatchewan	**190**	4,788	**1,406**	20,291
Quebec	**82**	298	**598**	956
Wyoming	**-**	-	**134**	-
Manitoba	**1,925**	4	**2,086**	22
British Columbia	**26**	26	**58**	52
Corporate	**-**	(46)	**7**	150
	9,428	9,389	**39,241**	29,544
Dispositions	**-**	-	**(53)**	(175)
Total	**$ 9,428**	$ 9,389	**$ 39,188**	$ 29,369

For the nine months ended September 30, 2013, the Company incurred net capital expenditures of $39.24 million as follows:

- In Alberta, the Company spent $34.95 million, including $19.42 million to acquire acreage prospective for the liquids-rich Montney and the remainder mainly to drill, complete and test wells targeting this formation.
- In Saskatchewan, the Company spent $1.41 million, including $1.11 million to drill one infill well and acquire 3-D seismic data in Antler and $0.24 million for work relating to the Pasquia Hills oil shale acreage.
- In Manitoba, the Company spent $2.09 million to drill and complete 5 (1.75 net) wells in Pierson.

For the nine months ended September 30, 2012, the Company incurred net capital expenditures of $29.54 million as follows:

- In Saskatchewan, $20.29 million was incurred mainly to drill, complete and tie-in several wells. Included in the Saskatchewan total is $3.53 million relating to the evaluation of the Pasquia Hills area prospective for oil shale.
- $8.07 million spent in Alberta relates mainly to the drilling and completion of two (0.63 net) Montney wells and the associated tie-in to a third party processing plant. Included in this amount is approximately $1.20 million for an oil well in Southern Alberta.
- In Quebec, $0.96 million was invested primarily to secure the Company's social license to operate.
- The disposition of $0.18 million related to the sale of a non-core property in Alberta.

Liquidity and Capital Resources

Questerre had a working capital surplus of $4.73 million at September 30, 2013 as compared to $33.22 million at December 31, 2012. The Company's capital investment program for 2013 is focused on further development of its Kakwa-Resthaven and Antler assets. The Company believes it is sufficiently capitalized to fund this program from its working capital surplus, cash flow from operations and available conventional debt facilities.

Cash Flow from Operating Activities

Net cash from operating activities for the three months ended September 30, 2013 and 2012 was $2.44 million and $3.51 million, respectively. The decrease in net cash from operating activities for this period was due to the negative change in non-cash working capital partially offset by higher cash flow from operations. The increase in cash flow from operations is mainly due to higher petroleum and natural gas sales partially offset by higher operating costs and royalties.

Net cash from operating activities for the nine months ended September 30, 2013 and 2012 was $10.0 million and $7.79 million, respectively. The increase in net cash from operating activities for this period of $2.21 million was mainly due to higher cash flow from operations.

Cash Flow used in Investing Activities

Cash flow used in investing activities was $3.24 million for the quarter ended September 30, 2013 and $38.49 million for the nine months ended September 30, 2013. For the three and nine months ended September 30, 2012, the Company's cash flow used in investing activities was $9.04 million and $69.24 million, respectively.

For the nine months ended September 30, 2013, the Company incurred capital expenditures of $39.24 million compared to $29.54 million for the same period in 2012. The higher net capital expenditures were mainly due to increased investment activity in the Kakwa-Resthaven area partially offset by less drilling and completion activity in Antler in 2013.

In the first nine months of 2012, Questerre acquired approximately 6% of the equity capital of Red Leaf for $43.17 million and invested in senior secured convertible bonds for $2.22 million.

During the third quarter of 2013, the Company converted its senior convertible bonds into common shares of the issuer and disposed of the majority of these shares for proceeds of $0.40 million.

Cash Flow from (used in) Financing Activities

Cash flow from financing activities was $nil and $2.02 million for the three and nine months ended September 30, 2013, respectively. Cash flow from financing activities was $0.11 million and cash flow used in financing activities was $0.40 million for the three and nine months ended September 30, 2012, respectively. The increase for the nine ended September 30, 2013 from the same period in the prior from year is due to the proceeds received on share option exercises in 2013 as compared to the repurchase of shares in 2012 under the Company's normal course issuer bid.

Share Capital

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.

(thousands)	November 13, 2013	September 30, 2013	December 31, 2012
Common shares	235,298	235,298	230,804
Stock options	16,956	16,956	21,349
Weighted average common shares			
Basic		234,493	230,914
Diluted		234,922	232,774

A summary of the Company's stock option activity during the nine months ended September 30, 2013 and year ended December 31, 2012 follows:

	September 30, 2013		December 31, 2012	
(thousands, except per share data)	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	21,349	$2.24	22,674	$2.27
Granted	3,628	0.88	1,140	0.68
Forfeited	(1,077)	4.79	(1,950)	2.09
Expired	(2,450)	4.66	(255)	0.90
Exercised	(4,494)	0.45	(260)	0.45
Outstanding, end of period	16,956	$2.07	21,349	$2.24
Exercisable, end of period	8,252	$2.96	12,973	$2.48

Commitments

In August 2013, the Company entered into a 10-year agreement for 20 MMcf/d of natural gas and associated liquids processing at a new propane-plus (C3+) shallow cut gas plant located in the Kakwa-Resthaven area in west-central Alberta. The agreement is expected to begin in 2015 and has an annual value of $3.5 million.

Risk Management

The Company's activities in the petroleum and natural gas industry expose it to a variety of financial risks, including credit, liquidity and market risks associated with commodity prices, exchange rate and interest rate fluctuations. There have been no changes to the Company's risks from those detailed in the MD&A for the year ended December 31, 2012.

The Company may use financial instruments to reduce corporate risk in certain situations. At September 30, 2013, Questerre had the following commodity risk management contracts in place:

	Volumes	Average Price	Term		Fair Value Asset (Liability) *($ thousands)*
WTI NYMEX oil swap	150 bbls/d	$99.65/bbl	Jan. 1, 2013 - Dec. 31, 2013	$	(122)
WTI NYMEX oil swap	150 bbls/d	$98.20/bbl	Mar. 1, 2013 - Dec. 31, 2013		(150)
WTI NYMEX oil swap	150 bbls/d	$94.70/bbl	Jan. 1, 2014 - Dec. 31, 2014		(238)
				$	(510)

Accounting Policy Changes

Changes in Accounting Policies for 2013

Effective January 1, 2013, the Company adopted the following new standards and interpretations:

IFRS 10 *Consolidated Financial Statements*

IFRS 10 revised the definition of control and requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It also included guidance related to an investor with decision making rights to determine if it is acting as a principal or agent. IFRS 10 replaced SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IAS 27 was amended to conform to the changes made in IFRS 10 but retains the current guidance for separate financial statements.

Adopting this accounting change had no impact on the Company's financial statements.

IFRS 11 *Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.

Adopting this accounting change had no impact on the Company's financial statements.

IFRS 12 *Disclosure of Interest in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 replaces disclosure requirements previously included in IAS 27, IAS 31 and IAS 28 *Investments in Associates*.

IAS 28 has been amended to conform to the changes made in IFRS 10 and IFRS 11.

Adopting this accounting change had no impact on the Company's financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single framework for fair value measurement and disclosures when fair value is required or permitted under IFRS. Adoption of the standard did not require adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Adopting this accounting change had no impact on the Company's financial statements.

IAS 1 *Presentation of Financial Statements*

Amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendment affected presentation only and had no impact on the Company's financial position or performance.

Future Accounting Pronouncements

IAS 36 *Impairment of Assets*

In May 2013, the IASB released an amendment to IAS 36 *Impairment of Assets*. This amendment requires entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU"). The amendment is effective January 1, 2014. Early adoption is permitted.

Internal Controls over Financial Reporting

Questerre is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The 2013 certificate requires that the Company disclose in the interim MD&A any changes in the Company's internal controls over financial reporting ("ICFR") that occurred during the period that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

Management completed an assessment of the ICFR. During the process of management's assessment, it was determined that certain weaknesses existed in ICFR. The weaknesses are the result of the Company's size and limited number of staff and include: (i) the inability to achieve complete segregation of duties; and (ii) having insufficient staff with the required technical tax knowledge to deal with complex and non-routine matters. The Company believes that these weaknesses are mitigated by: (i) the President and Chief Executive Officer and the Chief Financial Officer overseeing all material transactions; (ii) the audit committee, comprised of independent members of the Board of Directors, reviewing the quarterly interim and annual audited financial statements with management; (iii) the Board of Directors' approval of the financial statements based on the audit committee's recommendation after its review; and (iv) the Company consulting with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions.

There were no significant changes in Questerre's ICFR during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Quarterly Financial Information

($ thousands, except as noted)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
Production (boe/d)	880	820	1,000	766
Average Realized Price ($/boe)	81.20	74.84	71.57	74.22
Petroleum and Natural Gas Sales	6,574	5,585	6,441	5,232
Cash Flow from Operations	3,641	2,962	3,649	2,898
Per share - Basic ($/share)	0.02	0.01	0.02	0.01
Per share - Diluted ($/share)	0.02	0.01	0.02	0.01
Net Profit (Loss)	(894)	(678)	(1,569)	(17,659)
Per share - Basic ($/share)	-	-	(0.01)	(0.08)
Per share - Diluted ($/share)	-	-	(0.01)	(0.08)
Capital Expenditures, net of acquisitions and dispositions	9,428	3,798	25,961	12,981
Working Capital Surplus	4,729	10,608	12,844	33,216
Total Assets	245,814	246,660	251,828	243,365
Shareholders' Equity	220,046	221,696	220,578	217,456
Weighted Average Common Shares Outstanding				
Basic (thousands)	235,298	235,240	232,914	230,804
Diluted (thousands)	235,442	235,546	234,042	232,665

($ thousands, except as noted)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Production (boe/d)	696	525	725	743
Average Realized Price ($/boe)	75.64	72.10	80.68	85.42
Petroleum and Natural Gas Sales	4,843	3,444	5,323	5,840
Cash Flow from Operations	2,834	1,221	3,291	3,150
Per share - Basic ($/share)	0.01	0.01	0.01	0.01
Per share - Diluted ($/share)	0.01	0.01	0.01	0.01
Net Profit (Loss)	(111)	131	(1,833)	(4,030)
Per share - Basic ($/share)	-	-	(0.01)	(0.02)
Per share - Diluted ($/share)	-	-	(0.01)	(0.02)
Capital Expenditures, net of acquisitions and dispositions	9,389	5,188	14,792	12,490
Working Capital Surplus	40,597	47,350	55,052	104,481
Total Assets	257,814	256,759	267,006	258,410
Shareholders' Equity	234,846	233,860	233,137	232,878
Weighted Average Common Shares Outstanding				
Basic (thousands)	230,793	230,946	231,114	232,056
Diluted (thousands)	232,420	232,955	232,695	233,991

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

- Production has increased to 900 boe/d for the nine months ended September 30, 2013 from 648 boe/d in the same period in the prior year. The Company realized increased production from its Kakwa-Resthaven and Pierson areas in 2013. Production was lower in the Company's Antler area due to natural declines and lower development activity.
- In general, the working capital surplus has decreased as the capital expenditures have been higher than the cash flow from operations. The significant decline in the first quarter of 2012 was due to the US$40 million investment in Red Leaf. The Company also purchased land in Kakwa-Resthaven and Wapiti in the first quarter of 2013 for approximately $19 million.
- Cash flow from operations has increased to $3.64 million for the three months ended September 30, 2013 from $2.96 million for the three months ended June 30, 2013 mainly due to increased production from the Pierson area and a higher realized price/boe. Cash flow from operations increased to $3.64 million for the three months ended September 30, 2013 from $2.83 million from the same period in 2012 mainly due to the increase in production from the Kakwa-Resthaven area.

Condensed Consolidated interim Balance Sheets *(unaudited)*

($ thousands)	Note	September 30, 2013	December 31, 2012
Assets			
Current Assets			
Cash and cash equivalents		$ 16,078	$ 42,541
Investment in convertible bonds	3	-	2,064
Marketable securities	4	87	-
Accounts receivable		3,786	4,945
Current portion of risk management contracts	12	-	399
Deposits and prepaid expenses		657	546
		20,608	50,495
Investments	5	44,557	43,101
Property, plant and equipment	6	93,981	88,818
Exploration and evaluation assets	7	71,664	45,477
Goodwill		2,346	2,346
Deferred tax assets		12,658	13,128
		$ 245,814	$ 243,365
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 15,879	$ 16,881
Current portion of risk management contracts	12	480	-
Current portion of share based compensation liability	10	1,933	1,945
		18,292	18,826
Share based compensation liability	10	766	439
Risk management contracts	12	30	-
Asset retirement obligation	8	6,680	6,644
		25,768	25,909
Shareholders' Equity			
Share capital	9	311,079	307,035
Contributed surplus		16,598	16,179
Accumulated other comprehensive income		2,936	1,668
Deficit		(110,567)	(107,426)
		220,046	217,456
		$ 245,814	$ 243,365

Commitment (Note 14)

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

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

($ thousands, except per share amounts)	Note	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Revenue					
Petroleum and natural gas sales		$ 6,574	$ 4,843	$ 18,599	$ 13,610
Royalties		(432)	(329)	(1,474)	(881)
Petroleum and natural gas revenue, net of royalties		6,142	4,514	17,125	12,729
Expenses					
Direct operating		1,297	1,028	3,838	3,076
General and administrative		1,003	1,003	3,223	3,271
Depletion and depreciation	6	2,471	2,514	7,386	6,898
Impairment of assets	6,7	68	22	961	1,766
Loss (gain) on risk management contracts	12	588	243	971	(801)
Loss on investment in convertible bonds	3	92	315	1,525	425
Share based compensation (recovery)	10	1,009	(27)	2,102	1,328
Accretion of asset retirement obligation	8	42	31	109	98
Reclass from OCI relating to marketable securities and investments		-	-	-	(285)
Interest income		51	267	307	831
Other income (expense)		(47)	(22)	(177)	148
Loss before taxes		(424)	(370)	(2,860)	(2,068)
Deferred taxes (recovery)		470	(259)	281	(255)
Net loss		(894)	(111)	(3,141)	(1,813)
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to profit or loss:					
Gain on marketable securities and investments	5	-	1,958	-	3,857
Gain (loss) on foreign exchange	5	(856)	(1,372)	1,268	(785)
Reclass to profit (loss) relating to marketable securities		-	-	-	(285)
		(856)	586	1,268	2,787
Total comprehensive income (loss)		$ (1,750)	$ 475	$ (1,873)	$ 974
Net profit (loss) per share					
Basic and diluted	9	$ -	$ -	$ (0.01)	$ (0.01)

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, 2013		2012
Share Capital					
Balance, beginning of period		$	307,035	$	307,857
Options exercised	9		4,044		184
Repurchase of shares under normal course issuer bid			-		(1,006)
Balance, end of period			311,079		307,035
Contributed Surplus					
Balance, beginning of period			16,179		14,588
Reclassification of share based compensation	10		419		1,331
Repurchase of shares under normal course issuer bid			-		485
Balance, end of period			16,598		16,404
Accumulated Other Comprehensive Income (Loss)					
Balance, beginning of period			1,668		(1,613)
Other comprehensive income			1,268		2,787
Balance, end of period			2,936		1,174
Deficit					
Balance, beginning of period			(107,426)		(87,954)
Net loss			(3,141)		(1,813)
Balance, end of period			(110,567)		(89,767)
Total Shareholders' Equity		$	220,046	$	234,846

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

Condensed Consolidated Interim Statements of Cash Flows *(unaudited)*

		Three months ended September 30,		Nine months ended September 30,	
($ thousands)	Note	2013	2012	2013	2012
Operating Activities					
Net profit (loss)		$ (894)	$ (111)	$ (3,141)	$ (1,813)
Adjustments for:					
Depletion and depreciation	6	2,471	2,514	7,386	6,898
Impairment of assets	6,7	68	22	961	1,766
Unrealized (gain) loss on risk management contracts	12	384	399	909	(534)
Loss on investment in convertible bonds	3	92	315	1,525	425
Share based compensation (recovery)	10	1,009	(27)	2,102	1,328
Accretion of asset retirement obligation	8	42	31	109	98
Deferred taxes (recovery)		470	(259)	281	(255)
Other items not involving cash		-	(3)	121	(508)
Abandonment expenditures		(1)	(47)	(2)	(59)
Cash flow from operations		3,641	2,834	10,251	7,346
Change in non-cash working capital		(1,204)	673	(242)	440
Net cash from operating activities		2,437	3,507	10,009	7,786
Investing Activities					
Property, plant and equipment expenditures	6	(6,736)	(2,577)	(11,511)	(16,462)
Exploration and evaluation expenditures	7	(2,692)	(6,812)	(27,729)	(13,082)
Sale of property, plant and equipment		-	-	53	175
Purchase of investments	5	-	-	-	(43,171)
Proceeds from sale of marketable securities	4	403	-	403	5,412
Purchase of convertible bonds	3	-	-	-	(2,224)
Change in non-cash working capital		5,788	345	290	108
Net cash used in investing activities		(3,237)	(9,044)	(38,494)	(69,244)
Financing Activities					
Proceeds from issue of share capital		-	113	2,022	117
Shares repurchased	9	-	-	-	(520)
Net cash from (used in) financing activities		-	113	2,022	(403)
Change in cash and cash equivalents		(800)	(5,424)	(26,463)	(61,861)
Cash and cash equivalents, beginning of period		16,878	51,129	42,541	107,566
Cash and cash equivalents, end of period		$ 16,078	$ 45,705	$ 16,078	$ 45,705
Cash interest received		$ 291	$ 314	$ 898	$ 1,138

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

1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is a full cycle exploration and production company. The Company targets scalable high-impact projects and has developed a portfolio of exploration and production assets. These condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2013 and 2012 comprise the Company and its wholly owned subsidiary in those periods controlled.

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 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). These condensed consolidated interim financial statements have been prepared following the same accounting policies and method of computation as the annual consolidated financial statements for the year ended December 31, 2012 with the exception of deferred taxes and the adoption of the new standards and interpretations as outlined in Note 2. Taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or 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. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on November 13, 2013.

2. Accounting Policy Changes

Changes in Accounting Policies for 2013

Effective January 1, 2013, the Company adopted the following new standards and interpretations:

IFRS 10 *Consolidated Financial Statements*

IFRS 10 revised the definition of control and requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It also included guidance related to an investor with decision making rights to determine if it is acting as a principal or agent. IFRS 10 replaced SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IAS 27 was amended to conform to the changes made in IFRS 10 but retains the current guidance for separate financial statements.

Adopting this accounting change had no impact on the Company's financial statements.

IFRS 11 *Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.

Adopting this accounting change had no impact on the Company's financial statements.

IFRS 12 *Disclosure of Interest in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 replaces disclosure requirements previously included in IAS 27, IAS 31 and IAS 28 *Investments in Associates.*

IAS 28 has been amended to conform to the changes made in IFRS 10 and IFRS 11.

Adopting this accounting change had no impact on the Company's financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single framework for fair value measurement and disclosures when fair value is required or permitted under IFRS. Adoption of the standard did not require adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Adopting this accounting change had no impact on the Company's financial statements.

IAS 1 *Presentation of Financial Statements*

Amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendment affected presentation only and had no impact on the Company's financial position or performance.

Future Accounting Pronouncements

IAS 36 *Impairment of Assets*

In May 2013, the IASB released an amendment to IAS 36 *Impairment of Assets*. This amendment requires entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU"). The amendment is effective January 1, 2014. Early adoption is permitted.

3. Investment in Convertible Bonds

In May 2012, Questerre invested in senior secured convertible bonds. They were to mature May 22, 2015 and had a coupon rate of 12%. This financial asset had been designated to be measured as fair value through profit or loss. In September 2013, the Company converted the bonds into 15.29 million common shares of the issuer. Refer to Note 4.

The following table sets out the changes in the investment in convertible bonds:

($ thousands)	September 30, 2013	December 31, 2012
Balance, beginning of period	$ 2,064	$ -
Purchase of convertible bonds	-	2,224
Conversion into common shares	(490)	-
Loss on investment in convertible bonds	(1,525)	(240)
Gain (loss) on foreign exchange	(49)	80
Balance, end of period	$ -	$ 2,064

For the nine month period ended September 30, 2013, the Company recognized a loss on conversion of the bonds of $1.53 million.

4. Marketable Securities

Marketable securities represent investments in shares of public companies. The following table sets out the changes in marketable securities:

($ thousands)	September 30, 2013	December 31, 2012
Balance, beginning of period	$ -	$ 3,275
Conversion of debenture into common shares	490	-
Sale of marketable securities	(403)	(5,412)
Gain on marketable securities	-	2,137
Balance, end of period	$ 87	$ -

In September 2013, the Company converted its senior convertible bonds into 15.29 million common shares of the issuer and sold 12.54 million of these shares for proceeds of $0.40 million.

5. Investments

The investments balance is comprised of the following investments:

($ thousands)		September 30, 2013		December 31, 2012
Red Leaf Resources Inc.	$	44,032	$	42,593
Investment in other private company		525		508
	$	44,557	$	43,101

The following table sets out the changes in investments:

($ thousands)		September 30, 2013		December 31, 2012
Balance, beginning of period	$	43,101	$	495
Purchase of investments		-		43,171
Subscription refund		-		(2,438)
Gain on investments		-		2,250
Gain (loss) on foreign exchange		1,456		(377)
Balance, end of period	$	44,557	$	43,101

For the nine month period ended September 30, 2013, the gain on foreign exchange relating to investments was $1.27 million (2012: $0.78 million), which was recorded in other comprehensive income or loss net of deferred tax of $0.19 million (2012: $0.12 million).

6. Property, Plant and Equipment

Reconciliation of the property, plant and equipment assets:

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Cost or deemed cost:						
Balance, December 31, 2011	$	103,584	$	1,128	$	104,712
Additions		17,763		152		17,915
Transfer from exploration and evaluation assets		10,583		-		10,583
Balance, December 31, 2012		131,930		1,280		133,210
Additions		11,972		2		11,974
Transfer from exploration and evaluation assets		575		-		575
Balance, September 30, 2013	**$**	**144,477**	**$**	**1,282**	**$**	**145,759**
Accumulated depletion, depreciation and impairment losses:						
Balance, December 31, 2011	$	28,371	$	879	$	29,250
Depletion and depreciation		9,713		105		9,818
Impairment		5,324		-		5,324
Balance, December 31, 2012		43,408		984		44,392
Depletion and depreciation		7,311		75		7,386
Balance, September 30, 2013	**$**	**50,719**	**$**	**1,059**	**$**	**51,778**

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Net book value:						
At December 31, 2012	$	88,522	$	296	$	88,818
At September 30, 2013	**$**	**93,758**	**$**	**223**	**$**	**93,981**

During the period ended September 30, 2013, the Company capitalized administrative overhead charges of $1.55 million (December 31, 2012: $0.56 million) including $0.53 million in capitalized stock based compensation expense directly related to development activities (December 31, 2012: $0.06 million). Included in the September 30, 2013 depletion calculation are future development costs of $50.75 million (December 31, 2012: $56.44 million).

7. Exploration and Evaluation Assets

Reconciliation of the exploration and evaluation assets:

($ thousands)		September 30, 2013		December 31, 2012
Balance, beginning of period	$	45,477	$	51,583
Additions		27,848		25,486
Transfers to property, plant and equipment		(575)		(10,583)
Dispositions		(125)		-
Impairment (incl. undeveloped land expiries)		(961)		(21,009)
Balance, end of period	$	71,664	$	45,477

During the period ended September 30, 2013, the Company capitalized administrative overhead charges of $0.44 million (December 31, 2012: $1.52 million) including $0.12 million of capitalized stock based compensation expense directly related to exploration and evaluation activities (December 31, 2012: $(0.04) million).

The impairment expense for the nine month period ended September 30, 2013 is for undeveloped land expiries.

8. 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 $6.68 million as at September 30, 2013 (December 31, 2012: $6.64 million) based on an undiscounted total future liability of $10.28 million (December 31, 2012: $9.21 million). These payments are expected to be made over the next 38 years. The discount factor, being the risk-free rate related to the liabilities, is between 1.19% and 3.07% (December 31, 2012: 1.14% and 2.36%). An inflation rate of 3% over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

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

($ thousands)		September 30, 2013		December 31, 2012
Balance, beginning of period	$	6,644	$	5,806
Revisions due to change in discount rates		(572)		120
Revisions due to change in estimates		3		80
Liabilities incurred		498		655
Liabilities disposed		-		(45)
Liabilities settled		(2)		(102)
Accretion		109		130
Balance, end of period	$	6,680	$	6,644

9. Share Capital

The Company is authorized to issue an unlimited number of Class A common voting 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, 2013, there were no Class B common voting shares or preferred shares outstanding.

a) Issued and outstanding – Class A Common Shares

	Number *(thousands)*		Amount *($ thousands)*
Balance, December 31, 2011	231,300	$	307,857
Issued on exercise of options	260		184
Repurchased under normal course issuer bid	(756)		(1,006)
Balance, December 31, 2012	230,804		307,035
Issued on exercise of options	4,494		4,044
Balance, September 30, 2013	**235,298**	**$**	**311,079**

b) Per share amounts

Basic net loss per share is calculated as follows:

	Three months ended September 30,				Nine months ended September 30,			
(thousands, except as noted)		**2013**		2012		**2013**		2012
Net loss ($thousands)	$	**(894)**	$	(111)	$	**(3,141)**	$	(1,813)
Issued common shares at beginning of period		**235,298**		230,554		**230,804**		231,300
Options exercised		**-**		239		**3,689**		86
Treasury stock reacquired		**-**		-		**-**		(436)
Weighted average number of common shares outstanding (basic)		**235,298**		230,793		**234,493**		230,950
Basic net loss per share	**$**	**-**	$	-	**$**	**(0.01)**	$	(0.01)

Diluted net loss per share is calculated as follows:

	Three months ended September 30,				Nine months ended September 30,			
(thousands, except as noted)		**2013**		2012		**2013**		2012
Net loss ($thousands)	$	**(894)**	$	(111)	$	**(3,141)**	$	(1,813)
Weighted average number of common shares outstanding (basic)		**235,298**		230,793		**234,493**		230,950
Effect of outstanding options		**-**		-		**-**		-
Weighted average number of common shares outstanding (diluted)		**235,298**		230,793		**234,493**		230,950
Diluted net loss per share	**$**	**-**	$	-	**$**	**(0.01)**	$	(0.01)

Under the current stock option plan, options can be exchanged for common shares of the Company or for cash at the Company's discretion. As a result, they are considered potentially dilutive and are included in the calculation of diluted profit per share for the period. 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. At September 30, 2013, 16.82 million options (2012: 19.24 million) were excluded from the diluted weighted average number of common shares outstanding calculation as their effect would have been anti-dilutive.

10. 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 generally expire five years from the grant date or five years from the commencement of vesting.

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

	September 30, 2013		December 31, 2012	
(thousands, except per share data)	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	21,349	$2.24	22,674	$2.27
Granted	3,628	0.88	1,140	0.68
Forfeited	(1,077)	4.79	(1,950)	2.09
Expired	(2,450)	4.66	(255)	0.90
Exercised	(4,494)	0.45	(260)	0.45
Outstanding, end of period	16,956	$2.07	21,349	$2.24
Exercisable, end of period	8,252	$2.96	12,973	$2.48

The following table provides a reconciliation of the Company's share based compensation liability:

($ thousands)	September 30, 2013	December 31, 2012
Balance, beginning of period	$ 2,384	$ 2,585
Amount transferred to contributed surplus	(419)	(1,106)
Share based compensation expense	2,102	953
Capitalized share based compensation	654	19
Reclassification to share capital on exercise of stock options	(2,022)	(67)
Balance, end of period	$ 2,699	$ 2,384
Current portion	$ 1,933	$ 1,945
Non-current portion	766	439
	$ 2,699	$ 2,384

11. Capital Management

The Company believes it is well capitalized with cash flow from operations (an additional IFRS measure defined as net cash from operating activities before changes in non-cash operating working capital), available conventional debt facilities and a working capital surplus (defined as current assets less current liabilities excluding the current portions of the share based compensation liability and risk management contracts) of $4.73 million at September 30, 2013 (December 31, 2012: $33.22 million) consisting mainly of cash and cash equivalents.

The volatility of commodity prices has a material impact on Questerre's cash flow from operations. Questerre attempts to mitigate the effect of lower prices by entering into risk management contracts, shutting in production in unusually low pricing environments, reallocating capital to more profitable areas and reducing capital spending based on results and other market considerations.

The Company considers its capital structure to include shareholders' equity and any outstanding debt. 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 cash flow from operations.

($ thousands)		September 30, 2013		December 31, 2012
Shareholders' equity	$	220,046	$	217,456

12. 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, 2013 included cash and cash equivalents, marketable securities, accounts receivable, risk management contracts, deposits, investments and accounts payable and accrued liabilities. As at September 30, 2013, 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 and the risk management contracts 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's marketable securities are considered a level 1 instrument. The fair value of marketable securities are determined by the closing bid price per share as at the balance sheet date multiplied by the number of shares.

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 financial derivative instruments are carried at fair value as at September 30, 2013 and are considered a Level 2 instrument. The fair value is determined by reference to independent monthly forward settlement prices and currency rates.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

Investments – The fair values of investments are determined using recent corporate transactions.

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 profit or 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 net 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 by not only the relationship between the Canadian and United States dollar and also 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, 2013, the Company had the following outstanding commodity risk management contracts:

	Volumes	Average Price	Term		Fair Value Asset (Liability) *($ thousands)*
WTI NYMEX oil swap	150 bbls/d	$99.65/bbl	Jan. 1, 2013 - Dec. 31, 2013	$	(122)
WTI NYMEX oil swap	150 bbls/d	$98.20/bbl	Mar. 1, 2013 - Dec. 31, 2013		(150)
WTI NYMEX oil swap	150 bbls/d	$94.70/bbl	Jan. 1, 2014 - Dec. 31, 2014		(238)
				$	(510)

The Company's risk management position is as follows:

($ thousands)		September 30, 2013		December 31, 2012
Risk Management Assets				
Current portion	$	-	$	399
	$	-	$	399

($ thousands)		September 30, 2013		December 31, 2012
Risk Management Liabilities				
Current portion	$	480	$	-
Non-current portion		30		-
	$	510	$	-

In net profit or loss, the Company recorded an unrealized loss of $0.91 million for the nine months ended September 30, 2013 and an unrealized gain of $0.53 million for the same period in 2012. The Company also recorded a realized loss of $0.06 million for the nine months ended September 30, 2013 and a realized gain of $0.27 million for the same period in 2012.

The value of Questerre's commodity price risk management contracts fluctuate with changes in the underlying market price of crude oil. An increase or decrease of $5 to the Canadian dollar West Texas Intermediate ("WTI") price, with all other variables being held constant, would result in a $0.41 million increase or decrease to net profit or loss, respectively.

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.

At September 30, 2013, the Company had fully collected amounts outstanding of $10.53 million from insurers relating to a control of well incident that occurred in January 2013. The claim was made for costs to bring the well to the condition existing prior to the incident.

13. Credit Facility

In July 2013, the Company secured a $26.5 million credit facility with a Canadian chartered bank. The credit facility is a revolving operating demand loan. Any borrowing under the facility, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The bank's prime rate currently is 3% per annum. The facility is secured by a $50 million debenture with a first floating charge over all assets of the Company and a general assignment of books debts. No amounts have been withdrawn from the credit facility. Under the terms of the bank credit facility, the Company has provided its covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. This ratio is defined as current assets, excluding unrealized hedging gains, to current liabilities, excluding bank debt and unrealized hedging losses. At September 30, 2013 no amount has been drawn on the credit facility.

14. Commitment

In August 2013, the Company entered into a 10 year agreement for 20 MMcf/d of natural gas and associated liquids processing at a new propane-plus (C3+) shallow cut gas plant located in the Kakwa-Resthaven area in west central Alberta. The agreement is expected to begin in 2015 and has an annual value of $3.5 million.

CORPORATE INFORMATION

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Alain Sans Cartier

Peder Paus

Dennis Sykora

Bjorn Inge Tonnessen

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VP Exploration

Peter Coldham
VP Engineering and
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Chris Daunhauer
VP Finance

Jason D'Silva
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