Q1

2014 QUARTERLY REPORT

QUESTERRE ENERGY CORPORATION

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2014

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

We began executing the Montney development plan to achieve our production target of 6,000 boe/d by the second half of 2015.

Our first 100% well was spud in the quarter. It will be completed after breakup to establish the condensate rates on our 10-section block in Kakwa South. At the same time, our next 100% well will spud on the 7-section block in Kakwa North, adjacent to our joint venture acreage. We plan to drill up to three more wells on these two blocks in 2014.

Two wells were also drilled this quarter on our joint venture block with encouraging results. The first tested the upper Montney interval with condensate rates of over 200 bbls/MMcf. The second well, with a lateral of approximately one and a half miles, was drilled in 35 days, or about the same time it takes to drill a well with a one mile lateral. The joint venture intends to drill up to five additional wells this year.

Over the remainder of 2014, we expect a similar ramp-up in activity with the Red Leaf/Total venture for the EcoShale process. The final construction permit should be issued in the second quarter and work will begin in the field this summer to construct the mine and the first large-scale capsule. We are also working with Red Leaf to appraise our own oil shale acreage at Pasquia Hills. They are currently testing our shale to determine the yield and quality of oil under the EcoShale process.

Highlights

- Spud 100% working interest Montney well at Kakwa South
- Commissioned joint venture central facility at Kakwa with capacity for 15 MMcf/d of natural gas and 3,000 bbls/d of condensate
- First upper Montney well tests at gross rates of 1,076 boe/d with 227 bbls/MMcf of condensate
- Cash flow from operations of $5.5 million and average daily production of 1,133 boe/d for the quarter

Kakwa-Resthaven, Alberta

Successfully drilling and casing our first operated well at Kakwa South was a milestone for us this year.

This was important because we experienced a control of well incident on this block last year. We were particularly cautious while drilling and, with harder rock than predicted in the Montney, this took about 30 days longer than we originally estimated. The data from this well will improve drilling times and lower costs for our future operated wells.

Test results will be important to prove up the condensate rates and add associated reserves. During drilling, we recorded natural gas, condensate and no trace of sour gas. The nearest offsetting wells, about nine miles away, are currently producing at condensate rates of about 75 bbls/MMcf. Based on our initial economic hurdle of 50 bbls/MMcf, a successful test could open up an additional ten net sections that would provide incremental resources to meet our production target.

The volumes to meet this target will come from 11 net sections in the north which includes our joint venture acreage as well as our offsetting 100% seven section block. We intend to develop this dense condensate-rich resource with approximately 90 wells. This is based on four wells per section per interval and two out of three prospective intervals in the Montney.

We had two very positive data points from our joint venture acreage this quarter.

The first was the test of the Upper Montney at rates of over 200 bbls/MMcf. It confirmed this interval is as prospective as the Middle Montney interval, which is producing in all our other wells. This is consistent with the Upper Montney results from other operators and, more importantly, from an adjacent partner well in this interval that tested at rates of 100 bbls/MMcf.

The second was the drilling of our first one and a half mile well from a multi-well pad that exceeded our expectations. It illustrates the benefits of the learning curve and potential for significantly improving capital costs. If we are able to drill one and a half mile wells for a marginally higher cost than the one mile wells, we could reduce the number of wells by one third to produce the same volume of reserves and materially improve the project economics.

The development plan to grow from approximately 1,100 boe/d today to 6,000 boe/d in the next 12-18 months is based initially on keeping two rigs busy for the next two years drilling between seven to eight net wells per year. One rig contracted by Questerre for our 100% acreage and one rig contracted by the operator for our 25% working interest joint venture acreage. The number of net wells drilled in subsequent years will likely drop by 50% to 75% due to the growing base of production.

Based on the existing 2P type curve, we are estimating our unfunded capital requirement for this plan in 2015 to be approximately $100 million. We expect to fund this through a new credit facility and intend to have this in place before the end of this year.

Antler, Saskatchewan and Pierson, Manitoba

As we build our Kakwa production, our light oil assets in Antler and Pierson provide the production that currently underpins our existing credit facilities.

We are incrementally growing our producing reserves with up to four (1.4 net) wells at Pierson this year. The operator recently installed a battery and local gathering system to mitigate the weather related shut-ins.

We are hoping to materially grow the producing reserves with a successful expansion of our pilot waterflood at Antler. The fourth injector was recently converted and we now have two sections under this pilot. We are injecting approximately 1,000 bbl/d of water into the formation and are beginning to replace the voidage created by production. We are monitoring the offsetting wells and should see a response this summer.

Oil Shale Mining

We are very pleased that Red Leaf will begin construction of the first commercial scale capsule this summer.

The front end engineering design phase will be completed by mid-year. Although it has taken longer than expected, it has delivered, in our opinion, a much better design. The design has been validated by a series of constructability tests completed last year and optimized to reduce costs and the environmental footprint, particularly concerning emissions. Work has already begun to further optimize the design for the transition from the Early Production System phase to commercial development. Our VP Engineering has been working with Red Leaf and Total on developing this critical line of sight to commercial production.

Red Leaf has also been helping us to assess our oil shale acreage at Pasquia Hills for the EcoShale process. Shale samples are being processed in their lab to determine the yield and oil quality under this process. We have commissioned a resource assessment of this acreage and should have it completed by this summer.

Operational & Financial

The commissioning of the new joint venture facilities at Kakwa contributed to increased production from this area over the prior quarter. This improved average daily volumes to 1,133 boe/d for the first quarter of 2014 from 841 boe/d in the prior quarter. Kakwa accounted for 470 boe/d and 127 boe/d of these volumes for the respective periods.

With condensate accounting for more than 50% of production from Kakwa, oil and liquids continued to represent almost three quarters of production volumes. Both oil and gas volumes benefitted from higher commodity prices in the quarter. Cash flow from operations was $5.54 million and our average sales price, for all products, was approximately $85/boe.

We anticipate production in the second quarter to be impacted by the recent shut-in of our production in Antler due to road bans during spring break-up. Additionally, we are forecasting lower volumes from Kakwa for the period due to a scheduled turnaround at the third party processing facility this June.

We invested approximately $12 million out of our $85 million capital budget for 2014 in the first quarter. Over 90% of the capital was directed to Montney, drilling our operated well and participating in drilling and completion activities of three (0.75 net) wells on our joint venture block.

Outlook

Delivering on our Montney development plan is the main focus for 2014.

Late last year we built out the team to deliver on this plan with new members that have demonstrated success in the Montney. Our infrastructure strategy was finalized last year and we have the processing, transportation and marketing necessary to achieve our goal of 6,000 boe/d. Our capital program for 2014 will be funded by our existing working capital, cash flow and reserve based facility. Our goal is to secure the remaining capital required this year.

We are very excited about this project and its ability to deliver value in the near-term. The significant condensate and natural gas resource provides diversification and leverage to both improving oil and gas prices. On a much larger scale, our shale gas discovery in Quebec and our oil shale projects have the potential to do the same.

We continue to see a substantive shift in attitudes towards oil and gas development in Quebec. The recent election of a majority government is also encouraging. We are participating in the current BAPE public hearings on shale gas development. We are hopeful that this is going to be the first step towards new hydrocarbon legislation and the resumption of work to commercialize our discovery.

The results from the first commercial size EcoShale capsule could have a material impact on our oil shale acreage at Pasquia Hills and Wyoming. We are looking forward to first oil from this capsule in 2015. By this time, we expect to have delivered on our plan and achieved our production goal from the Montney.

Michael Binnion
President and Chief Executive Officer

Management's Discussion and Analysis ("MD&A") was prepared as of May 14, 2014. 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 March 31, 2014 and for the three month periods ended March 31, 2014 and 2013, and the 2013 MD&A and audited annual consolidated financial statements of the Company for the year ended December 31, 2013. Additional information relating to Questerre, including Questerre's Annual Information Form for the year ended December 31, 2013 is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an independent energy company focused on non-conventional oil and gas resources. The Company is currently developing its condensate-rich area in the Kakwa-Resthaven area of Alberta. It is also 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 Class "A" common voting shares ("Common Shares") are listed on the Toronto Stock Exchange and Oslo Stock Exchange under the symbol "QEC".

Basis of Presentation

Questerre presents figures in the MD&A using accounting policies within the framework of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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:

- growth in production volumes;
- the future ability to alleviate field processing constraints;
- timing of drilling and completion programs and resulting cash flows;
- future oil, natural gas liquids and natural gas prices;
- the timing related to the Company's 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") 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

($ thousands)	Three months ended March 31, 2014	2013
Net cash from operating activities	$ 3,575	$ 3,706
Change in non-cash operating working capital	1,967	(57)
Cash flow from operations	$ 5,542	$ 3,649

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, risk management contracts and the flow-through share liability.

Select Information

As at/for the three months ended March 31,	2014	2013
Financial ($ thousands, except as noted)		
Petroleum and Natural Gas Sales	8,659	6,441
Cash Flow from Operations	5,542	3,649
Per share - Basic ($/share)	0.02	0.02
Per share - Diluted ($/share)	0.02	0.02
Net Income (Loss)	1,179	(1,569)
Per share - Basic ($/share)	-	(0.01)
Per share - Diluted ($/share)	-	(0.01)
Capital Expenditures, net of acquisitions and dispositions	12,359	25,961
Working Capital Surplus	25,173	12,844
Total Assets	278,908	251,828
Shareholders' Equity	244,237	220,578
Common Shares Outstanding (thousands)	264,907	234,948
Weighted average - basic (thousands)	264,763	232,914
Weighted average - diluted (thousands)	265,918	234,042
Operations (units as noted)		
Average Production		
Crude Oil and Natural Gas Liquids (bbl/d)	823	778
Natural Gas (Mcf/d)	1,860	1,331
Total (boe/d)	1,133	1,000
Average Sales Price		
Crude Oil and Natural Gas Liquids ($/bbl)	101.58	86.01
Natural Gas ($/Mcf)	6.78	3.51
Total ($/boe)	84.92	71.57
Netback ($/boe)		
Petroleum and Natural Gas Sales	84.92	71.57
Royalties Expense	(6.29)	(5.43)
Percentage	7%	8%
Direct Operating Expense	(12.04)	(16.47)
Operating Netback	66.59	49.66
Wells Drilled		
Gross	4.00	1.00
Net	1.85	1.00

Highlights

- Spud 100% working interest Montney well at Kakwa South
- Commissioned joint venture central facility at Kakwa with capacity for 15 MMcf/d of natural gas and 3,000 bbls/d of condensate
- First upper Montney well tests at gross rates of 1,076 boe/d with 227 bbls/MMcf of condensate
- Cash flow from operations of $5.5 million and average daily production of 1,133 boe/d for the quarter

First Quarter 2014 Activities

Western Canada

Kakwa-Resthaven, Alberta

Activity in this area increased over the prior year as Questerre began its two-year development plan to achieve its production target of approximately 6,000 boe/d by mid-late 2015.

During the quarter, it spud its first 100% working interest well in Kakwa South, approximately six miles south of its joint venture acreage in the area. The 16-07-62-5W6M well (the "16-07 Well") was drilled to a total measured depth of 5053m including a horizontal leg of approximately 1000m. Subject to equipment availability and weather, completion of the 16-07 Well is scheduled after spring breakup.

The Company recently licensed two multi-well pads on its 100% acreage in Kakwa North, offsetting its joint venture lands in the area. The first well on this acreage is planned for early in the third quarter.

In conjunction with its joint venture partners, the Company participated in the drilling and completion of its first well targeting an upper Montney interval. The 02/14-30-63-5W6M well (the "02/14-30 Well") was drilled to a total measured depth of 4563m with a horizontal leg of approximately 1100m or 200m-500m shorter than the previously drilled horizontal wells. The well was completed using a water-based nitrogen foam frac.

Over the last 24 hours of a 119-hour test period, the well averaged 2.73 MMcf/d of natural gas and 621 bbls/d (227 bbls/MMcf) of condensate and was continuing to clean up completion fluids. No sour gas was observed during testing. The well was flowing up 4.5 inch casing and a 19.05 mm (3/4 inch) choke, against an estimated gathering system pressure of approximately 1800 kPa. Questerre has a 25% working interest in this well.

The operator expects to have the well on production late in the second quarter. While the initial test rates from the 02/14-30 Well are very encouraging, the Company cautions that they are not indicative of the long-term performance or the ultimate recovery from this well.

The joint venture also spud the 08-20-063-5W6M well (the "08-20 Well") late in the quarter. Drilling operations on this well were completed in 35 days with a horizontal leg of approximately 2000m.

Production from the joint venture acreage is expected to benefit from the central facility that was commissioned early in the quarter. The central compression and condensate stabilization facility located at 16-07-63-5W6M ("16-07 Facility") is designed to address the high line pressures associated with delivering natural gas and liquids from the joint venture wells to a third party processing plant. It will also stabilize wellhead condensate from the wells prior to transportation to the sales pipeline.

The Company's plans for the remainder of this year include the drilling of up to four more wells on its 100% acreage and participating in the drilling up of 5 (1.25 net) additional wells on its joint venture acreage.

Antler, Saskatchewan and Pierson, Manitoba

Development of the Company's light oil assets in these areas included the expansion of the pilot waterflood at Antler and the drilling of one (0.35 net) additional wells at Pierson.

At Antler, a fourth producing horizontal well was converted into a water injection well to increase recovery of the oil in place. This follows the two additional wells that were converted to injectors in the second half of 2013 and expands the pilot to two sections. Production and pressure data in offsetting wells is being monitored and, based on results, Questerre plans to expand the waterflood to additional sections during the year. The Company also tied-in and placed on production three net oil wells that were completed in late 2013.

Questerre participated in the drilling of one (0.35 net) oil well in Pierson, Manitoba in the quarter. The well is scheduled to be completed after spring breakup. Up to three (1.05 net) additional wells are planned for the remainder of this year. The operator also completed the installation of a satellite battery and local gathering system to mitigate the impact of weather-related production shut-ins.

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. Questerre holds approximately 6% of the equity capital of Red Leaf.

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 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.

In the first quarter, the joint venture worked to finalize the front end engineering and design for the construction of the capsule and the associated mining and production facilities. Once completed, this will provide the detailed engineering, cost estimates and construction schedules required to commence field work. Red Leaf is securing the final construction permit with the goal of beginning field work and capsule construction late this summer. Preliminary field work has already begun with the construction of access roads and the clearing of vegetation.

The Company continues to assess the potential of its oil shale acreage at Pasquia Hills, Saskatchewan. A resource report was commissioned and is expected in the second half of this year. Red Leaf is currently analyzing the Company's oil shale in their lab to characterize the oil quality under the EcoShale process.

Production

Three months ended March 31,	2014			2013		
	Oil and Liquids (bbl/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbl/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Saskatchewan	374	-	374	467	-	467
Alberta	276	1,788	574	238	1,211	440
British Columbia	-	72	12	-	120	20
Manitoba	173	-	173	73	-	73
	823	1,860	1,133	778	1,331	1,000

Higher production in the first quarter of the year reflects the increased investment in the Kakwa-Resthaven area, targeting condensate-rich natural gas from the Montney formation. For the first quarter of 2014, production averaged 1,133 boe/d as compared to 841 boe/d in the fourth quarter of 2013 and 1,000 boe/d for the first quarter of 2013.

As a proportion of total volumes, oil and liquids decreased to 73% in the quarter from 82% in the prior quarter and 78% from the first quarter of last year. Natural declines associated with oil production from Saskatchewan were largely offset by increased volumes of light oil from Manitoba and the condensate from the Kakwa-Resthaven area. With production from this area split approximately 50/50 natural gas and liquids, Questerre expects this percentage to decrease as Montney production increases in the second half of this year.

Local and third party infrastructure are essential to ramping up development of the Montney. In 2013, production growth was impacted by the high line pressures and high condensate yields from the wells. In the first quarter of 2014, condensate yields for the wells on production averaged 173 Bbls/MMcf. The new central compression facility and recently installed wellhead production equipment are expected to alleviate these constraints and enhance production from existing and new wells. The Company continues to monitor the impact of this equipment to address these high condensate yields and will evaluate additional equipment as required. To ensure access to third party infrastructure for its future production, the Company has secured transportation and processing capacity for up to approximately 6,000 boe/d of production beginning mid-late 2015.

Although the majority of capital expenditures for 2014 will be directed towards condensate-rich natural gas, the Company continues to invest in its light oil assets. The Company intends to drill up to 3 (1.05 net) additional oil wells in Manitoba offsetting its existing production and expand the waterflood in Antler based on the results from the pilot.

First Quarter 2014 Financial Results

Petroleum and Natural Gas Sales

Three months ended March 31,	2014			2013		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 3,401	$ -	$ 3,401	$ 3,721	$ -	$ 3,721
Alberta	2,630	1,101	3,731	1,739	389	2,128
British Columbia	-	36	36	-	35	35
Manitoba	1,491	-	1,491	557	-	557
	$ 7,522	$ 1,137	$ 8,659	$ 6,017	$ 424	$ 6,441

Increased oil and condensate volumes leveraged higher prices and generated higher sales for the first quarter of the year. Petroleum and natural gas sales also improved due to higher natural gas volumes and materially higher natural gas prices.

Pricing

Three months ended March 31,	2014	2013
Benchmark prices		
Natural Gas - AECO, daily spot ($/Mcf)	5.71	3.20
Crude Oil - Edmonton light ($/bbl)	99.74	88.16
Realized prices		
Natural Gas ($/Mcf)	6.78	3.51
Crude Oil and Natural Gas Liquids ($/bbl)	101.58	86.01

International crude oil prices remained relatively strong in the quarter driven by supply concerns in North Africa and the political situation in Ukraine. The benchmark West Texas Intermediate ("WTI") price benefitted from this strength and a narrowing differential with the international benchmark Brent price. The differential narrowed as new pipelines, such as TransCanada's Gulf Access project, increased capacity between Cushing and the Gulf Coast. The Edmonton light price strengthened in the quarter, partially due to a weaker Canadian dollar. Pipelines and increased transportation of crude oil by rail also narrowed the differential between the WTI and benchmark Edmonton Light price from US$13.13/bbl in the fourth quarter of 2013 to US$6.21/bbl in the first quarter of 2014. Consistent with prior periods, Questerre expects this differential to remain 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 first quarter, the realized price averaged $101.58/bbl (2013: $86.01/bbl) as compared to the average Edmonton Light price of $99.74/bbl (2013: $88.16/bbl).

A very cold winter in the northeastern United States had a significant impact on natural gas prices. Record demand for heating contributed to strong withdrawals that resulted in natural gas storage at levels well below the lower end of the five year average by the end of the winter. Prices are expected to remain relatively strong over the remainder of this year due to the low storage and the high injection volumes needed to restore the storage to the five year average.

Due to the high liquids content of its natural gas production from the Kakwa-Resthaven area, Questerre continued to realize a premium to the benchmark AECO price during the quarter.

Royalties

	Three months ended March 31,	
($ thousands)	2014	2013
Saskatchewan	$ 211	$ 245
Alberta	278	204
British Columbia	-	-
Manitoba	152	40
	$ 641	$ 489
% of Revenue		
Saskatchewan	6%	7%
Alberta	7%	10%
British Columbia	0%	0%
Manitoba	10%	7%
Total Company	7%	8%

Questerre's royalty rate as a percentage of revenue declined marginally to 7% from 8% in the first quarter of 2013. Production in Alberta, primarily from the Kakwa-Resthaven area, benefits from Crown royalty incentives including the New Well Royalty Regulation and the Natural Gas Deep Drilling Program, with royalty rates of 5%. The royalty rate on production from Manitoba increased to 10% as production commenced from wells on freehold lands.

Operating Costs

	Three months ended March 31,	
($ thousands)	2014	2013
Saskatchewan	$ 364	$ 794
Alberta	769	593
British Columbia	15	29
Manitoba	79	66
	$ 1,227	$ 1,482
$/boe		
Saskatchewan	10.80	18.90
Alberta	14.89	14.97
British Columbia	13.92	16.14
Manitoba	5.10	10.04
Total Company	12.04	16.47

On a unit of production basis, operating costs improved to $12.04/boe from $16.47/boe in the first quarter of 2013. With the tie-in of several wells in Antler to the local gathering system and the electrical grid, Questerre realized lower generator rental, fuel and trucking costs. This reduced operating costs in Saskatchewan by approximately 40%. Operating costs in Alberta largely reflect costs associated with production from the Kakwa-Resthaven area. The higher fixed costs associated with operating the joint venture central facility are

expected to result in higher costs on a per unit basis in the near term until production volumes increase over the second half of the year.

General and Administrative Expenses

		Three months ended March 31,		
($ thousands)		2014		2013
General and administrative expenses, gross	$	1,658	$	1,469
Capitalized expenses and overhead recoveries		(564)		(509)
General and administrative expenses, net	$	1,094	$	960

Net general and administrative expenses ("G&A") were $1.09 million for the three months ended March 31, 2014 compared to $0.96 million for the same period in the prior year. The increase was mainly due to higher public relations, consulting and legal expenses.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded $2.35 million of depletion and depreciation expense for the quarter ended March 31, 2014 compared to $2.67 million for the same period in 2013. The decrease is due to the higher production weighting from cash generating units with lower finding and development costs. This was partially offset by higher production in 2014 compared to 2013.

The impairment of assets of $0.09 million in the first quarter of 2014 (2013: $0.86 million) 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 income (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 first quarter of 2014 was $0.41 million as compared to a $1.55 million in 2013. In the first quarter of 2014, the share price change was not as significant as the change in the same period in 2013 resulting in a lower recorded expense.

Deferred Taxes

For the three months ended March 31, 2014, Questerre reported a deferred tax expense of $0.81 million. For the three months ended March 31, 2013, the Company reported a deferred tax recovery of $0.21 million. In 2014, the Company recorded a deferred tax expense of $1.72 million relating to capital expenditures incurred where the tax benefit was renounced to subscribers of the Company's 2013 flow-through share issuance. In addition, the Company recorded a deferred tax recovery of $1.30 million pursuant to its flow-through share accounting policy. The Company derecognizes its flow-through share liability, with a corresponding reduction in deferred tax expense, as it incurs qualifying exploration expenditures.

Other Income and Expenses

Changes to the fair value of the Company's risk management contracts are recorded through net income (loss). For the Company's outstanding risk management contracts at March 31, 2014, the unrealized loss was $0.66 million for the three months ended March 31, 2014 compared to $0.40 million in 2013. For the Company's settled risk management contracts at March 31, 2014, the realized loss recorded for the three months ended March 31, 2014 was $0.30 million compared to the realized gain of $0.04 million for the same period in 2013.

The Company recorded a gain on foreign exchange, net of deferred tax, through other comprehensive income (loss), of $1.58 million and $0.78 million for the first quarter of 2014 and 2013, respectively. The changes are due to fluctuations in the exchange rate relating to the Company's US dollar investments.

Total Comprehensive Income (Loss)

Questerre's total comprehensive income for the first quarter of 2014 was $2.75 million as compared to the total comprehensive loss of $0.79 million in the first quarter of 2013. The increase is mainly due to 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 March 31,	
($ thousands)	2014	2013
Alberta	$ 11,148	$ 23,908
Saskatchewan	1,154	1,352
Quebec	37	478
Wyoming	-	100
Manitoba	-	94
British Columbia	9	22
Corporate	11	7
Total	$ 12,359	$ 25,961

For the three months ended March 31, 2014, the Company incurred net capital expenditures of $12.36 million as follows:

- In Alberta, the Company spent $11.15 million to drill, complete and test wells targeting the liquids-rich Montney formation.
- In Saskatchewan, the Company spent $1.15 million to complete wells drilled in 2013 and to expand its waterflood pilot.

For the three months ended March 31, 2013, the Company incurred net capital expenditures of $25.96 million as follows:

- In Alberta, the Company spent $23.91 million, including $19.1 million to acquire acreage prospective for the liquids-rich Montney and the remainder to drill and complete wells targeting this formation.
- In Saskatchewan, $1.16 million was incurred to drill one infill well and acquire 3-D seismic data in Antler and $0.19 million for work relating to the Company's Pasquia Hills oil shale acreage.
- In the St. Lawrence Lowlands of Quebec the Company spent $0.48 million working to secure the Company's social license to operate in the province and remedial work on its existing test wells.

Liquidity and Capital Resources

Questerre had a working capital surplus of $25.17 million at March 31, 2014 as compared to $31.91 million at December 31, 2013. The Company's capital investment program for 2014 is mainly directed to the development of its Montney assets in the Kakwa-Resthaven area. The Company believes it is sufficiently capitalized to fund this program from its working capital surplus, expected cash flow from operations and undrawn conventional debt facilities.

Cash Flow from Operating Activities

Net cash from operating activities for the three months ended March 31, 2014 and 2013 was $3.58 million and $3.71 million, respectively. The Company realized higher cash flow from operations as a result of higher production and commodity pricing. This was partly offset by the negative change in non-cash working capital from increased receivables resulting from higher sales revenue.

Cash Flow used in Investing Activities

Cash flow used in investing activities was $9.43 million for the quarter ended March 31, 2014 and $28.91 million for the same period in 2013.

For the first quarter of 2014, capital expenditures of $12.36 million were incurred mainly for drilling and completion activity in the Kakwa-Resthaven area. For the same period in 2013, capital expenditures of $25.69 million were incurred including $19.1 million to acquire land in the same area and the remainder to drill and complete wells targeting the Montney formation.

Cash Flow from (used in) Financing Activities

Cash flow from financing activities was $0.08 million for the three months ended March 31, 2014 and $1.86 million for the three months ended March 31, 2013. The decrease is due to lower proceeds received on share option exercises in 2014 than in 2013.

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)	May 14, 2014	March 31, 2014	December 31, 2013
Common shares	264,932	264,907	264,657
Stock options	17,713	17,813	18,188
Weighted average common shares			
Basic		264,763	236,691
Diluted		265,918	237,210

A summary of the Company's stock option activity during the three months ended March 31, 2014 and year ended December 31, 2013 follows:

	March 31, 2014		December 31, 2013	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	18,188	$2.02	21,349	$2.24
Granted	-	-	5,578	0.96
Forfeited	(125)	0.88	(1,766)	1.67
Expired	-	-	(2,480)	4.66
Exercised	(250)	0.67	(4,493)	0.45
Outstanding, end of period	17,813	$2.05	18,188	$2.02
Exercisable, end of period	10,007	$2.92	9,352	$2.89

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, 2013.

The Company may use financial instruments to reduce corporate risk in certain situations. At March 31, 2014, Questerre had the following commodity risk management contracts in place:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Liability *($ thousands)*
Natural gas swap	2,000 gj/d	$4.00/gj	Feb. 1, 2014 - Dec. 31, 2014	$ 237
Natural gas swap	2,000 gj/d	$3.72/gj	Jan. 1, 2015 - Dec. 31, 2015	184
Oil swap	150 bbls/d	$94.70/bbl	Jan. 1, 2014 - Dec. 31, 2014	688
				$ 1,109

Accounting Policy Changes

Changes in Accounting Policies for 2014

Effective January 1, 2014, the Company adopted the following new standards and interpretations:

IAS 32 *Financial Instruments*

IAS 32 has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event.

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

IFRIC 21 *Accounting for Levies*

IFRIC 21 was issued which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy.

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

Future Accounting Pronouncements

IFRS 9 *Financial Instruments*

In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 *Financial Instruments* for annual periods beginning on or after January 1, 2018. The full impact of the standard on the Company's financial statements will not be known until changes are finalized. 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 2014 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 March 31, 2014 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)	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Production (boe/d)	**1,133**	841	880	820
Average Realized Price ($/boe)	**84.92**	74.45	81.20	74.84
Petroleum and Natural Gas Sales	**8,659**	5,760	6,574	5,585
Cash Flow from Operations	**5,542**	2,941	3,641	2,962
Basic ($/share)	**0.02**	0.01	0.02	0.01
Diluted ($/share)	**0.02**	0.01	0.02	0.01
Net Income (Loss)	**1,179**	(16,213)	(894)	(678)
Basic ($/share)	**-**	(0.07)	-	-
Diluted ($/share)	**-**	(0.07)	-	-
Capital Expenditures, net of acquisitions and dispositions	**12,359**	12,946	9,428	3,798
Working Capital Surplus	**25,173**	31,909	4,729	10,608
Total Assets	**278,908**	273,108	245,814	246,660
Shareholders' Equity	**244,237**	241,197	220,046	221,696
Weighted Average Common Shares Outstanding				
Basic (thousands)	**264,763**	243,213	235,298	235,240
Diluted (thousands)	**265,918**	244,479	235,442	235,546

($ thousands, except as noted)	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Production (boe/d)	1,000	766	696	525
Average Realized Price ($/boe)	71.57	74.22	75.64	72.10
Petroleum and Natural Gas Sales	6,441	5,232	4,843	3,444
Cash Flow from Operations	3,649	2,898	2,834	1,221
Basic ($/share)	0.02	0.01	0.01	0.01
Diluted ($/share)	0.02	0.01	0.01	0.01
Net Income (Loss)	(1,569)	(17,659)	(111)	131
Basic ($/share)	(0.01)	(0.08)	-	-
Diluted ($/share)	(0.01)	(0.08)	-	-
Capital Expenditures, net of acquisitions and dispositions	25,961	12,981	9,389	5,188
Working Capital Surplus	12,844	33,216	40,597	47,350
Total Assets	251,828	243,365	257,814	256,759
Shareholders' Equity	220,578	217,456	234,846	233,860
Weighted Average Common Shares Outstanding				
Basic (thousands)	232,914	230,804	230,793	230,946
Diluted (thousands)	234,042	232,665	232,420	232,955

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

- Production has increased to 1,133 boe/d for the three months ended March 31, 2014 from 1,000 boe/d in the same period in the prior year. The Company realized increased production from its Kakwa-Resthaven and Pierson areas. 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. This was partially offset by the proceeds received in the fourth quarter of 2013 from share issuances. Capital expenditures in the first quarter of 2013 included the Company's land purchased in Kakwa-Resthaven and Wapiti for approximately $19 million.
- Cash flow from operations has increased over the previous quarters mainly due to increased production from the Kakwa-Resthaven and Pierson areas and higher commodity prices.

Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note		March 31, 2014		December 31, 2013
Assets					
Current Assets					
Cash and cash equivalents		$	41,689	$	47,459
Accounts receivable			4,161		2,630
Deposits and prepaid expenses			549		607
			46,399		50,696
Investments	3		47,885		46,078
Property, plant and equipment	4		100,313		99,267
Exploration and evaluation assets	5		66,006		56,442
Goodwill			2,346		2,346
Deferred tax assets			15,959		18,279
		$	278,908	$	273,108
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities		$	21,227	$	18,787
Current portion of risk management contracts	11		1,087		453
Flow-through share obligation	7		462		1,760
Current portion of share based compensation liability	9		3,018		2,825
			25,794		23,825
Risk management contracts	11		22		-
Share based compensation liability	9		1,080		950
Asset retirement obligation	6		7,775		7,136
			34,671		31,911
Shareholders' Equity					
Share capital	8		347,318		347,059
Contributed surplus			16,686		16,659
Accumulated other comprehensive income			5,834		4,259
Deficit			(125,601)		(126,780)
			244,237		241,197
		$	278,908	$	273,108

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 as noted)	Note	*Three months ended March 31,* 2014	2013
Revenue			
Petroleum and natural gas sales		$ 8,659	$ 6,441
Royalties		(641)	(489)
Petroleum and natural gas revenue, net of royalties		8,018	5,952
Expenses			
Direct operating		1,227	1,482
General and administrative		1,094	960
Depletion and depreciation	4	2,346	2,668
Impairment of assets	5	86	855
Loss on risk management contracts	11	954	362
Gain on investment in convertible bonds		-	(137)
Share based compensation	9	409	1,549
Accretion of asset retirement obligation	6	53	34
Other income (expense)		(38)	(70)
Interest income		182	109
Income (loss) before taxes		1,993	(1,782)
Deferred tax expense (recovery)		814	(213)
Net income (loss)		1,179	(1,569)
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to net income (loss):			
Gain on foreign exchange		1,575	781
Total comprehensive income (loss)		$ 2,754	$ (788)
Net income (loss) per share			
Basic and diluted	8	$ -	$ (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		*Three months ended March 31,* 2014		2013
Share Capital					
Balance, beginning of period		$	347,059	$	307,035
Issue of common shares	8		323		3,729
Share issue costs (net of tax)	8		(64)		-
Balance, end of period			347,318		310,764
Contributed Surplus					
Balance, beginning of period			16,659		16,179
Reclassification of share based compensation	9		27		181
Balance, end of period			16,686		16,360
Accumulated Other Comprehensive Income (Loss)					
Balance, beginning of period			4,259		1,668
Other comprehensive income			1,575		781
Balance, end of period			5,834		2,449
Deficit					
Balance, beginning of period			(126,780)		(107,426)
Net income (loss)			1,179		(1,569)
Balance, end of period			(125,601)		(108,995)
Total Shareholders' Equity		$	244,237	$	220,578

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

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

($ thousands)	Note	Three months ended March 31, 2014	2013
Operating Activities			
Net income (loss)		$ 1,179	$ (1,569)
Adjustments for:			
Depletion and depreciation	4	2,346	2,668
Impairment of assets	5	86	855
Unrealized loss on risk management contracts	11	655	402
Unrealized gain on investment in convertible bonds		-	(137)
Share based compensation	9	409	1,549
Accretion of asset retirement obligation	6	53	34
Deferred tax expense (recovery)		814	(213)
Other items not involving cash		-	62
Abandonment expenditures	6	-	(2)
Cash flow from operations		5,542	3,649
Change in non-cash working capital		(1,967)	57
Net cash from operating activities		3,575	3,706
Investing Activities			
Property, plant and equipment expenditures	4	(2,780)	(4,159)
Exploration and evaluation expenditures	5	(9,579)	(21,802)
Change in non-cash working capital		2,933	(2,948)
Net cash used in investing activities		(9,426)	(28,909)
Financing Activities			
Share issue costs		(88)	-
Proceeds from issue of share capital	8	169	1,864
Net cash from financing activities		81	1,864
Change in cash and cash equivalents		(5,770)	(23,339)
Cash and cash equivalents, beginning of period		47,459	42,541
Cash and cash equivalents, end of period		$ 41,689	$ 19,202
Cash interest received		$ 15	$ 331

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 months ended March 31, 2014 and 2013 comprise the Company and its wholly owned subsidiary in those periods owned.

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, 2013 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 net income (loss). The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013, 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 May 14, 2014.

2. Accounting Policy Changes

Changes in Accounting Policies for 2014

Effective January 1, 2014, the Company adopted the following new standards and interpretations:

IAS 32 *Financial Instruments*

IAS 32 has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event.

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

IFRIC 21 *Accounting for Levies*

IFRIC 21 was issued which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy.

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

Future Accounting Pronouncements

IFRS 9 *Financial Instruments*

In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 *Financial Instruments* for annual periods beginning on or after January 1, 2018. The full impact of the standard on the Company's financial statements will not be known until changes are finalized. Early adoption is permitted.

3. Investments

The investments balance is comprised of the following investments:

($ thousands)	March 31, 2014	December 31, 2013
Red Leaf Resources Inc.	$ 47,321	$ 45,535
Investment in other private company	564	543
	$ 47,885	$ 46,078

The following table sets out the changes in investments:

($ thousands)	March 31, 2014	December 31, 2013
Balance, beginning of period	$ 46,078	$ 43,101
Gain (loss) on foreign exchange	1,807	2,977
Balance, end of period	$ 47,885	$ 46,078

For the three month period ended March 31, 2014, the gain on foreign exchange relating to investments was $1.81 million (March 31, 2013: gain $0.90 million), which was recorded in other comprehensive income (loss) net of deferred tax of $0.23 million (March 31, 2013: $0.12 million).

4. 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, 2012	$ 131,929	$ 1,281	$ 133,210
Additions	21,226	2	21,228
Transfer from exploration and evaluation assets	496	-	496
Balance, December 31, 2013	153,651	1,283	154,934
Additions	3,381	11	3,392
Balance, March 31, 2014	**$ 157,032**	**$ 1,294**	**$ 158,326**
Accumulated depletion, depreciation and impairment losses:			
Balance, December 31, 2012	$ 43,408	$ 984	$ 44,392
Depletion and depreciation	9,295	100	9,395
Impairment	1,880	-	1,880
Balance, December 31, 2013	54,583	1,084	55,667
Depletion and depreciation	2,320	26	2,346
Balance, March 31, 2014	**$ 56,903**	**$ 1,110**	**$ 58,013**

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Net book value:			
At December 31, 2013	$ 99,068	$ 199	$ 99,267
At March 31, 2014	**$ 100,129**	**$ 184**	**$ 100,313**

During the period ended March 31, 2014, the Company capitalized administrative overhead charges of $0.51 million (December 31, 2013: $2.14 million) including $0.05 million in capitalized stock based compensation expense directly related to development activities (December 31, 2013: $0.86 million). Included in the March 31, 2014 depletion calculation are future development costs of $62.54 million (December 31, 2013: $73.41 million).

5. Exploration and Evaluation Assets

Reconciliation of the exploration and evaluation assets:

($ thousands)		March 31, 2014		December 31, 2013
Balance, beginning of period	$	56,442	$	45,477
Additions		9,650		32,420
Transfers to property, plant and equipment		-		(496)
Dispositions		-		(125)
Impairment (incl. undeveloped land expiries)		(86)		(20,834)
Balance, end of period	$	66,006	$	56,442

During the period ended March 31, 2014, the Company capitalized administrative overhead charges of $0.15 million (December 31, 2013: $0.63 million) including $0.04 million of capitalized stock based compensation expense directly related to exploration and evaluation activities (December 31, 2013: $0.21 million).

The impairment expense for the three month period ended March 31, 2014 is for undeveloped land expiries.

6. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be $7.78 million as at March 31, 2014 (December 31, 2013: $7.14 million) based on an undiscounted total future liability of $11.93 million (December 31, 2013: $11.27 million). These payments are expected to be made over the next 37 years. The discount factor, being the risk-free rate related to the liabilities, is between 1.07% and 2.96% (December 31, 2013: 1.13% and 3.24%). 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)		March 31, 2014		December 31, 2013
Balance, beginning of period	$	7,136	$	6,644
Revisions due to change in discount rates		255		(725)
Revisions due to change in estimates		-		566
Liabilities incurred		331		555
Liabilities settled		-		(60)
Accretion		53		156
Balance, end of period	$	7,775	$	7,136

7. Flow-Through Share Obligation

Reconciliation of the flow through share obligation:

($ thousands)		March 31, 2014		December 31, 2013
Balance, beginning of period	$	1,760	$	-
Liability recognized on flow-through share issuance		-		1,760
Liabilities settled		(1,298)		-
Balance, end of period	$	462	$	1,760

At December 31, 2013, a premium of $1.76 million related to the issuance of the Class "A" common voting shares ("Common Shares") on a flow-through basis was recorded as a liability on the consolidated statement of financial position. The liability is derecognized, with a corresponding deferred tax expense, as the Company incurs qualifying exploration expenditures. The Company has an obligation to incur $9.09 million in qualifying exploration expenditures by December 31, 2014 to satisfy the terms of this flow-through Common Share issuance. At March 31, 2014, the Company incurred qualifying exploration expenditures of $6.70 million and recorded a reduction to the flow-through share obligation of $1.30 million and a corresponding decrease to deferred tax expense.

8. Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" common voting shares and an unlimited number of preferred shares, issuable in one or more series. At March 31, 2014, there were no Class "B" common voting shares or preferred shares outstanding.

a) Issued and outstanding –Common Shares

	Number *(thousands)*		Amount *($ thousands)*
Balance, December 31, 2012	230,804	$	307,035
Issued on exercise of options	4,493		4,044
Issued on private placement	23,495		30,237
Issued on flow-through share offering	5,865		7,331
Share issue costs (net of tax effect)	-		(1,588)
Balance, December 31, 2013	264,657		347,059
Issued on exercise of options	250		323
Share issue costs (net of tax effect)	-		(64)
Balance, March 31, 2014	264,907	$	347,318

b) Per share amounts

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

		Three months ended March 31,		
(thousands, except as noted)		2014		2013
Net income (loss) ($ thousands)	$	1,179	$	(1,569)
Issued Common Shares at beginning of period		264,657		230,804
Effect of options exercised		106		2,110
Weighted average number of Common Shares outstanding (basic)		264,763		232,914
Basic net income (loss) per share	$	-	$	(0.01)

Diluted net income (loss) per share is calculated as follows:

		Three months ended March 31,		
(thousands, except as noted)		2014		2013
Net income (loss) ($ thousands)	$	1,179	$	(1,569)
Weighted average number of Common Shares outstanding (basic)		264,763		232,914
Effect of outstanding options		1,155		-
Weighted average number of Common Shares outstanding (diluted)		265,918		232,914
Diluted net income (loss) per share	$	-	$	(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 income (loss) 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 March 31, 2014, 14.60 million options (March 31, 2013: 17.74 million) were excluded from the diluted weighted average number of Common Shares outstanding calculation as their effect would have been anti-dilutive.

9. 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:

	March 31, 2014		December 31, 2013	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	18,188	$2.02	21,349	$2.24
Granted	-	-	5,578	0.96
Forfeited	(125)	0.88	(1,766)	1.67
Expired	-	-	(2,480)	4.66
Exercised	(250)	0.67	(4,493)	0.45
Outstanding, end of period	17,813	$2.05	18,188	$2.02
Exercisable, end of period	10,007	$2.92	9,352	$2.89

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

($ thousands)	March 31, 2014	December 31, 2013
Balance, beginning of period	$ 3,775	$ 2,384
Amount transferred to contributed surplus	(27)	(480)
Share based compensation expense	409	2,825
Capitalized share based compensation	96	1,068
Reclassification to share capital on exercise of stock options	(155)	(2,022)
Balance, end of period	$ 4,098	$ 3,775
Current portion	$ 3,018	$ 2,825
Non-current portion	1,080	950
	$ 4,098	$ 3,775

10. 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, risk management contracts and the flow-through share liability) of $25.17 million at March 31, 2014 (December 31, 2013: $31.91 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)		March 31, 2014		December 31, 2013
Shareholders' equity	$	244,237	$	241,197

11. 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 March 31, 2014 included cash and cash equivalents, accounts receivable, risk management contracts, deposits, investments and accounts payable and accrued liabilities. As at March 31, 2014, 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 does not hold any Level 1 financial instruments.

Level 2 Fair Value Measurements

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

The Company's financial derivative instruments are carried at fair value as at March 31, 2014 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.

The Company's investments are considered a level 3 instrument. The fair values are determined by reference to recent corporate transactions of the investee.

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

c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's net income (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 March 31, 2014, the Company had the following outstanding commodity risk management contracts:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Liability *($ thousands)*
Natural gas swap	2,000 gj/d	$4.00/gj	Feb. 1, 2014 - Dec. 31, 2014	$ 237
Natural gas swap	2,000 gj/d	$3.72/gj	Jan. 1, 2015 - Dec. 31, 2015	184
Oil swap	150 bbls/d	$94.70/bbl	Jan. 1, 2014 - Dec. 31, 2014	688
				$ 1,109

The Company's risk management position is as follows:

($ thousands)	March 31, 2014	December 31, 2013
Risk Management Liabilities		
Current portion	$ 1,087	$ 453
Non-current portion	22	-
	$ 1,109	$ 453

In net income (loss), the Company recorded an unrealized loss of $0.66 million for the three months ended March 31, 2014 and an unrealized loss of $0.40 million for the same period in 2013. The Company also recorded a realized loss of $0.30 million for the three months ended March 31, 2014 and a realized gain of $0.04 million for the same period in 2013.

The value of Questerre's commodity price risk management contracts fluctuate with changes in the underlying market price of the relevant commodity. For the Company's oil swap contract, 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 $0.21 million increase or decrease to net income (loss), respectively. For the Company's gas swap contracts, an increase or decrease of $1 to the AECO price, with all other variables being held constant, would result in a $1.28 million increase or decrease to net income (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.

12. Credit Facility

In July 2013, the Company secured a $26.50 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 debenture with a first floating charge over all assets of the Company and a general assignment of books debts. 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. The Adjusted Working Capital Ratio at March 31, 2014 was 2.95 and the covenant is met. At March 31, 2014 no amount has been drawn on the credit facility.

Corporate Information

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