Q2

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

With our Montney development plan underway, we drilled a number of key wells in the second quarter of this year. As of the date of this report, we have four wells flowing back on test.

These wells are important to assess over 130 possible drilling locations on 17 sections of 100% owned acreage. The 16-07 Well at Kakwa South has recently been put on flow-back and is currently flowing frac water back to surface. The 14-29 Well at Kakwa North is being cased and will be completed and tested in September. Up to three more wells are planned for our operated acreage over the remainder of this year.

On our joint venture acreage, we moved up the learning curve by drilling three wells from a single pad, each with a 1.5 mile lateral leg. All three of these wells have had plugs drilled out and are flowing back on initial test. We expect them to be put on production in August with thirty day rates available in September. We expect that the majority of future wells will have similar length laterals. In addition to the well currently drilling, we plan to drill up to two more wells on this acreage in 2014. Based on results to date, the operator has proposed to add a second rig to accelerate development.

We were encouraged by the progress made by Red Leaf to commercialize its EcoShale® process. During the quarter, final engineering was completed and the last construction permit issued for the EPS phase. Total has approved the updated budget for this phase and field work has started for the construction of the first large-scale capsule. On our oil shale acreage at Pasquia Hills, we acquired another permit. We also completed the first phase of our resource assessment and are now delineating the resource that could be commercially developed using the EcoShale® process.

Highlights

- Spud 100% working interest Montney well at Kakwa North
- Drilled first three-well pad on Kakwa joint venture acreage with laterals of 1.5 miles
- Red Leaf and Total joint venture secured final permit and began construction of commercial-scale capsule
- Shut-ins due to weather in Saskatchewan and plant maintenance in Kakwa resulted in average production of 849 boe/d and cash flow from operations of $3 million

Kakwa-Resthaven, Alberta

As we ramp up the Montney drilling program to meet our production goals, we are seeing the expected progress up the learning curve.

Our first three 1.5 mile wells were drilled off the same pad and took around 38 days each at an estimated cost of $4 million per well. This is 40% cheaper and faster than our first one mile well that took 65 days to drill at a cost of $7 million. Repeating this performance on future wells could reduce the number of wells by one third and yet recover the same overall reserves. We are already seeing this directly offsetting our land where larger operators have moved to drilling pads with six to eight wells and laterals of one to two miles.

We have just started the process of driving down costs and increasing efficiencies on our operated acreage.

Our first well, the 16-07 Well, was about 70% over a budget of $6 million and took 30 days longer than an estimated 50 days to drill. The variance was largely due to harder than expected drilling in the Montney and an

abundance of caution after our 09-01 Well control of well incident last year.

Performance improved on our second well, which was drilled with a lateral of over 1.5 miles at an estimated cost of $7 million. This was approximately 40% over a $5 million AFE and 24 days behind a 45 day schedule. For our next operated wells, we plan to contract a larger rig and the appropriate equipment and use the learnings from all our previous wells to improve drilling times and reduce costs.

Lowering costs and drilling times is one part of the equation. We are also working to improve recoveries through better completion and production practices.

Optimizing completions and increasing the stimulated rock volume (SRV) are essential to meeting and exceeding the current production type curves. We continue to experiment with different techniques including slickwater, foam and hybrid fracs and varying the tonnage, composition of the proppant and other parameters. To date, the majority of our wells have been completed with slickwater fracs and they have been the most successful when we exclude variations in reservoir quality.

Based on our experience in Quebec, we believe microseismic is one of the best and cost-effective tools available to assess the SRV for different completions. We have discussed with our partners the use of this tool to assess these different fracs and hope to see this on one of our next wells.

The consistently high condensate rates from our existing wells and associated wax are proving challenging from a production perspective, resulting in higher downtime than originally forecasted. Relative to the gas rates, the produced condensate is loading up in the well bore. The operator is evaluating alternatives such as plungers, gas lift and jet pumps to lift these liquids to surface and improve uptime.

With Montney drilling activity growing both on our acreage as well as the greater Kakwa-Resthaven area, we believe these production challenges can be overcome and completions optimized. With these improvements, we have the potential to materially enhance the already robust economics of this play.

Antler, Saskatchewan and Pierson, Manitoba

Proving up the economics of the waterflood at Antler was setback with the record rain and flooding. We suspended production from the field for the month of May.

Under the existing waterflood pilot, four wells are currently injecting about 1,400 bbls/d of water on two sections. The injection rate could be increased further to accelerate the pilot but we are being conservative to minimize breakthrough and damage to this low-energy reservoir. We continue to monitor production and pressure responses. Based on the responses to date, we are submitting an application this September to expand this pilot to a third section.

Once ground conditions improve in Pierson, Manitoba, we should see the operator complete an existing drilled well and drill up to three (1.05 net) more wells which should be tied-in by the fourth quarter of this year.

Oil Shale Mining

Receipt of the final permit and approval by Total to proceed with construction marked a major milestone for Red Leaf and their plans to commercialize the EcoShale® process. With oil majors reducing spending on large projects globally, we believe Total's decision is very supportive of this project and its potential.

Red Leaf's current timeline anticipates that the construction of the mine, capsule and associated facilities should be completed by the fourth quarter of 2015. Capsule heating and production should take just over one year and be complete by late 2016 or early 2017. First oil is expected by mid-2016. Red Leaf believes Total will make their decision to proceed to the commercial phase in 2017 if not earlier.

The joint venture has already begun work on the engineering and cost estimates to transition from EPS to commercial development. We have been working with Red Leaf to develop this critical line of sight to commercial production. The early results are promising and suggest that with evolutionary improvements to the design that can be made today, the capsules would be economic at current oil prices. This would make it very competitive with other large oil resource projects including the oil sands.

We are leveraging this work to assess our acreage at Pasquia Hills. The first phase of our resource assessment has been completed and has confirmed a discovered oil initially in place in excess of two billion barrels on our land[(1)]. This includes an additional 13 sections we acquired in the quarter, bringing our total to about 74 net sections. The second phase will determine how much of this oil in place can be commercially developed with the EcoShale® process and the potential value. We expect this work to be completed by year-end.

Operational and Financial

Production shut-ins for weather at Antler and for third party plant turnarounds at Kakwa impacted our performance for the quarter.

Daily volumes in the second quarter averaged 849 boe/d with approximately 200 bbls/d shut-in at Antler and 60 boe/d shut-in at Kakwa. This compares to average production of 1,133 boe/d in the first quarter of 2014 and 820 boe/d for the second quarter of 2013.

Only one new Montney well was tied in the quarter. On this 102/14-30 Well, the first in the Upper Montney, liquids were unexpectedly high relative to the gas rates. The well was on production intermittently as there was no artificial lift planned for this well. The operator is looking at jet pumps or other production facilities to improve uptime from this well. As third quarter wells will be tied-in late in the quarter, we estimate production in the third quarter to remain relatively flat with the current quarter

Strong oil prices contributed to cash flow from operations of $3 million for the quarter and $8.6 million year-to-date. We realized a weighted average price for all products of approximately $82 per boe for the quarter and $84 per boe for the first half of the year.

Our capital investment for the period was just over $11 million and $23 million for the first half of 2014. Consistent with the first quarter, the Montney accounted for over 90% of this amount.

Outlook

Our goals for the remainder of this year are to move our assigned Montney resources to reserves with our drilling program and secure the debt capital for our 2015 development plan.

We expect this reserve growth will support a further increase in our existing credit facilities, which should finance the majority of the $90 million in capital we will need in 2015. We are also looking at other options to provide us with additional flexibility and capacity. We are targeting to have this in place by year-end.

By year-end, construction of the commercial-scale EcoShale® capsule and mine will be well underway. Although it has taken longer than we projected, our sense is that this has resulted in a more robust and field tested design. With success, this could be 'a turning point for the oil shale industry'. We are looking forward to first oil from this capsule in 2016.

We are cautiously optimistic that by this time as well, we will be able to resume work on our Utica discovery in Quebec. Our optimism is based on the new government's intention to develop new hydrocarbon legislation. We also had very good feedback from the participants of our third annual tour of Quebecers visiting Alberta. We believe this is a small but an encouraging sign that public opinion is trending in the right direction and opening to the possibility of hydrocarbon development in the province.

Michael Binnion
President and Chief Executive Officer

[1] *With respect to discovered resources, or any subcategory other than reserves, there is no certainty that it will be commercially viable to produce any portion of the resources.*

Management's Discussion and Analysis ("MD&A") was prepared as of August 13, 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 June 30, 2014 and for the three and six month periods ended June 30, 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 production and processing constraints;
- timing of drilling and completion programs and resulting cash flows;
- future oil, natural gas liquids and natural gas prices;
- 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

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2014**	2013	**2014**	2013
Net cash from operating activities	**$ 3,397**	$ 3,867	**$ 6,972**	$ 7,573
Change in non-cash operating working capital	**(388)**	(905)	**1,579**	(962)
Cash flow from operations	**$ 3,009**	$ 2,962	**$ 8,551**	$ 6,611

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 period ended June 30,	Three months ended 2014	2013	Six months ended 2014	2013
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	6,342	5,585	15,001	12,026
Cash Flow from Operations	3,009	2,962	8,551	6,611
Basic ($/share)	0.01	0.01	0.03	0.03
Diluted ($/share)	0.01	0.01	0.03	0.03
Net Income (Loss)	520	(678)	1,699	(2,247)
Per share - Basic ($/share)	-	-	0.01	(0.01)
Per share - Diluted ($/share)	-	-	0.01	(0.01)
Capital Expenditures, net of acquisitions and dispositions	11,254	3,798	23,613	29,759
Working Capital Surplus	16,945	10,608	16,945	10,608
Total Assets	274,625	246,660	274,625	246,660
Shareholders' Equity	243,361	221,696	243,361	221,696
Common Shares Outstanding (thousands)	264,932	235,298	264,932	235,298
Weighted average - basic (thousands)	264,928	235,240	264,846	234,083
Weighted average - diluted (thousands)	266,081	235,546	266,016	234,830
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	566	602	694	689
Natural Gas (Mcf/d)	1,697	1,310	1,778	1,321
Total (boe/d)	849	820	991	909
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	105.30	92.81	103.11	88.99
Natural Gas ($/Mcf)	5.90	4.21	6.36	3.86
Total ($/boe)	82.08	74.84	83.63	73.05
Netback ($/boe)				
Petroleum and Natural Gas Sales	82.08	74.84	83.63	73.05
Royalties Expense	(7.24)	(7.41)	(6.70)	(6.33)
Percentage	9%	10%	8%	9%
Direct Operating Expense	(18.06)	(14.22)	(14.62)	(15.45)
Operating Netback	56.78	53.22	62.32	51.27
Wells Drilled				
Gross	3.00	-	7.00	1.00
Net	1.50	-	3.35	1.00

Highlights

- Spud 100% working interest Montney well at Kakwa North
- Drilled first three-well pad on Kakwa joint venture acreage with laterals of 1.5 miles
- Red Leaf and Total joint venture secured final permit and began construction of commercial-scale capsule
- Shut-ins due to weather in Saskatchewan and plant maintenance in Kakwa resulted in average production of 849 boe/d and cash flow from operations of $3 million

Second Quarter 2014 Activities

Western Canada

Kakwa-Resthaven, Alberta

Activities in the second quarter focused on this core area, targeting condensate-rich natural gas from the Montney formation.

On its operated acreage, the Company completed drilling its first well in Kakwa South and spud its first well in Kakwa North.

Drilling operations on the Kakwa South well, the 16-07-62-5W6M well (the "16-07 Well"), were finalized in April. The 16-07 Well was drilled to a total measured depth of 5053m including a lateral of approximately 1000m. Completion operations were recently finished and included a ten-stage slickwater fracture stimulation. Questerre holds a 100% interest in the 16-07 Well and ten sections of surrounding acreage approximately six miles from its producing joint venture acreage.

In June, Questerre spud the 14-29-63-5W6M well (the "14-29 Well") at Kakwa North. The well was successfully drilled to a measured depth of 5828m with a lateral leg of approximately 2100m. Subject to equipment availability, the 14-29 Well is scheduled to be completed in September. Questerre holds a 100% interest in the 14-29 Well and seven sections of Montney rights adjacent to its joint venture acreage.

On its joint venture acreage, the Company participated in the drilling of three horizontal wells from a single surface location, each with a lateral leg of approximately 2000m. These include the 09-20-63-5W6M well (the "09-20 Well"), the 02-18-63-5W6M well (the "02-18 Well") and the 08-20-63-5W6M well (the "08-20 Well"). The wells were completed in July and flow-back and clean-up areunderway. The surface location is situated near the existing gathering system and the wells will be equipped and tied-in shortly.

Drilling on the joint venture acreage is expanding to the west to validate the natural gas and condensate rates from the Montney formation. Early in the third quarter, the operator spud the 01-14-63-6W6M well (the "01-14 Well") about two miles west of the multi-well pad. The 01-14 Well has been drilled vertically to a depth of 3625m prior to plugging back to drill the planned 2300m horizontal leg.

In the second half of 2014, the Company plans to drill up to three more wells on its 100% acreage and participate in the drilling of up to two (0.50 net) additional wells on its joint venture acreage. The operator of the joint venture has contracted a second rig and is discussing with partners its plans to drill a further three gross wells (0.75 net) on this acreage in 2014.

Antler, Saskatchewan and Pierson, Manitoba

Record rainfall and subsequent flooding in southeast Saskatchewan and southwest Manitoba shut-in production during the quarter. This delayed the expansion of the pilot waterflood at Antler and the drilling and completion of additional wells at Pierson.

At Antler, the waterflood pilot consists of four horizontal wells on two sections injecting approximately 1,400 bbls/d of water into the oil pool to increase recovery. The fourth well was recently converted to an injector in the first quarter based on the initial responses from the first three injectors. The Company continues to monitor production and pressure in the offsetting producing wells as injection pressures are increased. Plans are underway to expand this pilot to a third section in the fourth quarter of this year.

The poor ground conditions at Pierson, Manitoba delayed the completion of one (0.35 net) well drilled in the first quarter and the drilling and completion of up to three (1.05 net) additional wells. The impact of the wet weather was partially mitigated by a local gathering system and satellite battery that was completed in the first quarter. Operations are expected to resume as soon as ground conditions improve.

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.

In the second quarter, Red Leaf received its final permit from the Utah Division of Water Quality allowing work to begin on the capsule construction. The joint venture also finalized the front end engineering and design for the construction of the capsule and the associated mining and production facilities. Using this information, an updated cost estimate for the EPS phase was prepared and subsequently approved. The joint venture is currently negotiating and executing contracts and field work has begun in the third quarter.

Questerre is also progressing the evaluation of its oil shale acreage at Pasquia Hills, Saskatchewan. Red Leaf is finalizing its analysis of core samples from Pasquia Hills to characterize the quality of oil under the EcoShale® process. Work on an independent resource assessment is also ongoing with results expected by year-end.

Corporate

The Company expanded its existing credit facilities with a Canadian chartered bank from $26.5 million to $50 million. The credit facilities include a revolving operating demand loan and a non-revolving acquisition and development demand loan. Any borrowings under the facilities, with the exception of letters of credit, bear interest at the bank's prime interest rate and applicable basis point margins based on the ratio of debt to cash flow measured quarterly. The facility is secured by a revolving credit agreement, 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 June 30,	2014			2013		
	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	235	-	235	391	-	391
Alberta	221	1,595	487	194	1,208	395
Manitoba	110	-	110	17	-	17
British Columbia	-	102	17	-	102	17
	566	1,697	849	602	1,310	820

Six months ended June 30,	2014			2013		
	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	305	-	305	428	-	428
Alberta	248	1,694	531	216	1,208	417
Manitoba	141	-	141	45	-	45
British Columbia	-	84	14	-	113	19
	694	1,778	991	689	1,321	909

Shut-in production at Antler due to weather and Kakwa due to scheduled third-party plant maintenance saw volumes in the quarter decline from the first quarter of the year.

In the second quarter of 2014, production averaged 849 boe/d compared to 1,133 boe/d in the first quarter of 2014 and 820 boe/d for the same period in 2013. For the first six months, production in 2014 increased by approximately 10% to 991 boe/d from 909 boe/d in 2013 due to higher production volumes from Kakwa.

Oil and liquids as a percentage of volumes decreased to 67% from 73% in the prior quarter and the second quarter of 2013. With approximately 200 bbls/d of light oil in Saskatchewan shut-in during the quarter, gas from Kakwa accounted for a larger proportion of production in the quarter. As incremental volumes are brought on in Kakwa over the second half of 2014, the Company anticipates its product mix will trend towards a 50/50 split, approximating the mix of products from the condensate-rich gas production in this area.

Production and processing facilities remain essential to growth in the Kakwa-Resthaven area. Earlier this year, the joint venture commissioned a central compression and condensate stabilization facility to address the high pipeline pressures associated with transporting gas to a third-party processing plant.

The operator is assessing alternate wellhead facilities including jet pumps and gas lift to address the relatively high condensate yields associated with this production. This is expected to allow the wells to produce more consistently. Relative to the gas production, these condensate yields and associated wax are largely responsible for the intermittent production during the quarter. Questerre continues to work with the operator to assess these alternatives to increase uptime.

Subject to resolving these field constraints and tying in recently completed wells, Questerre anticipates that production from the Kakwa-Resthaven area should grow in the fourth quarter as additional operated and non-operated wells are completed and tied-in.

Second Quarter 2014 Financial Results

Petroleum and Natural Gas Sales

Three months ended June 30,	2014			2013		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 2,278	$ -	$ 2,278	$ 3,334	$ -	$ 3,334
Alberta	2,135	871	3,006	1,611	469	2,080
Manitoba	1,016	-	1,016	136	-	136
British Columbia	-	42	42	-	35	35
	$ 5,429	$ 913	$ 6,342	$ 5,081	$ 504	$ 5,585

Six months ended June 30,	2014			2013		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 5,679	$ -	$ 5,679	$ 7,056	$ -	$ 7,056
Alberta	4,766	1,971	6,737	3,349	858	4,207
Manitoba	2,508	-	2,508	693	-	693
British Columbia	-	77	77	-	70	70
	$ 12,953	$ 2,048	$ 15,001	$ 11,098	$ 928	$ 12,026

In the second quarter of 2014, higher oil prices offset lower oil and condensate volumes to increase sales revenue over the second quarter of 2013. Revenue also improved due to higher natural gas volumes that benefitted from higher natural gas prices. For the first half of 2014, revenue increased due to higher volumes and prices over the same period in 2013.

Pricing

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	4.69	3.54	5.20	3.37
Crude Oil - Mixed Sweet Blend ($/bbl)	104.51	92.55	102.12	90.36
Realized prices:				
Natural Gas ($/Mcf)	5.90	4.21	6.36	3.86
Crude Oil and Natural Gas Liquids ($/bbl)	105.30	92.81	103.11	88.99

With the geopolitical instability in Ukraine, North Africa, and the Middle East and concerns about global supply, international crude oil prices remained strong throughout the quarter. Consistent with the prior quarter, the differential between the benchmark North American West Texas Intermediate ("WTI") price and the international Brent price continued to narrow. This was due to increased transportation between the Cushing hub and the Gulf Coast. Increasing transportation by pipelines and rail also contributed to a small improvement in the differential between the WTI and benchmark Canadian Mixed Sweet Blend ("MSW") price. For the three months ended June 30, 2014 this differential averaged US$5.03/bbl from US$6.21/bbl in the first quarter.

Realized prices for Questerre's oil and condensate production follow the MSW benchmark with condensate realizing a premium to this price. For the second quarter, the realized price averaged $105.30/bbl (2013: $92.81/bbl) with the average MSW price of $104.51/bbl (2013: $92.55/bbl).

Following a very cold winter, natural gas prices declined seasonally, albeit marginally, in the second quarter. The benchmark Henry Hub declined from US$4.90/Mcf in the first quarter to US$4.56/Mcf in the second quarter. This was likely due to the higher prices required this spring to replenish the severely depleted storage levels to the five year average. In Alberta, relatively low storage levels for natural gas have contributed to a tightening in the differential between the Henry Hub price and the AECO-C price from US$0.69/Mcf to US$0.32/Mcf.

Questerre's realized natural gas price continues to reflect the high heat content of production from the Kakwa-Resthaven area.

Royalties

($ thousands)	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Saskatchewan	$ 153	$ 203	$ 364	$ 449
Alberta	292	343	570	546
Manitoba	115	7	267	47
British Columbia	-	-	-	-
	$ 560	$ 553	$ 1,201	$ 1,042
% of Revenue:				
Saskatchewan	7%	6%	6%	6%
Alberta	10%	16%	8%	13%
Manitoba	11%	5%	11%	7%
British Columbia	0%	0%	0%	0%
Total Company	9%	10%	8%	9%

Questerre's royalty rate as a percentage of revenue remained relatively stable for the three and six months ended June 30, 2014 from the same periods in 2013. The decrease in Alberta for these periods is due to lower overriding royalties in the Kakwa-Resthaven area. Production on the joint venture acreage in this area is currently subject to overriding royalties ranging from 2% to 12%, in addition to royalties payable to the Crown. The royalty rate on production from Manitoba has increased in 2014 as production commenced from wells on freehold lands.

Operating Costs

($ thousands)	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Saskatchewan	$ 403	$ 528	$ 767	$ 1,322
Alberta	879	482	1,647	1,075
Manitoba	86	16	166	82
British Columbia	27	35	42	64
	$ 1,395	$ 1,061	$ 2,622	$ 2,543
$/boe:				
Saskatchewan	18.86	14.83	13.89	17.05
Alberta	19.84	13.42	17.15	14.24
Manitoba	8.60	10.15	6.49	10.04
British Columbia	17.19	22.65	16.43	18.85
Total Company	18.06	14.22	14.62	15.45

Operating costs on a unit of production basis increased for the quarter and decreased for the first half of the year, as compared with the same periods in the prior year. Fixed costs in Antler were borne by lower production volumes in the quarter resulting in higher operating costs on a per unit basis. Year-to-date in this same area, Questerre realized lower generator rental, fuel and trucking costs resulting from the tie-in of several wells to the local gathering system and the electrical grid in late 2013.

Operating costs in Alberta largely reflect costs associated with production from the Kakwa-Resthaven area. The higher fixed costs relating to 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.

General and Administrative Expenses

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	2014	2013	2014	2013
General and administrative expenses, gross	$ 1,643	$ 1,606	$ 3,301	$ 3,075
Capitalized expenses and overhead recoveries	(704)	(345)	(1,268)	(854)
General and administrative expenses, net	$ 939	$ 1,261	$ 2,033	$ 2,221

Gross general and administrative expenses ("G&A") were essentially flat for the second quarter in 2014 and 2013 and increased for the six months ended June 30, 2014 compared to the same period in 2013. The increase in the six month period was mainly due to higher consulting and legal expenses.

Capitalized expenses and overhead recoveries as a percentage of gross G&A increased in 2014 compared to 2013. This increase is attributable to additional staff employed in the current year to develop the Company's Kakwa-Resthaven area.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded $1.60 million of depletion and depreciation expense for the quarter ended June 30, 2014 compared to $2.25 million for the same period in 2013. For the six months ended June 30, 2014, the Company recorded $3.95 million of depletion and depreciation expense compared to $4.92 million for the same period in 2013. The decrease in year-to-date depletion and depreciation expense is due to a 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 $0.20 million in the second quarter of 2014 (2013: $0.04 million) and $0.29 million for the first six months of 2014 (2013: $0.89 million) mainly relates to undeveloped land expiries within the exploration and evaluation asset pool.

Deferred Taxes

For the three months ended June 30, 2014, Questerre reported a deferred tax expense of $0.88 million (2013: $0.02 million expense) and for the six months ended June 30, 2014, the Company reported a deferred tax expense of $1.70 million (2013: $0.19 million recovery). The increase in deferred tax expense for the six months ended June 30, 2014 from the same period in the prior year mainly relates to higher net income before tax and stock based compensation.

In 2014, the Company also recorded a deferred tax expense of $2.34 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 $1.76 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

The Company recorded a gain on risk management contracts of $0.15 million for the quarter ended June 30, 2014 (2013: $0.02 million loss) and a loss of $0.81 million on risk management contracts for the six months ended June 30, 2014 (2013: $0.38 million loss). The changes are due to fluctuations in the underlying market prices of the relevant commodities.

The Company recorded a loss on foreign exchange, net of deferred tax, through other comprehensive income (loss), of $1.42 million for the three months ended June 30, 2014 (2013: $1.34 million gain). For the six months ended June 30, 2014, the Company recorded a gain on foreign exchange, net of deferred tax, of $0.15 million (2013: $2.12 million gain). 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 loss for the second quarter of 2014 was $0.90 million as compared to the total comprehensive income of $0.66 million in the second quarter of 2013. The decrease is mainly due to the higher loss on foreign exchange relating to the Company's US dollar investments, partially offset by higher petroleum and natural gas revenue.

Questerre's total comprehensive income for the six months ended June 30, 2014 was $1.85 million as compared to the total comprehensive loss of $0.12 million for the six months ended June 30, 2013. The increase is mainly due to higher petroleum and natural gas revenue, partially offset by the higher loss on foreign exchange relating to the Company's US dollar investments.

Capital Expenditures

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	2014	2013	2014	2013
Alberta	$ 10,635	$ 3,839	$ 21,783	$ 27,747
Saskatchewan	349	(136)	1,503	1,216
Quebec	70	38	107	516
Wyoming	5	33	5	133
Manitoba	161	67	161	161
British Columbia	-	10	9	32
Corporate	34	-	45	7
	11,254	3,851	23,613	29,812
Dispositions	-	(53)	-	(53)
Total	$ 11,254	$ 3,798	$ 23,613	$ 29,759

For the six months ended June 30, 2014, the Company incurred net capital expenditures of $23.61 million as follows:

- In Alberta, the Company spent $21.78 million to drill, complete and test wells targeting the condensate-rich Montney formation.
- In Saskatchewan, the Company spent $1.50 million to complete wells drilled in 2013 and to expand its waterflood pilot.

For the six months ended June 30, 2013, the Company incurred net capital expenditures of $29.76 million as follows:

- In Alberta, the Company spent $27.75 million, including $19.1 million to acquire acreage prospective for the condensate-rich Montney and the remainder mainly to drill and complete wells targeting this formation.
- In Saskatchewan, the Company spent $1.22 million, including $1.2 million to drill one infill well and acquire 3-D seismic data in Antler and $0.18 million for work relating to the Pasquia Hills oil shale acreage. Offsetting these expenses was a refund of $0.40 million relating to a service adjustment for completion services performed in 2012.
- In the St. Lawrence Lowlands of Quebec, the Company spent $0.52 million for remedial work on its existing test wells and working to secure the Company's social license to operate in the province.

Liquidity and Capital Resources

Questerre had a working capital surplus of $16.95 million at June 30, 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 June 30, 2014 and 2013 was $3.40 million and $3.87 million, respectively. The Company's cash flow from operations remained unchanged as higher commodities prices in 2014 were offset by lower liquids production and higher operating costs.

Net cash from operating activities for the six months ended June 30, 2014 and 2013 was $6.97 million and $7.57 million, respectively. The Company realized higher cash flow from operations mainly as a result of higher 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 $13.44 million for the quarter ended June 30, 2014 and $22.87 million for the six months ended June 30, 2014. For the three and six months ended June 30, 2013, the Company's cash flow used in investing activities was $6.35 million and $35.26 million, respectively.

For the six months ended June 30, 2014, capital expenditures of $23.61 million were incurred mainly for drilling and completion activity in the Kakwa-Resthaven area. For the same period in 2013, capital expenditures of $29.81 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 Financing Activities

Cash flow from financing activities was $0.02 million and $0.10 million for the three and six months ended June 30, 2014, respectively, and $0.16 million and $2.02 million for the three and six months ended June 30, 2013, respectively. The decrease from the prior periods is due to lower proceeds received on share option exercises in 2014.

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)	August 13, 2014	June 30, 2014	December 31, 2013
Common shares	264,932	264,932	264,657
Stock options	17,229	17,479	18,188
Weighted average common shares			
Basic		264,846	236,691
Diluted		266,016	237,210

A summary of the Company's stock option activity during the six months ended June 30, 2014 and year ended December 31, 2013 follows:

	June 30, 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	250	1.40	5,578	0.96
Forfeited	(659)	1.55	(1,766)	1.67
Expired	-	-	(2,480)	4.66
Exercised	(300)	0.66	(4,493)	0.45
Outstanding, end of period	17,479	$2.05	18,188	$2.02
Exercisable, end of period	10,703	$2.76	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 June 30, 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	$ 109
Natural gas swap	2,000 gj/d	$3.72/gj	Jan. 1, 2015 - Dec. 31, 2015	103
Oil swap	150 bbls/d	$94.70/bbl	Jan. 1, 2014 - Dec. 31, 2014	429
				$ 641

Subsequent Event

During the quarter ended June 30, 2014, the Company submitted an additional insurance claim relating to a control of well incident that occurred in 2013. Subsequent to the quarter-end the Company received correspondence from its insurers and considers it probable that approximately $1.04 million will be received by year-end. This amount has not been reflected in the June 30, 2014 financial statements.

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.

IFRS 15 *Revenue From Contracts With Customers*

In May 2014, the IASB published IFRS 15 *Revenue From Contracts With Customers* ("IFRS 15") replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue* and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2014 and ended on June 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Quarterly Financial Information

($ thousands, except as noted)	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
Production (boe/d)	849	1,133	841	880
Average Realized Price ($/boe)	82.08	84.92	74.45	81.20
Petroleum and Natural Gas Sales	6,342	8,659	5,760	6,574
Cash Flow from Operations	3,009	5,542	2,941	3,641
Basic ($/share)	0.01	0.02	0.01	0.02
Diluted ($/share)	0.01	0.02	0.01	0.02
Net Income (Loss)	520	1,179	(16,213)	(894)
Basic ($/share)	-	-	(0.07)	-
Diluted ($/share)	-	-	(0.07)	-
Capital Expenditures, net of acquisitions and dispositions	11,254	12,359	12,946	9,428
Working Capital Surplus	16,945	25,173	31,909	4,729
Total Assets	274,625	278,908	273,108	245,814
Shareholders' Equity	243,361	244,237	241,197	220,046
Weighted Average Common Shares Outstanding				
Basic (thousands)	264,928	264,763	243,213	235,298
Diluted (thousands)	266,081	265,918	244,479	235,442

($ thousands, except as noted)	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Production (boe/d)	820	1,000	766	696
Average Realized Price ($/boe)	74.84	71.57	74.22	75.64
Petroleum and Natural Gas Sales	5,585	6,441	5,232	4,843
Cash Flow from Operations	2,962	3,649	2,898	2,834
Basic ($/share)	0.01	0.02	0.01	0.01
Diluted ($/share)	0.01	0.02	0.01	0.01
Net Income (Loss)	(678)	(1,569)	(17,659)	(111)
Basic ($/share)	-	(0.01)	(0.08)	-
Diluted ($/share)	-	(0.01)	(0.08)	-
Capital Expenditures, net of acquisitions and dispositions	3,798	25,961	12,981	9,389
Working Capital Surplus	10,608	12,844	33,216	40,597
Total Assets	246,660	251,828	243,365	257,814
Shareholders' Equity	221,696	220,578	217,456	234,846
Weighted Average Common Shares Outstanding				
Basic (thousands)	235,240	232,914	230,804	230,793
Diluted (thousands)	235,546	234,042	232,665	232,420

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

- Production has stayed relatively flat at 849 boe/d for the three months ended June 30, 2014 as compared with 820 boe/d for the same period in the prior year. The Company realized increased production from its Kakwa-Resthaven area, which was mostly offset by lower production at Antler due to weather related issues.
- 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 decreased over the previous quarters mainly due shut-in production at Antler due to weather and Kakwa due to scheduled third party processing plant maintenance.

Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note		June 30, 2014		December 31, 2013
Assets					
Current Assets					
Cash and cash equivalents		$	31,657	$	47,459
Accounts receivable			3,193		2,630
Deposits and prepaid expenses			902		607
			35,752		50,696
Investments	3		46,251		46,078
Property, plant and equipment	4		105,241		99,267
Exploration and evaluation assets	5		70,214		56,442
Goodwill			2,346		2,346
Deferred tax assets			14,821		18,279
		$	274,625	$	273,108
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities		$	18,807	$	18,787
Current portion of risk management contracts	11		640		453
Flow-through share obligation	7		-		1,760
Current portion of share based compensation liability	9		3,427		2,825
			22,874		23,825
Risk management contracts	11		1		-
Share based compensation liability	9		1,127		950
Asset retirement obligation	6		7,262		7,136
			31,264		31,911
Shareholders' Equity					
Share capital	8		347,345		347,059
Contributed surplus			16,686		16,659
Accumulated other comprehensive income			4,411		4,259
Deficit			(125,081)		(126,780)
			243,361		241,197
		$	274,625	$	273,108

Subsequent Event (Note 13)

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

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

($ thousands, except per share amounts)	Note	*Three months ended June 30,* 2014	2013	*Six months ended June 30,* 2014	2013
Revenue					
Petroleum and natural gas sales		$ 6,342	$ 5,585	$ 15,001	$ 12,026
Royalties		(560)	(553)	(1,201)	(1,042)
Petroleum and natural gas revenue, net of royalties		5,782	5,032	13,800	10,984
Expenses					
Direct operating		1,395	1,061	2,622	2,543
General and administrative		939	1,261	2,033	2,221
Depletion and depreciation	4	1,600	2,246	3,946	4,915
Impairment of assets	4,5	199	39	285	894
Loss (gain) on risk management contracts	11	(148)	20	806	382
Loss on investment in convertible bonds		-	1,570	-	1,433
Share based compensation (recovery)	9	341	(456)	750	1,093
Accretion of asset retirement obligation	6	20	34	73	68
Interest income		84	147	266	256
Other expense		(116)	(58)	(154)	(127)
Income (loss) before taxes		1,404	(654)	3,397	(2,436)
Deferred taxes (recovery)		884	24	1,698	(189)
Net income (loss)		520	(678)	1,699	(2,247)
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income (loss):					
Gain (loss) on foreign exchange	3	(1,423)	1,342	152	2,123
		(1,423)	1,342	152	2,123
Total comprehensive income (loss)		$ (903)	$ 664	$ 1,851	$ (124)
Net income (loss) per share					
Basic and diluted	8	$ -	$ -	$ 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		*Six months ended June 30,* 2014		2013
Share Capital					
Balance, beginning of period		$	347,059	$	307,035
Issue of common shares	8		350		4,044
Share issue costs (net of tax)	8		(64)		-
Balance, end of period			347,345		311,079
Contributed Surplus					
Balance, beginning of period			16,659		16,179
Reclassification of share based compensation	10		27		319
Balance, end of period			16,686		16,498
Accumulated Other Comprehensive Income					
Balance, beginning of period			4,259		1,668
Other comprehensive income			152		2,123
Balance, end of period			4,411		3,791
Deficit					
Balance, beginning of period			(126,780)		(107,426)
Net income (loss)			1,699		(2,247)
Balance, end of period			(125,081)		(109,673)
Total Shareholders' Equity		$	243,361	$	221,695

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

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

($ thousands)	Note	*Three months ended June 30,* 2014	2013	*Six months ended June 30,* 2014	2013
Operating Activities					
Net income (loss)		$ 520	$ (678)	$ 1,699	$ (2,247)
Adjustments for:					
Depletion and depreciation	4	1,600	2,246	3,946	4,915
Impairment of assets	4,5	199	39	285	894
Unrealized (gain) loss on risk management contracts	11	(467)	123	188	525
Unrealized loss on investment in convertible bonds		-	1,570	-	1,433
Share based compensation (recovery)	9	341	(456)	750	1,093
Accretion of asset retirement obligation	6	20	34	73	68
Deferred taxes (recovery)		884	24	1,698	(189)
Other items not involving cash		-	60	-	120
Cash paid on exercise of stock options		(20)	-	(20)	-
Abandonment expenditures	6	(68)	-	(68)	(1)
Cash flow from operations		3,009	2,962	8,551	6,611
Change in non-cash working capital		388	905	(1,579)	962
Net cash from operating activities		3,397	3,867	6,972	7,573
Investing Activities					
Property, plant and equipment expenditures	4	-	(615)	(2,780)	(4,775)
Exploration and evaluation expenditures	5	(11,254)	(3,235)	(20,833)	(25,037)
Sale of property, plant and equipment		-	53	-	53
Change in non-cash working capital		(2,190)	(2,552)	743	(5,499)
Net cash used in investing activities		(13,444)	(6,349)	(22,870)	(35,258)
Financing Activities					
Proceeds from issue of share capital	8	15	158	184	2,022
Share issue costs	8	-	-	(88)	-
Net cash from financing activities		15	158	96	2,022
Change in cash and cash equivalents		(10,032)	(2,324)	(15,802)	(25,663)
Cash and cash equivalents, beginning of period		41,689	19,202	47,459	42,541
Cash and cash equivalents, end of period		$ 31,657	$ 16,878	$ 31,657	$ 16,878
Cash interest received		$ 25	$ 276	$ 40	$ 607

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 six months ended June 30, 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 August 13, 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.

IFRS 15 *Revenue From Contracts With Customers*

In May 2014, the IASB published IFRS 15 *Revenue From Contracts With Customers* ("IFRS 15") replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue* and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

3. Investments

The investments balance is comprised of the following investments:

($ thousands)	June 30, 2014	December 31, 2013
Red Leaf Resources Inc.	$ 45,706	$ 45,535
Investment in other private company	545	543
	$ 46,251	$ 46,078

The following table sets out the changes in investments:

($ thousands)	June 30, 2014	December 31, 2013
Balance, beginning of period	$ 46,078	$ 43,101
Gain (loss) on foreign exchange	173	2,977
Balance, end of period	$ 46,251	$ 46,078

For the period ended June 30, 2014, the gain on foreign exchange relating to investments was $0.17 million (June 30, 2013: gain $2.44 million), which was recorded in other comprehensive income (loss) net of deferred tax of $0.02 million (June 30, 2013: $0.32 million).

4. Property, Plant and Equipment

The following table provides a reconciliation of the Company's 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		3,025		45		3,070
Transfer from exploration and evaluation assets		6,850		-		6,850
Balance, June 30, 2014	$	163,526	$	1,328	$	164,854
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		3,893		53		3,946
Balance, June 30, 2014	$	58,476	$	1,137	$	59,613

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Net book value:						
At December 31, 2013	$	99,068	$	199	$	99,267
At June 30, 2014	$	105,050	$	191	$	105,241

During the period ended June 30, 2014, the Company capitalized administrative overhead charges of $1.20 million (December 31, 2013: $2.14 million) including $0.16 million in capitalized stock based compensation expense directly related to development activities (December 31, 2013: $0.86 million). Included in the June 30, 2014 depletion calculation are future development costs of $53.68 million (December 31, 2013: $73.41 million).

5. Exploration and Evaluation Assets

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

($ thousands)		June 30, 2014		December 31, 2013
Balance, beginning of period	$	56,442	$	45,477
Additions		20,907		32,420
Transfers to property, plant and equipment		(6,850)		(496)
Dispositions		-		(125)
Impairment (incl. undeveloped land expiries)		(285)		(20,834)
Balance, end of period	$	70,214	$	56,442

During the period ended June 30, 2014, the Company capitalized administrative overhead charges of $0.31 million (December 31, 2013: $0.63 million) including $0.08 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 period ended June 30, 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 $7.26 million as at June 30, 2014 (December 31, 2013: $7.14 million) based on an undiscounted total future liability of $10.42 million (December 31, 2013: $11.27 million). These payments are expected to be made over the next 43 years. The discount factor, being the risk-free rate related to the liabilities, is between 1.10% and 2.78% (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)		June 30, 2014		December 31, 2013
Balance, beginning of period	$	7,136	$	6,644
Revisions due to change in discount rates		(134)		(725)
Revisions due to change in estimates		(195)		566
Liabilities incurred		450		555
Liabilities settled		(68)		(60)
Accretion		73		156
Balance, end of period	$	7,262	$	7,136

7. Flow-Through Share Obligation

The following table provides a reconciliation of the Company's flow-through share obligation:

($ thousands)		June 30, 2014		December 31, 2013
Balance, beginning of period	$	1,760	$	-
Liability recognized on flow-through share issuance		-		1,760
Liabilities settled		(1,760)		-
Balance, end of period	$	-	$	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 decrease in 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 June 30, 2014, the Company incurred qualifying exploration expenditures to satisfy the required $9.09 million and recorded a reduction to the flow-through share obligation of $1.76 million with 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 June 30, 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	275		350
Share issue costs (net of tax effect)	-		(64)
Balance, June 30, 2014	**264,932**	**$**	**347,345**

b) Per share amounts

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

	Three months ended June 30,		Six months ended June 30,	
(thousands, except as noted)	**2014**	2013	**2014**	2013
Net income (loss) ($thousands)	**$ 520**	$ (678)	**$ 1,699**	$ (2,247)
Issued Common Shares at beginning of period	**264,907**	234,948	**264,657**	230,804
Options exercised	**21**	292	**189**	3,279
Weighted average number of Common Shares outstanding (basic)	**264,928**	235,240	**264,846**	234,083
Basic net income (loss) per share	**$ -**	$ -	**$ 0.01**	$ (0.01)

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

	Three months ended June 30,		Six months ended June 30,	
(thousands, except as noted)	**2014**	2013	**2014**	2013
Net income (loss) ($thousands)	**$ 520**	$ (678)	**$ 1,699**	$ (2,247)
Weighted average number of Common Shares outstanding (basic)	**264,928**	235,240	**264,846**	234,083
Effect of outstanding options	**1,153**	-	**1,170**	-
Weighted average number of Common Shares outstanding (diluted)	**266,081**	235,240	**266,016**	234,083
Diluted net income (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 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 June 30, 2014, 14.27 million options (June 30, 2013: 15.0 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:

	June 30, 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	250	1.40	5,578	0.96
Forfeited	(659)	1.55	(1,766)	1.67
Expired	-	-	(2,480)	4.66
Exercised	(300)	0.66	(4,493)	0.45
Outstanding, end of period	17,479	$2.05	18,188	$2.02
Exercisable, end of period	10,703	$2.76	9,352	$2.89

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

($ thousands)	June 30, 2014	December 31, 2013
Balance, beginning of period	$ 3,775	$ 2,384
Amount transferred to contributed surplus	(27)	(480)
Share based compensation expense	750	2,825
Capitalized share based compensation	242	1,068
Cash payment for options exercised	(20)	-
Reclassification to share capital on exercise of stock options	(166)	(2,022)
Balance, end of period	$ 4,554	$ 3,775
Current portion	$ 3,427	$ 2,825
Non-current portion	1,127	950
	$ 4,554	$ 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 $16.95 million at June 30, 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)		June 30, 2014		December 31, 2013
Shareholders' equity	$	243,361	$	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 June 30, 2014 included cash and cash equivalents, accounts receivable, risk management contracts, deposits, investments and accounts payable and accrued liabilities. As at June 30, 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 June 30, 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 June 30, 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	$ 109
Natural gas swap	2,000 gj/d	$3.72/gj	Jan. 1, 2015 - Dec. 31, 2015	103
Oil swap	150 bbls/d	$94.70/bbl	Jan. 1, 2014 - Dec. 31, 2014	429
				$ 641

The Company's risk management position is as follows:

($ thousands)	June 30, 2014	December 31, 2013
Risk Management Liabilities		
Current portion	$ 640	$ 453
Non-current portion	1	-
	$ 641	$ 453

In net income (loss), the Company recorded an unrealized loss of $0.19 million for the six month period ended June 30, 2014 and an unrealized loss of $0.53 million for the same period in 2013. The Company also recorded a realized loss of $0.62 million for the six month period ended June 30, 2014 and a realized gain of $0.14 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 $0.14 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 $0.92 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 Facilities

In June 2014, the Company increased its credit facilities with a Canadian chartered bank to $50 million. The credit facilities include a revolving operating demand loan and a non-revolving acquisition and development loan. Any borrowing under the facilities, 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 facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the 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 June 30, 2014 was 2.29 and the covenant is met. At June 30, 2014 no amount has been drawn on the credit facility.

13. Subsequent Event

During the quarter ended June 30, 2014, the Company submitted an additional insurance claim relating to a control of well incident that occurred in 2013. Subsequent to the quarter-end the Company received correspondence from its insurers and considers it probable that approximately $1.04 million will be received by year-end. This amount has not been reflected in the June 30, 2014 financial statements.

Corporate Information

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Earl Hickok

Peder Paus

Dennis Sykora

Bjorn Inge Tonnessen

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Chief Operating Officer

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VP Exploration

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