Q1

2015

QUARTERLY REPORT

QUESTERRE ENERGY CORPORATION

2015

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 the sustained decline in commodity prices we executed on a cost reduction strategy in the first quarter of this year.

We implemented a restricted capital budget for the Montney. It includes the expansion of our central facility and the completion of extended-reach horizontal wells with new techniques. Initial results are positive and we plan to use these techniques for future wells. We also made a new oil pool discovery in the Halfway formation.

The timeline for first oil from the commercial scale EcoShale capsule being built by Red Leaf and Total has been set back, likely by two years. The joint venture plans to use this delay to incorporate upgrades in the design. It is anticipated this work could enhance the economics of the EcoShale process.

Highlights

- Encouraging initial results from one and a half mile horizontal wells with enhanced completion design at Kakwa-Resthaven area
- Expansion of joint venture facility underway to increase nameplate capacity to 30 MMcf/d plus liquids
- Red Leaf and Total to defer capsule construction to 2017 and advance optimization of capsule design for commercial development in the interim
- Average daily production of 1,257 boe/d with cash flow from operations of $1.29 million for the quarter

Kakwa-Resthaven, Alberta

The last extended-reach horizontal wells with denser frac spacing have delivered promising results.

The 14-25 and 15-25 wells averaged over 2,000 boe/d, or over one third higher than the nearest offsetting one mile well against pressures that were two to three times higher than the offset during its test. The wells also cleaned up sooner and saw first gas earlier than the offset well. As this is a very early indicator, we will closely monitor these wells over the next year to confirm a sustained improvement in well performance.

These results reflect the longer lateral length and, more importantly, the changes to the completion program. These include individually placing a greater number of frac treatments and tighter spacing between treatments to increase the stimulated rock volume. To date there has been no observable communication between these treatments indicating room for further improvement with even tighter spacing.

Moreover, this lack of communication suggests that the spacing between wells for the Middle Montney could be reduced from 400m currently to 200m or less. Twice as many wells could be drilled on the same acreage, doubling the resource recovered from this interval. We are seeing this offsetting our acreage where industry operators are drilling with spacing of less than 200m between Montney wells.

In addition to the Montney, our acreage is prospective for the shallower Halfway formation where we discovered a new oil pool this quarter. The 01-14 Well flowed light oil to surface up 4½ inch casing from this formation at a peak rate of 300 boe/d. The operator has plans for a production test this quarter. The nearest analog pool borders our acreage to the east and has produced just under half a million barrels of oil from three vertical wells. We intend to test this interval in the 01-11 Well and future wells to delineate this new discovery.

We expect that the 01-11 Well and future wells will benefit from the expansion of our central facility to a nameplate capacity of 30 MMcf/d plus associated liquids. This includes condensate stabilization which will

increase the value of condensate by extracting liquids such as propane and butane that typically attract a penalty when retained in the condensate stream. A pipeline tie-in is also being constructed to the inlet of a third party pipeline system, eliminating the associated trucking charges.

With current prices and the resulting payout times of up to five years for one mile laterals, we elected not to participate in a one mile well drilled on our acreage this quarter. We believe that future development should be based on several factors and give priority to long lateral wells with improved completion design.

Operational & Financial

Early production from the Kakwa-Resthaven area averaged 819 boe/d and contributed to daily production of 1,257 boe/d. By comparison, production from this area averaged 474 boe/d in the first quarter of 2014 with Company daily production of 1,133 boe/d.

Notwithstanding condensate representing just under half of the production volumes from Kakwa, lower oil prices materially impacted revenue and cash flow in 2015. Cash flow from operations for the quarter was $1.29 million (2014: $5.54 million) with an average sales price for all products of $49/boe (2014: $85/boe).

We anticipate production in the second quarter will be affected by the shut-in at Antler during April for road-bans related to spring breakup. This also impacted the Company's operated production in the Kakwa area. Additionally, joint venture production at Kakwa was shut-in early in the quarter for the commissioning of the expansion to the central facility.

Capital investment in the quarter was approximately $8.2 million. Over 90% of the capital was directed to the Montney for the completion of existing wells and the expansion of pipeline infrastructure and the central facility. The Company anticipates it will incur an incremental $6 million on these assets over the remainder of this year.

Outlook

Our goal for 2015 is to preserve liquidity. This gives us the flexibility to realize value through sales and joint ventures, or, production and cash flow when prices strengthen. Although it is taking longer than hoped to realize this value, our portfolio of assets could be among some of the lowest cost producers for non-conventional oil and gas.

The Montney in the Kakwa-Resthaven area is ranked as one of the most economic plays in Western Canada. Our consistently high condensate yields confirm we are in a sweet spot for this play. We anticipate that returns will improve with enhanced completions and incremental reductions in well costs per metre of horizontal drilled.

We still share Total's belief that the EcoShale process has 'important long term potential for global energy markets.' While the delays in their first commercial demonstration project are disappointing, the engineering work to optimize the design now could likely prove to be a worthwhile investment. If successful, it might achieve their original estimates for all in production costs of between US$30/bbl to US$40/bbl in commercial development.

In Quebec, proximity to the second largest gas market in the country and premium pricing relative to Western Canada bode well for the appraisal of our Utica shale project. We are hopeful that new hydrocarbon legislation will be introduced in the next 12 months and allow us to resume work on this discovery.

Michael Binnion
President and Chief Executive Officer

Management's Discussion and Analysis ("MD&A") was prepared as of May 14, 2015. 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, 2015 and for the three month period ended March 31, 2015 and 2014, and the 2014 MD&A and audited annual consolidated financial statements of the Company for the year ended December 31, 2014. Additional information relating to Questerre, including Questerre's Annual Information Form for the year ended December 31, 2014 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 Montney focused assets 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.

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, and the documents incorporated by reference, if any, contain forward-looking statements including, but not limited to, those pertaining to the following:

- oil and natural gas properties;
- oil, natural gas liquids and natural gas reserves and/or resources 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;
- timing and extent of work programs to be performed by Red Leaf;
- 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:

- future capital expenditure programs;
- timing and nature of activities conducted by joint venture partners;
- growth in production volumes;
- future weighting of production volumes;
- future royalty rates;
- future pricing and costs;
- timing of credit facility review completion;
- the future ability to alleviate field production and processing constraints and the expected reduction in the liquids price penalty;
- timing of drilling and completion programs and resulting cash flows;
- 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.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A and the documents incorporated by reference, if any, into this document:

- 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 March 31,	
($ thousands)	2015	2014
Net cash from operating activities	$ 2,220	$ 3,575
Change in non-cash operating working capital	(935)	1,967
Cash flow from operations	$ 1,285	$ 5,542

This document also contains the terms "netbacks" and "working capital surplus (deficit)", 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 (deficit)". Working capital surplus (deficit), 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 (deficit), 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,	2015	2014
Financial ($ thousands, except as noted)		
Petroleum and Natural Gas Sales	4,128	8,659
Cash Flow from Operations	1,285	5,542
Per share - Basic ($/share)	-	0.02
Per share - Diluted ($/share)	-	0.02
Net Income (Loss)	(555)	1,179
Per share - Basic ($/share)	-	-
Per share - Diluted ($/share)	-	-
Capital Expenditures, net of acquisitions and dispositions	8,203	12,359
Working Capital Surplus (Deficit)	(16,165)	25,173
Total Assets	232,155	278,908
Shareholders' Equity	197,465	244,237
Common Shares Outstanding (thousands)	264,932	264,907
Weighted average - basic (thousands)	264,932	264,763
Weighted average - diluted (thousands)	264,932	265,918
Operations (units as noted)		
Average Production		
Crude Oil and Natural Gas Liquids (bbl/d)	722	823
Natural Gas (Mcf/d)	3,206	1,860
Total (boe/d)	1,257	1,133
Average Sales Price		
Crude Oil and Natural Gas Liquids ($/bbl)	49.05	101.58
Natural Gas ($/Mcf)	3.26	6.78
Total ($/boe)	36.49	84.92
Netback ($/boe)		
Petroleum and Natural Gas Sales	36.49	84.92
Royalties Expense	(2.82)	(6.29)
Percentage	8%	7%
Direct Operating Expense	(15.73)	(12.04)
Operating Netback	17.94	66.59
Wells Drilled		
Gross	-	4.00
Net	-	1.85

Highlights

- Encouraging initial results from one and a half mile horizontal wells with enhanced completion design at Kakwa-Resthaven area
- Expansion of joint venture facility underway to increase nameplate capacity to 30 MMcf/d plus liquids
- Red Leaf and Total to defer capsule construction to 2017 and advance optimization of capsule design for commercial development in the interim
- Average daily production of 1,257 boe/d with cash flow from operations of $1.29 million for the quarter

First Quarter 2015 Activities

Western Canada

Kakwa-Resthaven, Alberta

Questerre participated in the completion of three (0.75 net) wells on its joint venture acreage in the first quarter of 2015. The Company also participated in the expansion of the local gathering system and central processing facility for this acreage.

The 14-25-63-5W6M well (the "14-25 Well") and the 15-25-63-5W6M well (the "15-25 Well") were completed in the Montney formation. Completion programs for these wells were designed to place over 80 individual slickwater fracture treatments in the horizontal section of approximately 2400m. During the last 24 hours of its well test, the 14-25 Well produced approximately 2,400 boe/d consisting of 5.9 MMcf/d of natural gas and 1,431 bbls/d of condensate against flowing pressure of 8400 to 10000 kPa. During the last 24 hours of its well test, the 15-25 Well produced approximately 2,200 boe/d consisting of 5.9 MMcf/d of natural gas and 1,248 bbls/d of condensate against flowing pressure of 6600 to 7000 kPa.

The joint venture also completed the 1-14-63-6W6M (the "1-14 Well") in the Halfway formation, a shallower interval. The 1-14 Well was initially drilled and completed in the Montney formation. During the last 24 hours of a 48 hour production test, the Halfway tested up 4½ inch casing at a peak rate of approximately 300 boe/d consisting of 229 bbls/d and 418 Mcf/d, flowing to surface. Additional production testing is planned for the 1-14 Well in the second quarter. Further work will be done to delineate the size of this new pool discovery by testing this interval in other wells.

While the initial rates from the 14-25 Well, the 15-25 Well and the 01-14 Well are encouraging, the production test results are preliminary and the initial rates are not necessarily indicative of long-term performance or of ultimate recovery. Questerre holds a 25% working interest in these wells.

During the quarter, the operator expanded the local gathering infrastructure to tie-in recently drilled wells and plan for future growth. This included the construction of approximately 11 miles of pipeline. Work also commenced to increase rated capacity at its central compression and condensate stabilization facility from 15 MMcf/d to 30 MMcf/d plus associated liquids. The expansion included a tie-in to the third party pipeline to mitigate the costs associated with trucking condensate to the injection station for this pipeline. Questerre holds a 25% working interest in this central facility and associated infrastructure.

In light of current commodity prices, Questerre anticipates its capital program for the remainder of 2015 will be limited to the completion of facilities expansion and the completion and tie-in of three (0.75 net) joint venture

wells drilled in 2014. The Company does not anticipate any further activities on its operated acreage this year.

Oil Shale Mining

Red Leaf Resources Inc. ("Red Leaf") recently announced it will delay the proposed construction of its first commercial scale capsule for oil shale in Utah. Questerre owns 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. The Company 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 conjunction with its partner, a US affiliate of the French-based supermajor, Total S.A. ("Total"), over the last three years Red Leaf has been working to jointly develop their oil shale assets in Utah. The construction of the first large scale capsule is part of the Early Production System ("EPS") phase of this project. The EPS phase is designed to prove the technical and environmental attributes of the process at large scale in Utah. Red Leaf and Total subsequently may launch an advanced commercial pilot on their jointly held oil shale acreage in Utah.

In the current crude oil price environment, the joint venture is scaling back field work under the EPS phase for this commercial scale capsule until 2017. In the interim, Red Leaf plans to refine the current capsule design by incorporating improvements that could accelerate the transition to commercial development.

Production

Three months ended March 31,	2015			2014		
	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	226	-	226	374	-	374
Alberta	387	3,119	908	276	1,788	574
British Columbia	-	87	14	-	72	12
Manitoba	109	-	109	173	-	173
	722	3,206	1,257	823	1,860	1,133

Average daily volumes in the first quarter increased over the prior year with higher production from the Kakwa-Resthaven area of Alberta. For the first quarter of 2015, the Company's production averaged 1,257 boe/d as compared to 1,133 boe/d in the first quarter of 2014 and 1,468 boe/d in the fourth quarter of 2014.

Production from this area grew from 474 boe/d last year to 819 boe/d this year. As natural gas represented 56% of these volumes from Kakwa in 2015 (2014: 49%), the Company's overall weighting of oil and liquids decreased to 57% (2014: 73%). The lower weighting also reflects the natural declines associated with the Company's production in the Antler and Pierson areas. Additionally, 2014 production includes 77 bbls/d of light oil production in the South Antler area that was disposed in the fourth quarter of last year.

Questerre anticipates its oil and liquids weighting will improve over the remainder of 2015 with access to local and third party infrastructure in the Kakwa-Resthaven area. The expansion of the central processing facility on

its joint venture acreage includes enhanced condensate stabilization to increase recoveries of additional liquids such as propane and butane from the condensate mix. Furthermore, late in the second quarter, production will benefit from firm access to a third party shallow-cut processing facility to extract these liquids instead of including them the natural gas stream.

The Company's capital budget for 2015 is limited to finalizing the tie-in and completion of three (0.75 net) wells and expansion of a facility on its joint venture acreage. It is expected these wells will be brought on production later this year to utilize the processing and transportation capacity of approximately 1,000 boe/d. Future drilling on the joint venture acreage will be based on several factors including commodity prices, further improvements in completion design, performance from the Company's one and a half mile wells and drilling and completion costs.

First Quarter 2015 Financial Results

Petroleum and Natural Gas Sales

Three months ended March 31,	2015			2014		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 1,070	$ -	$ 1,070	$ 3,401	$ -	$ 3,401
Alberta	1,641	921	2,562	2,630	1,101	3,731
British Columbia	-	17	17	-	36	36
Manitoba	479	-	479	1,491	-	1,491
	$ 3,190	$ 938	$ 4,128	$ 7,522	$ 1,137	$ 8,659

Sales revenue for the first quarter of 2015 was $4.53 million or more than 50% lower than the first quarter of 2014. This was mainly due to materially lower prices for both oil and liquids and natural gas. Although natural gas volumes increased over the prior year, the increase in revenue due to these volumes was more than offset by the lower revenue attributable to the reduced oil and condensate volumes in the period.

Pricing

Three months ended March 31,	2015	2014
Benchmark prices		
Natural Gas - AECO, daily spot ($/Mcf)	2.75	5.71
Crude Oil - Edmonton light ($/bbl)	49.74	99.74
Realized prices		
Natural Gas ($/Mcf)	3.26	6.78
Crude Oil and Natural Gas Liquids ($/bbl)	49.05	101.58

Crude oil prices remained weak in the first quarter of 2015 with the benchmark West Texas Intermediate ("WTI") averaging US$48.63/bbl compared to US$98.68/bbl in the first quarter of 2014. Despite decline oil rig counts, slowing growth in onshore oil production, and increasing demand for gasoline, concerns about growing oil inventories, particularly at Cushing, the hub for WTI, weighed heavily on prices. In Canada, this was partially offset by the increasing strength in the US dollar. The differential between WTI and the Canadian Light Sweet

("MSW") averaged US$6.49/bbl in 2015 as compared to US$6.21/bbl in 2014.

Mirroring the decline in the WTI, the benchmark MSW declined from $99.74/bbl to $49.74/bbl. Questerre's prices closely track MSW with a realized price of $49.05/bbl in 2015 (2014: $101.58/bbl). While condensate typically receives a premium to MSW, the lower prices in the quarter reflect the penalty associated with a relatively higher proportion of natural gas liquids including propane and butane in the condensate volumes. Questerre expects these liquids volumes and the penalty will decrease substantially once these liquids are extracted and processed at the third party shallow-cut facility.

Notwithstanding a relatively cold winter in the United States, natural gas prices also declined over the prior year reflecting a sustained supply and demand imbalance. Dry gas production in the US during this winter was approximately 7-8 Bcf/d higher than 2014. While reductions in drilling for oil and liquids-rich gas plays due to lower prices and increased demand for power generation due to new environmental legislation are expected to tighten this imbalance, prices are expected to remain challenged for the near term.

Realized natural gas prices reflect the higher heat content of the Company's natural gas production, particularly from the Kakwa-Resthaven area. Natural gas prices were $3.26/Mcf (2014:$6.78/Mcf) compared to the AECO reference price of $2.75/Mcf (2014: $5.71/Mcf).

Royalties

		Three months ended March 31,		
($ thousands)		2015		2014
Saskatchewan	$	74	$	211
Alberta		186		278
British Columbia		-		-
Manitoba		59		152
	$	319	$	641
% of Revenue				
Saskatchewan		7%		6%
Alberta		7%		7%
British Columbia		0%		0%
Manitoba		12%		10%
Total Company		8%		7%

As a percentage of revenue, royalties increased to 8% from 7% in the prior year.

In Alberta, production from the Kakwa-Resthaven area benefits from incentives including the New Well Royalty Rate and the Natural Gas Deep Drilling Program. Respectively, these provide for royalties of 5% for the earlier of the first 12 months of production or 0.5 Bcf equivalent of production and a royalty credit based on the total measured depth of the well with royalties of up to 5%.

In Manitoba, royalties increased from 10% to 12% with the majority of new wells in 2014 drilled on freehold acreage, which attracts a higher royalty rate than production from Crown lands. For the remainder of 2015, the Company expects its royalty rate to average between 7%-10%.

Operating Costs

($ thousands)		Three months ended March 31, 2015		2014
Saskatchewan	$	310	$	364
Alberta		1,368		769
British Columbia		28		15
Manitoba		73		79
	$	1,779	$	1,227
$/boe				
Saskatchewan		15.22		10.80
Alberta		16.75		14.89
British Columbia		21.82		13.92
Manitoba		7.41		5.10
Total Company		15.73		12.04

On a unit of production basis, operating costs averaged $15.73/boe as compared to $12.04/boe in the first quarter of 2014.

Operating costs in Alberta increased to $16.75/boe from $14.89/boe. This primarily reflects the higher costs at Kakwa, in specific those associated with rental equipment, fuel and trucking of both produced water and condensate. On its joint venture acreage, Questerre expects lower costs over the remainder of this year as the central facility becomes operational and condensate is delivered by pipeline to the inlet of a third party pipeline system. In Saskatchewan, operating costs per barrel increased over the prior year as the predominantly fixed costs of the Antler asset were borne by lower production volumes.

General and Administrative Expenses

($ thousands)		Three months ended March 31, 2015		2014
General and administrative expenses, gross	$	1,300	$	1,658
Capitalized expenses and overhead recoveries		(403)		(564)
General and administrative expenses, net	$	897	$	1,094

Gross general and administrative expenses ("G&A") were lower for the three months ended March 31, 2015 compared to the same period in 2014. The decrease was mainly due to lower personnel costs associated with developing the Company's Kakwa-Resthaven area.

Capitalized expenses and overhead recoveries as a percentage of gross G&A decreased in 2015 compared to 2014. This decrease is attributable to fewer staff employed in the current year to develop the Company's Kakwa-Resthaven area.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded $1.87 million of depletion and depreciation expense for the quarter ended March 31, 2015 compared to $2.35 million for the same period in 2014. The decrease in 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 2015 compared to 2014.

Deferred Taxes

For the quarter ended March 31, 2015, Questerre reported a deferred tax recovery of $0.47 million (2014: $0.81 million expense). The increase in the deferred tax recovery in 2015 was mainly due to the net loss incurred in the quarter.

Other Income and Expenses

The Company recorded a loss on risk management contracts of $0.02 million for the quarter ended March 31, 2015 and a gain of $0.95 million on risk management contracts for the same period in 2014. The changes are due to fluctuations in the underlying market prices of the relevant commodities.

The Company recorded a gain on foreign exchange, net of deferred tax, through other comprehensive income (loss), of $1.29 million for the three months ended March 31, 2015 (2014: $1.58 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 income for the first quarter of 2015 was $0.61 million and $2.75 million for the same period in 2014. The decrease is mainly due to lower petroleum and natural gas revenue and higher operating costs.

Capital Expenditures

	Three months ended March 31,	
($ thousands)	2015	2014
Alberta	$ 7,680	$ 11,148
British Columbia	361	9
Saskatchewan	129	1,154
Other	33	48
Total	$ 8,203	$ 12,359

For the three months ended March 31, 2015, the Company incurred net capital expenditures of $8.20 million as follows:

- In Alberta, the Company spent $7.68 million to complete wells targeting the condensate-rich Montney formation and for infrastructure-related costs.
- In British Columbia, the Company spent $0.36 million for recompletion costs relating to an oil well.

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 condensate-rich Montney formation.
- In Saskatchewan, the Company spent $1.15 million to complete wells drilled in 2013 and to expand its waterflood pilot.

Liquidity and Capital Resources

In November 2014, the Company's credit facilities were renewed at $50 million. The facility is determined by, among other things, the Company's current reserve report, results of operations, current and forecasted commodity prices and the current economic environment. The next scheduled review of the Company's credit facilities is expected to be completed in June 2015. At March 31, 2015, no amount has been drawn on the credit facility and the financial covenants relating to the facility were met.

Questerre had a working capital deficit of $16.17 million at March 31, 2015 as compared to a deficit of $9.25 million at December 31, 2014. Management believes with its current credit facility and expected positive operating cash flows from operations in the near future that the Company will generate sufficient cash flows to meet its foreseeable obligations in the normal course of operations. On an ongoing basis the Company will utilize flexibility relating to commitments for future capital expenditures in order to maintain liquidity. To this end, in early 2015, the Company reported a focused capital program for the year and continues to work on strategies to reduce general and administrative costs subsequent to December 31, 2014. The Company cannot provide any assurance that sufficient cash flows will be generated from operating activities to reduce its working capital deficiency and to carry out its planned capital expenditure program. For a detailed discussion of the risks and uncertainties associated with the Company's business and operations, see the Risk Management section of the Company's 2014 Annual MD&A and the AIF.

Cash Flow from Operating Activities

Net cash from operating activities for the three months ended March 31, 2015 and 2014 was $2.22 million and $3.58 million, respectively. The Company's cash flow from operations decreased from 2014 due to lower commodities prices and higher operating costs. This was offset by the higher production in 2015 and the increased change in non-cash working capital.

Cash Flow used in Investing Activities

Cash flow used in investing activities was $11.20 million for the quarter ended March 31, 2015 and $9.43 million for the three months ended March 31, 2014.

For the three months ended March 31, 2015, capital expenditures of $8.20 million were incurred mainly for completion and facility construction activities in the Kakwa-Resthaven area. For the three months ended March 31, 2014, capital expenditures of $12.36 million were incurred mainly for drilling and completion activities in the Kakwa-Resthaven area.

Cash Flow from Financing Activities

The Company received no cash from financing activities for the three months ended March 31, 2015 and $0.08 million for the same period in 2014. The decrease from the prior period is due to no option exercises in 2015.

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, 2015	March 31, 2015	December 31, 2014
Common shares	264,932	264,932	264,932
Stock options	18,354	16,665	17,792
Weighted average common shares			
Basic		264,932	264,890
Diluted		264,932	265,703

A summary of the Company's stock option activity during the three months ended March 31, 2015 and year ended December 31, 2014 follows:

	March 31, 2015		December 31, 2014	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	17,792	$1.96	18,188	$2.02
Granted	5,796	0.30	1,250	1.04
Forfeited	(1,400)	1.08	(1,333)	2.26
Expired	(5,523)	3.68	-	-
Exercised	-	-	(313)	0.67
Outstanding, end of period	16,665	$0.88	17,792	$1.96
Exercisable, end of period	6,347	$1.41	11,201	$2.56

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, 2014.

The Company may use financial instruments to reduce corporate risk in certain situations. At March 31, 2015, Questerre had the following commodity risk management contract in place:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Asset *($ thousands)*
Natural gas swap	2,000 gj/d	$3.72/gj	Apr. 1, 2015 - Dec. 31, 2015	603

Accounting Policy Changes

Changes in Accounting Policies for 2015

There were no new or amended accounting standards or interpretations adopted during the three months ended March 31, 2015.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three months ended March 31, 2015 that are applicable to the Company in future periods. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2014.

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, 2015 and ended on March 31, 2015 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)	**March 31, 2015**	December 31, 2014	September 30, 2014	June 30, 2014
Production (boe/d)	**1,257**	1,468	849	849
Average Realized Price ($/boe)	**36.49**	56.37	76.34	82.08
Petroleum and Natural Gas Sales	**4,128**	7,613	5,963	6,342
Cash Flow from Operations	**1,285**	4,286	2,557	3,009
Basic ($/share)	**-**	0.02	0.01	0.01
Diluted ($/share)	**-**	0.02	0.01	0.01
Net Income (Loss)	**(555)**	(42,900)	680	520
Basic ($/share)	**-**	(0.16)	-	-
Diluted ($/share)	**-**	(0.16)	-	-
Capital Expenditures, net of acquisitions and dispositions	**8,203**	9,672	23,362	11,254
Working Capital Surplus (Deficit)	**(16,165)**	(9,247)	(3,861)	16,945
Total Assets	**232,155**	234,174	289,928	274,625
Shareholders' Equity	**197,465**	196,858	246,049	243,361
Weighted Average Common Shares Outstanding				
Basic (thousands)	**264,932**	264,932	264,932	264,928
Diluted (thousands)	**264,932**	264,934	265,976	266,081

($ 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 (Deficit)	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

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

- Cash flow from operations has decreased over the previous quarters mainly due to lower commodity pricing.
- Production has increased to 1,257 boe/d for the three months ended March 31, 2015 as compared with 1,133 boe/d for the same period in the prior year. The Company's production in its Antler area was lower as a result of the sale of its South Antler assets.
- In general, the capital expenditures have been higher than the cash flow from operations resulting in a working capital deficit.

Condensed Consolidated interim Balance Sheets *(unaudited)*

($ thousands)	Note		March 31, 2015		December 31, 2014
Assets					
Current Assets					
Cash and cash equivalents		$	2,029	$	11,005
Accounts receivable			1,774		2,607
Current portion of risk management contracts	10		603		748
Deposits and prepaid expenses			679		789
			5,085		15,149
Investments	3		17,563		16,541
Property, plant and equipment	4		95,556		96,007
Exploration and evaluation assets	5		90,994		83,789
Goodwill			2,346		2,346
Deferred tax assets			20,611		20,342
		$	232,155	$	234,174
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities		$	20,648	$	23,648
Current portion of share based compensation liability	8		4,491		4,445
			25,139		28,093
Share based compensation liability	8		808		1,090
Asset retirement obligation	6		8,743		8,133
			34,690		37,316
Shareholders' Equity					
Share capital	7		347,345		347,345
Contributed surplus			16,686		16,686
Accumulated other comprehensive income			1,290		128
Deficit			(167,856)		(167,301)
			197,465		196,858
		$	232,155	$	234,174

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 as noted)	Note	*Three months ended March 31,* 2015	2014
Revenue			
Petroleum and natural gas sales		$ 4,128	$ 8,659
Royalties		(319)	(641)
Petroleum and natural gas revenue, net of royalties		3,809	8,018
Expenses			
Direct operating		1,779	1,227
General and administrative		897	1,094
Depletion and depreciation	4	1,870	2,346
Impairment of assets	3,5	352	86
(Gain) loss on risk management contracts	10	(20)	954
Share based compensation (recovery)	8	(88)	409
Accretion of asset retirement obligation	6	29	53
Other (income) expense		34	38
Interest income		(23)	(182)
Income (loss) before taxes		(1,021)	1,993
Deferred tax expense (recovery)		(466)	814
Net income (loss)		(555)	1,179
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to net income (loss):			
Reclass to profit (loss) on write-down of investments	3	(128)	-
Gain on foreign exchange		1,290	1,575
		1,162	1,575
Total comprehensive income		$ 607	$ 2,754
Net income (loss) per share			
Basic and diluted	7	$ -	$ -

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,* 2015	2014
Share Capital			
Balance, beginning of period		$ 347,345	$ 347,059
Issue of common shares	7	-	323
Share issue costs (net of tax)	7	-	(64)
Balance, end of period		347,345	347,318
Contributed Surplus			
Balance, beginning of period		16,686	16,659
Reclassification of share based compensation		-	27
Balance, end of period		16,686	16,686
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of period		128	4,259
Other comprehensive income		1,162	1,575
Balance, end of period		1,290	5,834
Deficit			
Balance, beginning of period		(167,301)	(126,780)
Net income (loss)		(555)	1,179
Balance, end of period		(167,856)	(125,601)
Total Shareholders' Equity		$ 197,465	$ 244,237

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,* 2015	2014
Operating Activities			
Net income (loss)		$ (555)	$ 1,179
Adjustments for:			
Depletion and depreciation	4	1,870	2,346
Impairment of assets	3,5	352	86
Unrealized loss on risk management contracts	10	145	655
Share based compensation	8	(88)	409
Accretion of asset retirement obligation	6	29	53
Deferred tax expense (recovery)		(466)	814
Abandonment expenditures	6	(2)	-
Cash flow from operations		1,285	5,542
Change in non-cash working capital		935	(1,967)
Net cash from operating activities		2,220	3,575
Investing Activities			
Property, plant and equipment expenditures	4	(159)	(2,780)
Exploration and evaluation expenditures	5	(8,044)	(9,579)
Change in non-cash working capital		(2,993)	2,933
Net cash used in investing activities		(11,196)	(9,426)
Financing Activities			
Share issue costs		-	(88)
Proceeds from issue of share capital	8	-	169
Net cash from financing activities		-	81
Change in cash and cash equivalents		(8,976)	(5,770)
Cash and cash equivalents, beginning of period		11,005	47,459
Cash and cash equivalents, end of period		$ 2,029	$ 41,689
Cash interest received		$ 5	$ 15

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, 2015 and 2014 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, 2014 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, 2014, 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, 2015.

2. Accounting Policy Changes

Changes in Accounting Policies for 2015

There were no new or amended accounting standards or interpretations adopted during the three months ended March 31, 2015.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three months ended March 31, 2015 that are applicable to the Company in future periods. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2014.

3. Investments

The investments balance is comprised of the following investments:

($ thousands)		March 31, 2015		December 31, 2014
Red Leaf Resources Inc.	$	17,436	$	15,948
Investment in private company		127		593
	$	17,563	$	16,541

The following table sets out the changes in investments:

($ thousands)		March 31, 2015		December 31, 2014
Balance, beginning of year	$	16,541	$	46,078
Gain on foreign exchange		1,487		4,181
Impairment		(465)		(33,718)
Balance, end of period	$	17,563	$	16,541

For the three months ended March 31, 2015, the gain on foreign exchange relating to investments was $1.49 million (March 31, 2014: gain $1.81 million), which was recorded in other comprehensive income (loss) net of deferred tax of $0.20 million (March 31, 2014: $0.23 million).

The Company recorded $0.34 million of the impairment in net loss and $0.11 million in other comprehensive income (loss).

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, 2013	$	153,651	$	1,283	$	154,934
Additions		1,586		51		1,637
Disposition		(15,680)		-		(15,680)
Transfer from exploration and evaluation assets		36,129		-		36,129
Balance, December 31, 2014		175,686		1,334		177,020
Additions		456		-		456
Transfer from exploration and evaluation assets		963		-		963
Balance, March 31, 2015	**$**	**177,105**	**$**	**1,334**	**$**	**178,439**
Accumulated depletion, depreciation and impairment losses:						
Balance, December 31, 2013	$	54,583	$	1,084	$	55,667
Disposition		(5,257)		-		(5,257)
Depletion and depreciation		8,368		108		8,476
Impairment		22,127		-		22,127
Balance, December 31, 2014		79,821		1,192		81,013
Depletion and depreciation		1,860		10		1,870
Balance, March 31, 2015	**$**	**81,681**	**$**	**1,202**	**$**	**82,883**

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Net book value:						
At December 31, 2014	$	95,865	$	142	$	96,007
At March 31, 2015	**$**	**95,424**	**$**	**132**	**$**	**95,556**

During the period ended March 31, 2015, the Company derecognized $0.05 million in capitalized stock based compensation expense directly related to development activities (December 31, 2014: $0.04 million capitalized). Included in the March 31, 2015 depletion calculation are future development costs of $108.56 million (December 31, 2014: $112.77 million).

5. Exploration and Evaluation Assets

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

($ thousands)		March 31, 2015		December 31, 2014
Balance, beginning of year	$	83,789	$	56,442
Additions		8,183		64,352
Transfers to property, plant and equipment		(964)		(36,129)
Dispositions		-		(159)
Impairment (incl. undeveloped land expiries)		(14)		(717)
Balance, end of period	$	90,994	$	83,789

During the period ended March 31, 2015, the Company capitalized administrative overhead charges of $0.31 million (December 31, 2014: $2.89 million) including $0.10 million of derecognized stock based compensation expense directly related to exploration and evaluation activities (December 31, 2014: $0.69 million capitalized).

The impairment expense for the period ended March 31, 2015 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 $8.74 million as at March 31, 2015 (December 31, 2014: $8.13 million) based on an undiscounted total future liability of $11.34 million (December 31, 2014: $11.50 million). These payments are expected to be made over the next 36 years. The average discount factor, being the risk-free rate related to the liabilities, is 1.34% (December 31, 2014: 1.94%). 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, 2015		December 31, 2014
Balance, beginning of year	$	8,133	$	7,136
Liabilities disposed		-		(726)
Liabilities incurred		-		1,476
Liabilities settled		(2)		(89)
Revisions due to change in discount rates		651		270
Revisions due to change in estimates		(68)		(69)
Accretion		29		135
Balance, end of period	$	8,743	$	8,133

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" common voting shares and an unlimited number of preferred shares, issuable in one or more series. At March 31, 2015, 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, 2013	264,657	$	347,059
Issued on exercise of options	275		350
Share issue costs (net of tax effect)	-		(64)
Balance, December 31, 2014	264,932		347,345
Balance, March 31, 2015	**264,932**	**$**	**347,345**

b) Per share amounts

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

		Three months ended March 31,		
(thousands, except as noted)		**2015**		2014
Net income (loss)	**$**	**(555)**	$	1,179
Issued Common Shares at beginning of period		**264,932**		264,657
Effect of options exercised		**-**		106
Weighted average number of Common Shares outstanding (basic)		**264,932**		264,763
Basic net income (loss) per share	**$**	**-**	$	-

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

		Three months ended March 31,		
(thousands, except as noted)		**2015**		2014
Net income (loss)	**$**	**(555)**	$	1,179
Weighted average number of Common Shares outstanding (basic)		**264,932**		264,763
Effect of outstanding options		**-**		1,155
Weighted average number of Common Shares outstanding (diluted)		**264,932**		265,918
Diluted net income (loss) per share	**$**	**-**	$	-

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, 2015, 16.67 million options (March 31, 2014: 14.60 million) were

excluded from the diluted weighted average number of Common Shares outstanding calculation as their effect would have been anti-dilutive.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date or one year from the grant date. The grants 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, 2015		December 31, 2014	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	17,792	$1.96	18,188	$2.02
Granted	5,796	0.30	1,250	1.04
Forfeited	(1,400)	1.08	(1,333)	2.26
Expired	(5,523)	3.68	-	-
Exercised	-	-	(313)	0.67
Outstanding, end of period	16,665	$0.88	17,792	$1.96
Exercisable, end of period	6,347	$1.41	11,201	$2.56

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

($ thousands)		March 31, 2015		December 31, 2014
Balance, beginning of year	$	5,535	$	3,775
Amount transferred to contributed surplus		-		(27)
Share based compensation expense		(88)		1,240
Capitalized share based compensation		(148)		737
Cash payment for options exercised		-		(24)
Reclassification to share capital on exercise of stock options		-		(166)
Balance, end of year	$	5,299	$	5,535
Current portion	$	4,491	$	4,445
Non-current portion		808		1,090
	$	5,299	$	5,535

9. Capital Management

The Company believes with its current credit facility and positive expected operating cash flows from operations (an additional IFRS measure defined as net cash from operating activities before changes in noncash working capital) in the near future that the Company will be able to meet its foreseeable obligations in the normal course of operations. On an ongoing basis the Company reviews its commitment to incur capital expenditures to ensure that cash flow from operations (an additional IFRS measure defined as net cash from operating activities before changes in non-cash working capital) or access to credit facilities are available to fund these capital expenditures. Refer to Note 11.

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. To this end, in early 2015, the Company reported a reduced capital program for 2015.

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, 2015		December 31, 2014
Shareholders' equity	$	197,465	$	196,858

10. Financial Risk Management and Determination of Fair Values

a) Overview

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

b) Fair value of financial instruments

The Company's financial instruments as at March 31, 2015 included cash and cash equivalents, accounts receivable, risk management contracts, deposits, investments and accounts payable and accrued liabilities. As at March 31, 2015, 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 risk management contracts are considered a level 2 instrument. The Company's financial derivative instruments are carried at fair value as 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 using a discounted cash flow approach.

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

c) Market risk

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

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted 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, 2015, the Company had the following outstanding commodity risk management contracts:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Asset *($ thousands)*
Natural gas swap	2,000 gj/d	$3.72/gj	Apr. 1, 2015 - Dec. 31, 2015	603

The Company's risk management position is as follows:

($ thousands)	March 31, 2015	December 31, 2014
Risk Management Assets		
Current portion	$ 603	$ 748

The Company recorded an unrealized loss of $0.15 million for the three month period ended March 31, 2015 and an unrealized loss of $0.66 million for the same period in 2014. The Company also recorded a realized gain of $0.17 million for the three month period ended March 31, 2015 and a realized loss of $0.30 million for the same period in 2014.

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 gas swap contracts, an increase or decrease of $1 to the AECO price, with all other variables being held constant, would result in a $0.55 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.

11. Credit Facilities

In November 2014, the Company's credit facilities with a Canadian chartered bank were renewed at $50 million. The next scheduled review of the Company's credit facilities is expected to be completed in June 2015. 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. The Adjusted Working Capital Ratio at March 31, 2015 was 1.76 and the covenant is met. At March 31, 2015 no amount has been drawn on the credit facility.

Corporate Information

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Dennis Sykora

Ted Roberts

Bjorn Inge Tonnessen

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Keith Wilford
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