Q3

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.

IT IS PURSUING OIL SHALE PROJECTS WITH THE AIM OF COMMERCIALLY DEVELOPING THESE MASSIVE RESOURCES.

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

The development of our Kakwa joint venture acreage delivered another positive quarter.

Three wells were tied in to the central facility, where capacity was expanded to 30 MMcf/d of natural gas plus 6,000 bbl/d of condensate earlier this year. Based on the production from our early extended-reach horizontals, we drilled and completed our ninth well with a lateral of 2000m. We intend to participate in additional wells, subject to prices and further results.

The recently announced acquisition of our partner at Kakwa supports this ongoing investment at current prices and, in our view, validates the potential of this asset.

We are also prudently investing in our oil shale assets, specifically the new acreage in Jordan. This is at a very early stage, but quite prospective. We began a five-well core program in the quarter to verify existing government data and our preliminary resource assessment.

Highlights

- Average daily production of 1,934 boe/d and cash flow from operations of $3.08 million for the quarter
- Credit facilities renewed at $50 million
- Quebec releases final studies for strategic environmental assessment of oil and gas development
- Field work commenced in Jordan to appraise recently acquired oil shale acreage
- Further overhead reductions implemented

Kakwa-Resthaven, Alberta

With the early results from our extended-reach horizontals, our confidence is growing that the economics of this play will remain robust even in today's pricing environment.

These wells, with laterals of approximately 2000m or longer, have benefitted from new completions that individually place a greater number of frac treatments. The new completions should improve recoveries per well and, with little to no communication between treatments, indicate that more wells can be drilled closer together without interference. We anticipate this will increase the number of drillable locations and further grow our reserves at year-end.

Field condensate accounts for just over half of these reserves and our wells average approximately 170 bbls/MMcf. Driven by demand as a diluent for bitumen, condensate realizes a premium to the Canadian Mixed Sweet benchmark price and trades on par with WTI. Returns benefit from an incremental 15-20 bbls/MMcf of other natural gas liquids, primarily butane and plant condensate.

Our investment in infrastructure has further improved our single well economics with direct tie-ins to a third party condensate pipeline system and processing plant. The infrastructure can support a doubling in existing production volumes to between 10,000 - 12,000 boe/d. We have also secured firm processing, transportation and fractionation capacity to alleviate some of the regional bottlenecks.

We believe the combination of top decile economics, a dense, condensate-rich resource and take-away capacity creates a unique asset with significant value today and leverage to improving prices. We plan to participate in future wells to keep current production flat. This allows us to realize value through production and/or partnership or potential sale.

The announced acquisition of the operator early in the fourth quarter is, in our view, positive for our asset. It endorsed the value and its future development potential.

The acquisition is also encouraging for the potential of our seven sections directly offsetting the joint venture lands. We are conserving capital for the near future and will monitor the increasing industry activity around us, including two wells that were recently tied-in and should be on production shortly.

Oil Shale Mining

Although it is in the very early stages, our oil shale project in Jordan could have significant potential. It is consistent with our original strategy of capturing high quality, large scale resources early.

Jordan is host to one of the top ten oil shale resources in the world. We acquired our acreage targeting an area where a relatively rich and extensive oil shale deposit could be found close to the surface, i.e. a strip to ore ratio of less than two to one. Core data from existing wells on this acreage indicates average yields of 25 gallons per ton over a 40m interval. This compares favorably to the Green River shale in Utah, one of the largest oil shale resources globally, where the average yield on a similar but much smaller project in terms of scale is 21 gallons per ton over an 18m interval.

Our work program has two objectives – conduct a detailed resource assessment and evaluate the feasibility of commercial development. This is expected to take two years with an investment of up to $3 to $5 million. We are very mindful of the capital investment and are leveraging our internal expertise where possible to conduct the majority of this work internally.

Operational & Financial

As joint venture wells were tied-in and another tested into pipe at Kakwa, the area grew to over 80% of corporate volumes from 75% in the second quarter and 36% in the third quarter of last year.

Production from the area was 1,570 boe/d compared to 1,088 boe/d in the second quarter and 313 boe/d in the third quarter of last year. Coupled with a base of approximately 360 boe/d primarily from Antler, corporate production averaged 1,934 boe/d for the quarter (2014: 849 boe/d). On a year to date basis, corporate production averaged 1,559 boe/d (2014: 943 boe/d).

The 50% decline in oil and liquids prices over the prior year was offset by the nearly 80% increase in condensate and light oil production in the quarter. Condensate and light oil still account for over 50% of volumes. This contributed to quarterly cash flow from operations of $3.08 million compared to $2.56 million in the prior year.

The improved cash flow reflects the overhead reduction implemented earlier this year. This November, the Company introduced a four-day work week and space has been reduced. It is anticipated these cost-cutting measures will reduce gross overheads by almost 30% or $1.8 million on a go forward basis compared to 2014.

We recorded an impairment of approximately $9 million to our producing assets due to the significant decline in commodity prices in 2015. Of interest, the majority relates to our Antler asset with no impairment recorded for our Kakwa asset.

Capital investment was $6.21 million for the quarter and $19.51 million for the nine months ended September 30, 2015. Almost 90% of this was invested at Kakwa, consistent with the first half of this year. Subject to the timing of additional drilling, the Company expects to invest an incremental $4 million in this area for the remainder of this year.

Outlook

To maintain financial flexibility, our capital investment will remain restricted for the next year.

At Kakwa, this investment will be limited to drilling new wells as needed to sustain our base of production. This preserves our ability to realize the value through either production or a future joint venture/sale. The initial results from the extended-reach wells suggest that they remain economic even at current prices.

Our investment in Jordan is focused strictly on appraising the resource and assessing, on a scoping basis, the likelihood of commercial development. Much like other large scale oil projects, this will require an improvement in oil prices. In the interim, we believe our focused investment in this asset is worthwhile relative to the scale of this potential resource.

The Government of Quebec continues to be on track with its hydrocarbon plan. The studies for the ongoing strategic environmental assessment of oil and gas in Quebec were released with public consultations now underway. The studies are encouraging for our Utica gas discovery. We anticipate that the final report will be released by year-end.

We also expect the release of the new energy policy for Quebec before year-end. As well, the first certificate of authorization for a pilot program of frac'ing is expected shortly. We are optimistic this will lay the groundwork for modernizing the hydrocarbon law in 2016.

Michael Binnion
President and Chief Executive Officer

Management's Discussion and Analysis ("MD&A") was prepared as of November 12, 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 September 30, 2015 and for the three and nine month periods ended September 30, 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. 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 Resources Inc. ("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 and Red Leaf;
- expected positive operating cash flows and ability to meet its foreseeable obligations;
- future royalty rates;
- timing of future credit facility review and availability under these facilities;
- timing of drilling and completion programs and resulting production and cash flows;
- the ability to meet the Company's take or pay obligations;
- timing of core analysis in Jordan;
- 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;
- reservoir performance;
- 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 September 30,		Nine months ended September 30,	
($ thousands)	**2015**	2014	**2015**	2014
Cash flow from operations	**$ 3,080**	$ 2,557	**$ 7,424**	$ 11,108
Change in non-cash operating working capital	**282**	571	**(249)**	(1,008)
Net cash from operating activities	**$ 3,362**	$ 3,128	**$ 7,175**	$ 10,100

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 and risk management contracts.

Select Information

As at/for the period ended September 30,	Three months ended 2015	2014	Nine months ended 2015	2014
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	**6,528**	5,963	**16,704**	20,964
Cash Flow from Operations	**3,080**	2,557	**7,424**	11,108
Basic ($/share)	**0.01**	0.01	**0.03**	0.04
Diluted ($/share)	**0.01**	0.01	**0.03**	0.04
Net Income (Loss)	**(18,353)**	680	**(17,476)**	2,379
Basic ($/share)	**(0.07)**	-	**(0.07)**	0.01
Diluted ($/share)	**(0.07)**	-	**(0.07)**	0.01
Capital Expenditures, net of acquisitions and dispositions	**6,213**	23,362	**19,511**	46,974
Working Capital Deficit	**(21,334)**	(3,861)	**(21,334)**	(3,861)
Total Assets	**219,102**	289,928	**219,102**	289,928
Shareholders' Equity	**179,382**	246,049	**179,382**	246,049
Common Shares Outstanding (thousands)	**264,932**	264,932	**264,932**	264,932
Weighted average - basic (thousands)	**264,932**	264,932	**264,932**	264,875
Weighted average - diluted (thousands)	**264,932**	265,976	**264,932**	266,003
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**1,102**	622	**904**	670
Natural Gas (Mcf/d)	**4,992**	1,366	**3,930**	1,639
Total (boe/d)	**1,934**	849	**1,559**	943
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	**48.59**	93.92	**53.04**	100.23
Natural Gas ($/Mcf)	**3.49**	4.70	**3.37**	5.89
Total ($/boe)	**36.69**	76.34	**39.25**	81.43
Netback ($/boe)				
Petroleum and Natural Gas Sales	**36.69**	76.34	**39.25**	81.43
Royalties Expense	**(2.65)**	(6.32)	**(2.27)**	(6.58)
Percentage	**7%**	8%	**6%**	8%
Direct Operating Expense	**(12.33)**	(18.22)	**(13.72)**	(15.71)
Operating Netback	**21.71**	51.79	**23.26**	59.13
Wells Drilled				
Gross	**1.00**	7.00	**1.00**	14.00
Net	**0.25**	1.95	**0.25**	5.30

Highlights

- Average daily production of 1,934 boe/d and cash flow from operations of $3.08 million for the quarter
- Credit facilities renewed at $50 million
- Quebec releases final studies for strategic environmental assessment of oil and gas development
- Field work commenced in Jordan to appraise recently acquired oil shale acreage
- Further overhead reductions implemented

Third Quarter 2015 Activities

Kakwa-Resthaven, Alberta

With the expansion of the central compression and condensate stabilization facility finalized earlier this year, a number of recently completed wells were placed on production in the third quarter of 2015.

These include the 01-11-63-6W6M well (the "01-11 Well"), the 08-11-63-6W6M well (the "08-11 Well") and the 01-14-63-6W6M well ("01-14 Well"). For the first month, gross sales from the 01-11 Well averaged 1.7 MMcf/d of gas and 417 bbls/d of condensate and other liquids (700 boe/d). In its first month of the production, sales volumes from the 08-11 Well were 1.9 MMcf/d of gas and 447 bbls/d of condensate and other liquids (764 boe/d). The 01-14 Well produced, on average, sales volumes of 2.4 MMcf/d of gas and 571 bbls/d of condensate and other liquids (971 boe/d). The wells were completed with an average of 60 frac stages per well as compared to 85 frac stages in the most recent wells drilled in Section 25. Questerre holds a 25% working interest in these wells.

Although the initial rates from the 01-11 Well, the 08-11 Well and the 01-14 Well are encouraging, these results are not necessarily indicative of long-term performance or ultimate recovery from these wells.

During the quarter, the operator also spud the 13-25-63-6W6M well (the "13-25 Well"). The well was drilled with a 2000m lateral in the Montney formation. Completion operations included 87 frac stages and the well was tested into existing infrastructure. Production facilities are being constructed and the well is expected to be on production in the fourth quarter. Questerre holds a 25% working interest in the 13-25 Well.

The operator has plans to drill up to one (0.25 net) additional well on the joint venture acreage in the fourth quarter of this year. In the current commodity price environment, the Company expects that additional drilling on its joint venture acreage will focus on maintaining production to meet its take or pay commitments for processing and transportation.

The Company does not anticipate any further activity on its operated acreage for the remainder of this year.

Oil Shale Mining

During the quarter, Red Leaf announced they have amended their agreement with a wholly-owned subsidiary of the French supermajor, Total S.A. regarding the development of their joint oil shale acreage in Utah. As a result of the amendment, Red Leaf will defer the construction of the first commercial scale capsule by two years while it optimizes the capsule design. In consideration, Total will make payments to Red Leaf of up to US$85 million to fund the costs associated with the deferral including contract cancellation and the optimization of capsule design.

Questerre holds an approximate 6% equity interest in Red Leaf and a license to utilize the company's EcoShale In-Capsule technology to produce oil from oil shale.

To further the development of its oil shale assets, the Company commenced field work to assess its recently acquired acreage in Jordan.

This included two hydrology studies and a core-hole program to validate the existing well data. The five-well core program was completed early in the fourth quarter. Over 300m of good quality core was cut. All of the wells encountered the target formation with a minimum thickness of 47m and a maximum thickness of 101m. Analysis of the core is underway and results are expected by the second quarter of 2016.

Corporate

Following the review conducted in the fourth quarter, the Company's credit facilities with a Canadian chartered bank remained unchanged at $50 million. The credit facilities include a revolving operating demand loan and a non-revolving acquisition and development demand loan. Any borrowings under the facility, with the exception of letters of credit are subject to 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 debenture with a first floating charge over all assets of the Company and a general assignment of book debts. The next scheduled review of the credit facility is scheduled for the second quarter of 2016.

Production

Three months ended September 30,	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	203	-	203	311	-	311
Alberta	824	4,931	1,646	192	1,276	404
Manitoba	72	-	72	119	-	119
British Columbia	3	61	13	-	90	15
	1,102	4,992	1,934	622	1,366	849

Nine months ended September 30,		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	207	-	207	306	-	306
Alberta	603	3,856	1,246	230	1,549	488
Manitoba	93	-	93	134	-	134
British Columbia	1	74	13	-	90	15
	904	3,930	1,559	670	1,639	943

Consistent with the second quarter, the recently expanded joint venture facilities at Kakwa saw increased production from this area. This contributed to higher corporate volumes over the prior quarter and the third quarter of last year.

In the third quarter of this year, production averaged 1,934 boe/d compared to 1,480 boe/d in the prior quarter and 849 boe/d for the same period in 2014. For the nine months ended September 30, 2015, production in 2015 increased by approximately 65% to 1,559 boe/d from 943 boe/d in 2014 due to the increased volumes from the Kakwa area.

Oil and liquids as a percentage of total volumes were 57% compared to 59% in the prior quarter. With Kakwa accounting for over 80% of corporate volumes, the company's product mix approximates the 50/50 weighting between liquids and natural gas for production from this area. Further, the natural declines and limited investment in Saskatchewan and Manitoba in 2015 also contributed to the lower oil weighting compared to the nine month period ended September 30, 2014.

The Company is in discussions with the operator regarding its plans for future development drilling on the joint venture acreage in the Kakwa area. The Company expects one (0.25 net) additional well to be drilled prior to year-end compared to two (0.50 net) forecasted at the end of the second quarter. Questerre anticipates that production from this area will remain stable at approximately 1,200 - 1,400 boe/d to meet its take or pay obligations.

Third Quarter 2015 Financial Results

Petroleum and Natural Gas Sales

Three months ended September 30,		2015			2014	
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 1,042	$ -	$ 1,042	$ 2,765	$ -	$ 2,765
Alberta	3,550	1,578	5,128	1,600	556	2,156
Manitoba	338	-	338	1,008	-	1,008
British Columbia	10	10	20	-	34	34
	$ 4,940	$ 1,588	$ 6,528	$ 5,373	$ 590	$ 5,963

Nine months ended September 30,	2015			2014		
($ thousands)	**Oil and Liquids**	**Natural Gas**	**Total**	Oil and Liquids	Natural Gas	Total
Saskatchewan	**$ 3,262**	**$ -**	**$ 3,262**	$ 8,444	$ -	$ 8,444
Alberta	**8,469**	**3,552**	**12,021**	6,365	2,528	8,893
Manitoba	**1,369**	**-**	**1,369**	3,516	-	3,516
British Columbia	**10**	**42**	**52**	-	111	111
	$ 13,110	**$ 3,594**	**$ 16,704**	$ 18,325	$ 2,639	$ 20,964

In the third quarter of 2015, higher production volumes offset significantly lower commodity prices and contributed to marginally higher revenue over the prior year.

For the nine months ended September 30, 2015, despite higher volumes, lower commodity prices resulted in sales revenue declining materially to $16.7 million from $20.96 million in the same period in 2014.

Pricing

	Three months ended September 30,		*Nine months ended September 30,*	
	2015	2014	**2015**	2014
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	**2.90**	4.02	**2.77**	4.81
Crude Oil - Mixed Sweet Blend ($/bbl)	**57.47**	96.11	**59.09**	100.12
Realized prices:				
Natural Gas ($/Mcf)	**3.49**	4.70	**3.37**	5.89
Crude Oil and Natural Gas Liquids ($/bbl)	**48.59**	93.92	**53.04**	100.23

Crude oil prices weakened and reached a new low for the year in the third quarter. The benchmark West Texas Intermediate (“WTI”) traded between US$38/bbl and US$57/bbl and averaged US$46.43/bbl compared to US$57.94/bbl in the second quarter of this year.

Record production from OPEC, particularly Saudi Arabia, the potential for increased production from Iran and concerns about a weakening Chinese economy contributed to this decline. Despite growth in demand and declining rig counts in the United States, the supply demand imbalance is expected to continue for the next 12-18 months. The differential between WTI and the Canadian Light Sweet (“MSW”) averaged a discount of US$0.40/bbl in the third quarter compared to a premium of US$1.10/bbl in the second quarter.

Questerre’s realized oil price tracks the MSW price with condensate production from Kakwa receiving a small premium to this price. This is offset by the materially lower price for other natural gas liquids particularly propane. In the third quarter, the average price for oil, condensate and other liquids averaged $48.59/bbl (2014: $93.92/bbl) with an average MSW price of $57.47/bbl (2014: $96.11/bbl).

Natural gas prices remained below US$3/Mcf for the third quarter of this year with the benchmark Henry Hub averaging US$2.76/Mcf compared to US$2.73/Mcf in the second quarter and US$3.93/Mcf for the third quarter of 2014. Notwithstanding the decline in liquids-rich and associated gas drilling, production in the United States has continued to grow led by the Marcellus shale in Pennsylvania. Further, a backlog of shut-in and drilled but uncompleted wells in this area and increasing takeaway capacity could prevent production from rolling over next year. Coupled with industrial demand growth that has been slower to materialize than anticipated, the outlook for natural gas is expected to remain weak for the near future. With the prospect of reduced demand for gas from Western Canada, the differential with the AECO-C price increased to US$0.60/Mcf from US$0.51/Mcf in the second quarter.

Questerre's realized gas price continues to benefit from the high heat content of natural gas produced in the Kakwa area.

Royalties

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2015**	2014	**2015**	2014
Saskatchewan	**$ 66**	$ 162	**$ 197**	$ 527
Alberta	**340**	210	**592**	779
Manitoba	**65**	121	**178**	388
British Columbia	**-**	1	**-**	1
	$ 471	$ 494	**$ 967**	$ 1,695
% of Revenue:				
Saskatchewan	**6%**	6%	**6%**	6%
Alberta	**7%**	10%	**5%**	9%
Manitoba	**19%**	12%	**13%**	11%
British Columbia	**0%**	1%	**0%**	1%
Total Company	**7%**	8%	**6%**	8%

Royalties as a percentage of revenue decreased marginally to 7% from 8% in third quarter of 2014. This compares to a rate of 3% in the second quarter of this year, which included credits received in the period for processing the Crown's production in Alberta through the Company's facilities in the prior year. This contributed to the lower overall rate of 6% for the nine month period ended September 30, 2015 compared to a rate of 8% of the same period last year.

As Kakwa represents the majority of production from Alberta, the royalty rate for production from the province approximates the royalty rate for production from this area of 7%.

Operating Costs

($ thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Saskatchewan	$ **365**	$ 502	$ **937**	$ 1,268
Alberta	**1,647**	775	**4,497**	2,424
Manitoba	**104**	118	**274**	284
British Columbia	**78**	29	**130**	70
	$ **2,194**	$ 1,424	$ **5,838**	$ 4,046
$/boe:				
Saskatchewan	**19.59**	17.54	**16.59**	15.17
Alberta	**10.87**	20.84	**13.22**	18.17
Manitoba	**15.67**	10.80	**10.80**	7.78
British Columbia	**65.87**	20.73	**36.72**	17.15
Total Company	**12.33**	18.22	**13.72**	15.71

Operating costs for the quarter increased over the prior quarter and third quarter of last year. This is due to the materially higher production volumes in the current period relative to the prior periods. For the nine months ended September 30, 2015, the higher volumes also explain the higher costs in comparison to the same period in 2014.

On a per unit of production basis, operating costs were lower in Alberta for the three month and the nine month periods. This is due to the higher production volumes from the Kakwa joint venture acreage where the majority of costs are fixed. In Saskatchewan, the operating costs in the third quarter were higher due to workovers associated with existing wells. For the three month period ended September 30, 2015 costs were higher than the prior year due to the lower volumes in 2015 and the higher proportion of fixed costs.

General and Administrative Expenses

($ thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
General and administrative expenses, gross	$ **1,103**	$ 1,963	$ **3,838**	$ 5,264
Capitalized expenses and overhead recoveries	**(335)**	(576)	**(1,064)**	(1,844)
General and administrative expenses, net	$ **768**	$ 1,387	$ **2,774**	$ 3,420

Gross general and administrative expenses ("G&A") were lower for the three and nine months ended September 30, 2015 compared to the same periods in 2014. The decrease was mainly due to lower personnel costs associated with developing the Kakwa asset.

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 Kakwa asset.

Depletion, Depreciation and Impairment

Questerre recorded $2.95 million of depletion and depreciation expense for the quarter ended September 30, 2015 compared to $1.8 million for the same period in 2014. For the nine months ended September 30, 2015, the Company recorded $6.97 million of depletion and depreciation expense compared to $5.75 million for the same period in 2014. The increase in depletion and depreciation is mainly due to increased production over the prior year. This was mostly offset by the higher production weighting from cash generating units with lower finding and development costs.

For the three and nine month periods ended September 30, 2015, the Company recorded $20.76 million (2014: $0.3 million) and $21.37 million (2014: $0.59 million) to impairment expense. Impairment charges in 2015 included $10.15 million for the Company's investments, $8.99 million for property, plant and equipment assets and $2.23 million for exploration and evaluation assets. The 2014 impairment charges relates to undeveloped land expiries within the exploration and evaluation asset pool.

At September 30, 2015, an impairment loss of $10.15 million was recognized in net income (loss) for the Company's investments mainly relating to Red Leaf. The impairment represents the difference between the carrying value of its investments and its estimated fair value. The determination of fair value requires management to make judgments, estimates and assumptions. These estimates and judgments are reviewed quarterly and have risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

As of September 30, 2015, the Company determined the fair value of its investment in Red Leaf using the net asset value method. This method was determined to be a more representative value of the Company's investment in Red Leaf than the discounted cash flow model used at December 31, 2014, due to the suspension of field work by Red Leaf and the decline in crude prices among other factors. This method involves determining the fair value of all assets and liabilities of Red Leaf using the net amount to arrive at an estimated fair value. The carrying value of the Red Leaf investment after the impairment charge was $6.14 million at September 30, 2015.

At September 30, 2015, the Company reviewed the carrying amounts of its property, plant and equipment assets for indicators of impairment such as changes in future prices, future costs and reserves. Based on this review, the Company's cash generating units ("CGU's") were tested for impairment in accordance with the Company's accounting policy. The recoverable amount of the CGUs was estimated based on the fair value less costs of disposal ("FVLCD") using a discounted cash flow model. The estimate of FVLCD was determined using a discount rate of 10% and forecasted after tax cash flows based on internally estimated proved plus probable reserves, with escalating prices and future development costs. Based on this assessment, the Company recorded an impairment of $8.99 million relating to its Antler, Midway, Vulcan and Other Alberta CGUs. The factor that led to the impairment was a reduction in forecasted commodity prices.

The impairment expense of $2.23 million to the Company's exploration and evaluation assets includes lease expiries and investments in other assets for which the Company has no further plans.

Deferred Taxes

For the three months ended September 30, 2015, Questerre reported a deferred tax recovery of $2.65 million (2014: $0.03 million recovery) and for the nine months ended September 30, 2015, the Company reported a deferred tax recovery of $4.08 million (2014: $1.67 million expense). The higher deferred tax recovery relates to lower net income in 2015. The Company did not recognize a deferred tax asset relating to its investment impairment charge of $10.15 million as it does not consider it probable that it will realize the related tax benefit through future taxable profits.

The increase in deferred tax recovery also relates to enacted increases to the Alberta corporate tax rate, which resulted in the Company recording an increase to deferred tax assets of $1.42 million and a corresponding reduction to deferred taxes.

Other Income and Expenses

The Company recorded a loss on risk management contracts of $0.03 million for the quarter ended September 30, 2015 (2014: $0.29 million gain) and a gain of $0.04 million on risk management contracts for the nine months ended September 30, 2015 (2014: $0.52 million loss). 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 $1.04 million for the three months ended September 30, 2015 (2014: $2.01 million). For the nine months ended September 30, 2015, the Company recorded a gain on foreign exchange, net of deferred tax, of $2.07 million (2014: $2.16 million gain). The changes are due to fluctuations in the exchange rate relating to the Company's US dollar investments.

The Company recorded asset impairment charges for the three and nine months ended September 30, 2015 of $1.94 million and $2.07 million, respectively, through other comprehensive income. These charges mainly relate to the Company's Red Leaf investment.

For the three months ended September 30, 2015, stock based compensation expense was $0.17 million (2014: $0.22 million) and for the nine months ended September 30, 2015, stock based compensation expense was $0.06 million (2014: $0.97 million). The decrease in stock based compensation mainly related to higher option forfeitures in 2015.

Total Comprehensive Income (Loss)

Questerre's total comprehensive loss for the third quarter of 2015 was $19.26 million as compared to the total comprehensive income of $2.69 million in 2014. Questerre's total comprehensive loss for the nine months ended September 30, 2015 was $17.48 million as compared to the total comprehensive income of $4.54 million for the same period in 2014. The variance is due to the Company recording an impairment charge relating to its investments in 2015 and reporting lower netbacks.

Capital Expenditures

($ thousands)	*Three months ended September 30,* 2015	2014	*Nine months ended September 30,* 2015	2014
Alberta	**$ 5,295**	$ 21,935	**$ 18,047**	$ 43,717
Saskatchewan	**285**	74	**414**	1,577
British Columbia	**271**	40	**644**	49
Other	**362**	1,313	**406**	1,631
Total	**$ 6,213**	$ 23,362	**$ 19,511**	$ 46,974

For the nine months ended September 30, 2015, the Company incurred net capital expenditures of $19.51 million including:

- In Alberta, the Company spent $18.05 million to drill one (0.25 net) well and complete 6 (1.5 net) wells targeting the condensate-rich Montney formation and for infrastructure-related costs including the expansion of the joint venture central compression and condensate stabilization facility.
- The Company spent $0.41 million in Saskatchewan to workover wells.

For the nine months ended September 30, 2014, the Company incurred net capital expenditures of $46.97 million as follows

- In Alberta, the Company spent $43.72 million to drill, complete and test wells targeting the condensate-rich Montney formation.
- In Manitoba, the Company spent $1.33 million for drilling and completion costs targeting the Spearfish formation and for infrastructure and pipeline costs.
- In Saskatchewan, the Company spent $1.58 million to complete wells drilled in 2013 and to expand its waterflood pilot.

Liquidity and Capital Resources

The Company's objectives when managing its capital are firstly to maintain financial liquidity and secondly to optimize the cost of capital at an acceptable risk to sustain the future development of the business.

In November 2015, 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 and current and forecasted commodity prices. The next scheduled review is expected to be completed in the second quarter of 2016. At September 30, 2015, $11.36 million (December 31, 2014: $nil) was drawn on the credit facility and the Company is in compliance with all its covenants under the credit facility.

Questerre had a working capital deficit of $21.33 million at September 30, 2015 as compared to a deficit of $9.25 million at December 31, 2014. Management believes that with its current credit facility and expected positive operating cash flows from operations, the Company will generate sufficient cash flows to meet its foreseeable obligations in the normal course of operations. On an ongoing basis, while the Company will utilize flexibility relating to commitments for future capital expenditures in order to maintain liquidity, it 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

Cash flow from operations was $3.08 million for the three months ended September 30, 2015 and $2.56 million for the same period in 2014. Net cash from operating activities for the three months ended September 30, 2015 and 2014 was $3.36 million and $3.13 million, respectively. The Company's cash flow from operating activities increased from 2014 due to lower general and administrative costs.

Cash flow from operations was $7.42 million for the nine months ended September 30, 2015 and $11.11 million for the same period in 2014. Net cash from operating activities for the nine months ended September 30, 2015 and 2014 was $7.18 million and $10.1 million, respectively. The Company's cash flow from operations decreased from 2014 due to lower netbacks. This decrease was partially offset by lower general and administrative costs in 2015.

Cash Flow used in Investing Activities

Cash flow used in investing activities was $7.3 million for the quarter ended September 30, 2015 and $29.3 million for the nine months ended September 30, 2015. For the nine months ended September 30, 2015, capital expenditures of $18.05 million were incurred mainly for drilling and completion activity in the Kakwa area. The change in non-cash working balance decreased to $(9.79) million due to a lower capital expenditure program.

For the three and nine months ended September 30, 2014, the Company's cash flow used in investing activities was $11.16 million and $34.03 million, respectively. For the nine months ended September 30, 2014, capital expenditures of $46.97 million were incurred mainly for drilling and completion activity in the Kakwa area.

Cash Flow from Financing Activities

The Company's credit facilities increased by $4.16 million and $11.36 million, net of repayments, for the three and nine months ended September 30, 2015. In 2014, the Company received no cash from financing activities and $0.2 million from option exercises for the three and nine months ended September 30, 2014, respectively.

Share Capital

The following table provides a summary of the outstanding Common Shares and options as at the date of the MD&A, the current quarter-end and the preceding year-end.

(thousands)	November 12, 2015	September 30, 2015	December 31, 2014
Common Shares	264,932	264,932	264,932
Stock options	17,370	17,370	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 nine months ended September 30, 2015 and year ended December 31, 2014 follows:

	September 30, 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	7,920	0.30	1,250	1.04
Forfeited	(2,819)	1.10	(1,333)	2.26
Expired	(5,523)	3.68	-	-
Exercised	-	-	(313)	0.67
Outstanding, end of period	17,370	$0.79	17,792	$1.96
Exercisable, end of period	6,296	$1.31	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 September 30, 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	Oct. 1, 2015 - Dec. 31, 2015	209

Accounting Policy Changes

Changes in Accounting Policies for 2015

There were no new or amended accounting standards or interpretations adopted during the nine months ended September 30, 2015.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the nine months ended September 30, 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 quarter ended September 30, 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)	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Production (boe/d)	**1,934**	1,480	1,257	1,468
Average Realized Price ($/boe)	**36.69**	44.90	36.49	56.37
Petroleum and Natural Gas Sales	**6,528**	6,048	4,128	7,613
Cash Flow from Operations	**3,080**	3,059	1,285	4,286
Basic ($/share)	**0.01**	0.01	-	0.02
Diluted ($/share)	**0.01**	0.01	-	0.02
Net Income (Loss)	**(18,353)**	1,432	(555)	(42,900)
Basic ($/share)	**(0.07)**	0.01	-	(0.16)
Diluted ($/share)	**(0.07)**	0.01	-	(0.16)
Capital Expenditures, net of acquisitions and dispositions	**6,213**	5,095	8,203	9,672
Working Capital Surplus (Deficit)	**(21,334)**	(18,202)	(16,165)	(9,247)
Total Assets	**219,102**	234,787	232,155	234,174
Shareholders' Equity	**179,382**	198,637	197,465	196,858
Weighted Average Common Shares Outstanding				
Basic (thousands)	**264,932**	264,932	264,932	264,932
Diluted (thousands)	**264,932**	264,936	264,932	264,934

($ thousands, except as noted)	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Production (boe/d)	849	849	1,133	841
Average Realized Price ($/boe)	76.34	82.08	84.92	74.45
Petroleum and Natural Gas Sales	5,963	6,342	8,659	5,760
Cash Flow from Operations	2,557	3,009	5,542	2,941
Basic ($/share)	0.01	0.01	0.02	0.01
Diluted ($/share)	0.01	0.01	0.02	0.01
Net Income (Loss)	680	520	1,179	(16,213)
Basic ($/share)	-	-	-	(0.07)
Diluted ($/share)	-	-	-	(0.07)
Capital Expenditures, net of acquisitions and dispositions	23,362	11,254	12,359	12,946
Working Capital Surplus (Deficit)	(3,861)	16,945	25,173	31,909
Total Assets	289,928	274,625	278,908	273,108
Shareholders' Equity	246,049	243,361	244,237	241,197
Weighted Average Common Shares Outstanding				
Basic (thousands)	264,932	264,928	264,763	243,213
Diluted (thousands)	265,976	266,081	265,918	244,479

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

- Cash flow from operations has fluctuated due to changes in production levels and a general decrease in average realized commodity prices.
- Production has increased to 1,934 boe/d for the three months ended September 30, 2015 as compared with 849 boe/d for the same period in the prior year. Production has been generally increasing over the quarters primarily due to the development of the Company's Kakwa-Resthaven assets.
- The working capital deficit has grown as capital expenditures have been higher than the cash flow from operations.
- Capital expenditures decreased in the current year due to a reduced capital program in light of lower commodity prices. The level of capital expenditures over the quarters has varied primarily due to the number of wells drilled and completed on the Kakwa-Resthaven asset.
- Shareholders' equity has decreased due to impairment charges recorded in the fourth quarter of 2014 and third quarter of 2015 relating to its property, plant and equipment and its investment in Red Leaf.
- In September 2015 and December 2013 and 2014, the Company recorded a net loss per share due to impairment expenses.

Condensed Consolidated interim Balance Sheets *(unaudited)*

($ thousands)	Note		September 30, 2015		December 31, 2014
Assets					
Current Assets					
Cash and cash equivalents		$	236	$	11,005
Accounts receivable			3,052		2,607
Current portion of risk management contracts	10		209		748
Deposits and prepaid expenses			817		789
			4,314		15,149
Investments	3		6,268		16,541
Property, plant and equipment	4		108,272		96,007
Exploration and evaluation assets	5		73,360		83,789
Goodwill			2,346		2,346
Deferred tax assets			24,542		20,342
		$	219,102	$	234,174
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities		$	14,080	$	23,648
Credit facilities	11		11,359		-
Current portion of share based compensation liability	8		4,759		4,445
			30,198		28,093
Share based compensation liability	8		774		1,090
Asset retirement obligation	6		8,748		8,133
			39,720		37,316
Shareholders' Equity					
Share capital	7		347,345		347,345
Contributed surplus			16,686		16,686
Accumulated other comprehensive income			128		128
Deficit			(184,777)		(167,301)
			179,382		196,858
		$	219,102	$	234,174

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

($ thousands, except per share amounts)	Note	*Three months ended September 30,* **2015**	2014	*Nine months ended September 30,* **2015**	2014
Revenue					
Petroleum and natural gas sales		**$ 6,528**	$ 5,963	**$ 16,704**	$ 20,964
Royalties		**(471)**	(494)	**(967)**	(1,695)
Petroleum and natural gas revenue, net of royalties		**6,057**	5,469	**15,737**	19,269
Expenses					
Direct operating		**2,194**	1,424	**5,838**	4,046
General and administrative		**768**	1,387	**2,774**	3,420
Depletion and depreciation	4	**2,945**	1,804	**6,968**	5,750
Impairment of assets	3,4,5	**20,762**	302	**21,370**	587
Loss (gain) on risk management contracts	10	**31**	(288)	**(40)**	518
Share based compensation	8	**165**	216	**57**	966
Accretion of asset retirement obligation	6	**28**	33	**94**	106
Interest (income) expense		**102**	(109)	**87**	(375)
Other expense		**65**	48	**144**	202
Income (loss) before taxes		**(21,003)**	652	**(21,555)**	4,049
Deferred taxes (recovery)		**(2,650)**	(28)	**(4,079)**	1,670
Net income (loss)		**(18,353)**	680	**(17,476)**	2,379
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income:					
Gain on foreign exchange	3	**1,037**	2,008	**2,067**	2,160
Reclass to net income (loss) on write-down of investments		**(1,940)**	-	**(2,067)**	-
		(903)	2,008	**-**	2,160
Total comprehensive income (loss)		**$ (19,256)**	$ 2,688	**$ (17,476)**	$ 4,539
Net income (loss) per share					
Basic and diluted	7	**$ (0.07)**	$ -	**$ (0.07)**	$ 0.01

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

($ thousands)	*Nine months ended September 30,* 2015	2014
Share Capital		
Balance, beginning of period	$ 347,345	$ 347,059
Issue of common shares	-	350
Share issue costs (net of tax)	-	(64)
Balance, end of period	347,345	347,345
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		
Balance, beginning of period	128	4,259
Other comprehensive income (loss)	-	2,160
Balance, end of period	128	6,419
Deficit		
Balance, beginning of period	(167,301)	(126,780)
Net income (loss)	(17,476)	2,379
Balance, end of period	(184,777)	(124,401)
Total Shareholders' Equity	$ 179,382	$ 246,049

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

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

($ thousands)	Note	*Three months ended September 30,* **2015**	2014	*NIne months ended September 30,* **2015**	2014
Operating Activities					
Net income (loss)		$ (18,353)	$ 680	$ (17,476)	$ 2,379
Adjustments for:					
Depletion and depreciation	4	2,945	1,804	6,968	5,750
Impairment of assets	3,4,5	20,762	302	21,370	587
Unrealized (gain) loss on risk management contracts	10	228	(442)	539	(254)
Share based compensation	8	165	216	57	966
Accretion of asset retirement obligation	6	28	33	94	106
Deferred tax expense (recovery)		(2,650)	(28)	(4,079)	1,670
Cash paid on exercise of stock options		-	(4)	-	(24)
Abandonment expenditures	6	(45)	(4)	(49)	(72)
Cash flow from operations		3,080	2,557	7,424	11,108
Change in non-cash working capital		282	571	(249)	(1,008)
Net cash from operating activities		3,362	3,128	7,175	10,100
Investing Activities					
Property, plant and equipment expenditures	4	(400)	(85)	(2,134)	(2,865)
Exploration and evaluation expenditures	5	(5,813)	(23,276)	(17,377)	(44,109)
Change in non-cash working capital		(1,089)	12,205	(9,792)	12,948
Net cash used in investing activities		(7,302)	(11,156)	(29,303)	(34,026)
Financing Activities					
Proceeds from issue of share capital		-	-	-	184
Increase in credit facilities		11,261	-	23,571	-
Repayment of credit facilities		(7,102)	-	(12,212)	-
Share issue costs		-	-	-	(88)
Net cash from financing activities		4,159	-	11,359	96
Change in cash and cash equivalents		219	(8,028)	(10,769)	(23,830)
Cash and cash equivalents, beginning of period		17	31,657	11,005	47,459
Cash and cash equivalents, end of period		$ 236	$ 23,629	$ 236	$ 23,629
Cash interest paid		$ 100	$ 188	$ 104	$ 228

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

1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is a full cycle exploration and production company. The Company targets scalable high-impact projects and has developed a portfolio of exploration and production assets. These condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2015 and 2014 comprise the Company and its wholly owned subsidiaries 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 November 12, 2015.

Use of estimates and judgments

<u>Impairment of Property, Plant and Equipment and Exploration and Evaluation</u>

The Company assesses its oil and gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate carrying values of the assets may not be recoverable. Determining if there are facts and circumstances present that indicate that carrying values of the assets may not be recoverable requires management's judgment and analysis of the facts and circumstances.

The recoverable amounts of CGUs have been determined based on the higher of value in use ("VIU") and the fair value less costs of disposal ("FVLCD"). The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes, the discount rate and future operating and development costs. Changes to these assumptions will affect the recoverable amounts of CGUs and may require a material adjustment to their related carrying value. In estimating future cash flows for the Quebec CGU for recoverable amounts, the additional key assumptions the Company used are estimates of prospective resources, chance of discovery and chance of development. Refer to Note 5 for further detail on the recoverability of the Company's Quebec exploration and evaluation assets and for the sensitivity analysis related to exploration and evaluation asset impairments.

2. Accounting Policy Changes

Changes in Accounting Policies for 2015

There were no new or amended accounting standards or interpretations adopted during the nine months ended September 30, 2015.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the nine months ended September 30, 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)		**September 30, 2015**		December 31, 2014
Red Leaf Resources Inc.	**$**	**6,136**	$	15,948
Investment in private company		**132**		593
	$	**6,268**	$	16,541

The following table sets out the changes in investments:

($ thousands)		**September 30, 2015**		December 31, 2014
Balance, beginning of year	**$**	**16,541**	$	46,078
Gain on foreign exchange		**2,236**		4,181
Impairment		**(12,509)**		(33,718)
Balance, end of period	**$**	**6,268**	$	16,541

For the nine months ended September 30, 2015, the gain on foreign exchange relating to investments was $2.24 million (September 30, 2014: gain $2.16 million), which was recorded in other comprehensive income (loss) net of deferred tax of $0.12 million (September 30, 2014: $0.32 million).

For the nine months ended September 30, 2015, the Company recorded an impairment charge of $0.47 million related to an investment in a private company, of which $0.34 million was recorded in net income (loss) and $0.13 million in other comprehensive income (loss).

Questerre has an equity interest in Red Leaf Resources Inc. ("Red Leaf"), a private Utah based oil shale and technology company. Red Leaf's principal assets are its proprietary EcoShale In-Capsule Technology to recover oil from shale in addition to its oil shale leases in the Utah. Red Leaf is currently in the Early Production System ("EPS") phase of commercializing its EcoShale process and is expected to commence capsule construction in 2017. Pending the results of the EPS phase, Red Leaf and its joint venture partner will then make a final investment decision to commence commercial oil shale production on its existing leases. If Red Leaf's EcoShale In-Capsule technology is not technically feasible or commercially viable, then the Company's investment in Red Leaf could be further impaired.

As of September 30, 2015, the Company determined the fair value of its investment in Red Leaf using the net asset value method. This method was determined to be more representative of the value of the Company's investment in Red Leaf than the discounted cash flow model used at December 31, 2014, due to the suspension of field work by Red Leaf and the decline in crude prices among other factors. This method involves determining the fair value of all assets and liabilities of Red Leaf using the net amount to arrive at an estimated fair value. As a result, the Company recorded an impairment charge of $12.04 million, of which $9.81 million was recorded in net income (loss) and $2.23 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		2,198		-		2,198
Transfer from exploration and evaluation assets		26,026		-		26,026
Balance, September 30, 2015	**$**	**203,910**	**$**	**1,334**	**$**	**205,244**
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		6,926		42		6,968
Impairment		8,991		-		8,991
Balance, September 30, 2015	**$**	**95,738**	**$**	**1,234**	**$**	**96,972**

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Net book value:						
At December 31, 2014	$	95,865	$	142	$	96,007
At September 30, 2015	**$**	**108,172**	**$**	**100**	**$**	**108,272**

During the period ended September 30, 2015, the Company derecognized $0.08 million in capitalized stock based compensation expense directly related to development activities (December 31, 2014: $0.04 million capitalized). Included in the September 30, 2015 depletion calculation are future development costs of $104.34 million (December 31, 2014: $112.77 million).

At September 30, 2015, the Company reviewed the carrying amounts of its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves. Based on this review, the Company's CGUs were tested for impairment in accordance with the Company's accounting policy. The recoverable amount of the CGUs was estimated based on the FVLCD using a discounted cash flow model.

The estimate of FVLCD was determined using a discount rate of 10% and forecasted after tax cash flows based on internally estimated proved plus probable reserves, with escalating prices and future development costs. The reserves will be assessed at December 31, 2015 by an independent qualified reserve evaluator.

The future prices used to determine cash flows from crude oil and natural gas reserves are as follows:

	2015 (3 Months)	2016	2017	2018	2019	Average Annual % Change Thereafter
WTI (US$/barrel)	50.00	55.00	61.20	65.00	69.00	0.03
AECO ($/MMbtu)	2.90	3.35	3.65	3.85	4.00	0.03

Based on this assessment, the Company recorded an impairment loss of $8.99 million relating to its Antler, Midway, Vulcan and Other Alberta CGUs. The factor that led to the impairment was a reduction in forecasted commodity prices. The recoverable amounts at September 30, 2015 for these CGUs are as follows:

($ thousands)	Antler	Midway	Vulcan	Other Alberta
Recoverable amounts	$ 27,187	$ -	$ 277	$ 561

5. Exploration and Evaluation Assets

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

($ thousands)	**September 30, 2015**	December 31, 2014
Balance, beginning of year	**$ 83,789**	$ 56,442
Additions	**17,825**	64,352
Transfers to property, plant and equipment	**(26,026)**	(36,129)
Dispositions	**-**	(159)
Impairment (incl. undeveloped land expiries)	**(2,228)**	(717)
Balance, end of period	**$ 73,360**	$ 83,789

During the period ended September 30, 2015, the Company capitalized administrative overhead charges of $1.08 million (December 31, 2014: $2.89 million) including $0.02 million of capitalized 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 September 30, 2015 includes undeveloped land expiries and its investments in other areas.

The Quebec CGU represents $27.68 million of the exploration and evaluation asset balance. The future recoverability of these assets is dependent upon, among other things, the introduction of new hydrocarbon legislation supportive of oil and gas activity, including hydraulic fracturing, and the Company securing its social license to operate in the province. Social license to operate is the acceptance or approval by a community or society of a company's operations in the area. While the government of Quebec has introduced a timeline for new legislation, there is a risk that the government may amend this timeline.

The asset may be derecognized if in the Company's opinion the above factors, among others, indicate that future activities may not be conducted in a timely manner or if the government of Quebec does not issue its new energy policy which includes local oil and gas production prior to December 31, 2015.

At September 30, 2015, the Company reviewed the carrying amounts of its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves. Based on this review, the Quebec CGU was tested for impairment in accordance with the Company's accounting policy. The recoverable amount of the Quebec CGU was estimated based on the higher of the value-in-use and FVLCD. The estimate of FVLCD was determined using prospective resources attributable to the Quebec CGU to develop an after tax cash flow forecast associated with a potential development program. For its estimate of prospective resources, the Company utilized the best estimate from an assessment prepared by an independent qualified reserve evaluator in 2011 with an effective date of December 31, 2010. The assessment has a best estimate of net unrisked prospective natural gas resources of 4.43 Tcf with a low estimate of 1.46 Tcf and a high estimate of 13.45 Tcf. The assessment has not been updated since 2011 as there has been no additional technical information. A copy of the assessment is available from the Company on request.

The estimate of prospective resources was discounted by 80% to reflect the chance of discovery and early stage nature of the project. The after tax cash flows were discounted by a further 80% to reflect the chance of development given the political risks and limited technical data. The Company forecasted a premium of $0.50/Mcf to the strip pricing to reflect the lack of local production in the province. A 20% discount rate was subsequently applied to these after tax cash flows. Based on this assessment, no impairment expense was recorded at September 30, 2015.

Changes to the discount rate, chance of discovery, chance of development and forward price estimates independently would have the following impact on impairment of the Company's Quebec Exploration and Evaluation assets at September 30, 2015.

($ thousands)	One Percent Increase in the Discount Rate	Five Percent Decrease in the Chance of Discovery	Five Percent Decrease in the Chance of Development	Five Percent Decrease in the Forward Price Estimates
Impairment charge of exploration and evaluation assets	$ -	$ 7,881	$ 274	$ -

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 $8.75 million as at September 30, 2015 (December 31, 2014: $8.13 million) based on an undiscounted total future liability of $11.5 million (December 31, 2014: $11.5 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 1.44% (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)	September 30, 2015	December 31, 2014
Balance, beginning of year	$ 8,133	$ 7,136
Liabilities disposed	(68)	(726)
Liabilities incurred	302	1,476
Liabilities settled	(49)	(89)
Revisions due to change in discount rates	336	270
Revisions due to change in estimates	-	(69)
Accretion	94	135
Balance, end of period	$ 8,748	$ 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 September 30, 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, September 30, 2015	**264,932**	**$ 347,345**

b) Per share amounts

Basic net income per share is calculated as follows:

(thousands, except as noted)	*Three months ended September 30,* 2015	2014	*Nine months ended September 30,* 2015	2014
Net income (loss) ($thousands)	**$ (18,353)**	$ 680	**$ (17,476)**	$ 2,379
Issued Common Shares at beginning of period	**264,932**	264,932	**264,932**	264,657
Options exercised	**-**	-	**-**	218
Weighted average number of Common Shares outstanding (basic)	**264,932**	264,932	**264,932**	264,875
Basic net income (loss) per share	**$ (0.07)**	$ -	**$ (0.07)**	$ 0.01

Diluted net income per share is calculated as follows:

(thousands, except as noted)	*Three months ended September 30,* 2015	2014	*Nine months ended September 30,* 2015	2014
Net income (loss) ($thousands)	**$ (18,353)**	$ 680	**$ (17,476)**	$ 2,379
Weighted average number of Common Shares outstanding (basic)	**264,932**	264,932	**264,932**	264,875
Effect of outstanding options	**-**	1,044	**-**	1,128
Weighted average number of Common Shares outstanding (diluted)	**264,932**	265,976	**264,932**	266,003
Diluted net income (loss) per share	**$ (0.07)**	$ -	**$ (0.07)**	$ 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 September 30, 2015, 17.41 million options (September 30, 2014: 15.13 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:

	September 30, 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	7,920	0.30	1,250	1.04
Forfeited	(2,819)	1.10	(1,333)	2.26
Expired	(5,523)	3.68	-	-
Exercised	-	-	(313)	0.67
Outstanding, end of period	17,370	$0.79	17,792	$1.96
Exercisable, end of period	6,296	$1.31	11,201	$2.56

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

($ thousands)	September 30, 2015	December 31, 2014
Balance, beginning of year	$ 5,535	$ 3,775
Amount transferred to contributed surplus	-	(27)
Share based compensation expense	57	1,240
Capitalized share based compensation	(59)	737
Cash payment for options exercised	-	(24)
Reclassification to share capital on exercise of stock options	-	(166)
Balance, end of year	$ 5,533	$ 5,535
Current portion	$ 4,759	$ 4,445
Non-current portion	774	1,090
	$ 5,533	$ 5,535

9. Capital Management

The Company believes that with its current credit facilities and positive expected operating cash flows from operations (an additional IFRS measure defined as net cash from operating activities before changes in non-cash working capital), it 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 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 amounts under its credit facilities. The Company will adjust its capital structure to minimize its cost of capital through the issuance of shares, securing additional credit facilities and adjusting its capital spending as required. Questerre monitors its capital structure based on current and projected cash flow from operations.

($ thousands)		September 30, 2015		December 31, 2014
Credit facilities	$	11,359	$	-
Shareholders' equity		179,382		196,858
	$	190,741	$	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 September 30, 2015 included cash and cash equivalents, accounts receivable, risk management contracts, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at September 30, 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 net asset value approach. Refer to Note 3.

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 September 30, 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	Oct. 1, 2015 - Dec. 31, 2015	209

The Company's risk management position is as follows:

($ thousands)	September 30, 2015	December 31, 2014
Risk Management Assets		
Current portion	$ 209	$ 748

The Company recorded an unrealized loss of $0.54 million for the nine month period ended September 30, 2015 and an unrealized gain of $0.25 million for the same period in 2014. The Company also recorded a realized gain of $0.58 million for the nine month period ended September 30, 2015 and a realized loss of $0.77 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 $0.18 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 from the Company's receivables from joint venture partners and oil and gas marketers. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. Credit risk also arises from the Company's cash and cash equivalents. The Company manages credit risk exposure by investing its cash in Canadian banks and credit unions. Management does not expect any counterparty to fail to meet its obligations.

Poor credit conditions in the industry may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

Substantially all of the accounts receivable are with oil and natural gas marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners.

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing companies and the Company has not experienced any credit loss relating to these sales to date.

Receivables from joint venture partners are typically collected within one to three months after the joint venture bill is issued. The Company mitigates this risk by obtaining pre-approval of significant capital expenditures.

11. Credit Facilities

In November 2015, the Company renewed its credit facilities with a Canadian chartered bank at $50 million. The next scheduled review is expected to be completed in the second quarter of 2016. The credit facilities include a revolving operating demand facility of $31.0 million ("Credit Facility A"), a non-revolving acquisition and development facility of $18.9 million ("Credit Facility B") and a corporate credit card of $0.1 million ("Credit Facility C"). Credit Facility A can be used for general corporate purposes, ongoing operations, capital expenditures within Canada and acquisition of petroleum and natural gas assets within Canada. Credit Facility B can only be used for the acquisitions of producing reserves and/or development of existing proved non-producing/undeveloped reserves.

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 a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at September 30, 2015 was 1.47 and the covenant is met. At September 30, 2015, $11.36 million (December 31, 2014: $nil) has been drawn on Credit Facility A.

Corporate Information

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Bjorn Inge Tonnessen

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