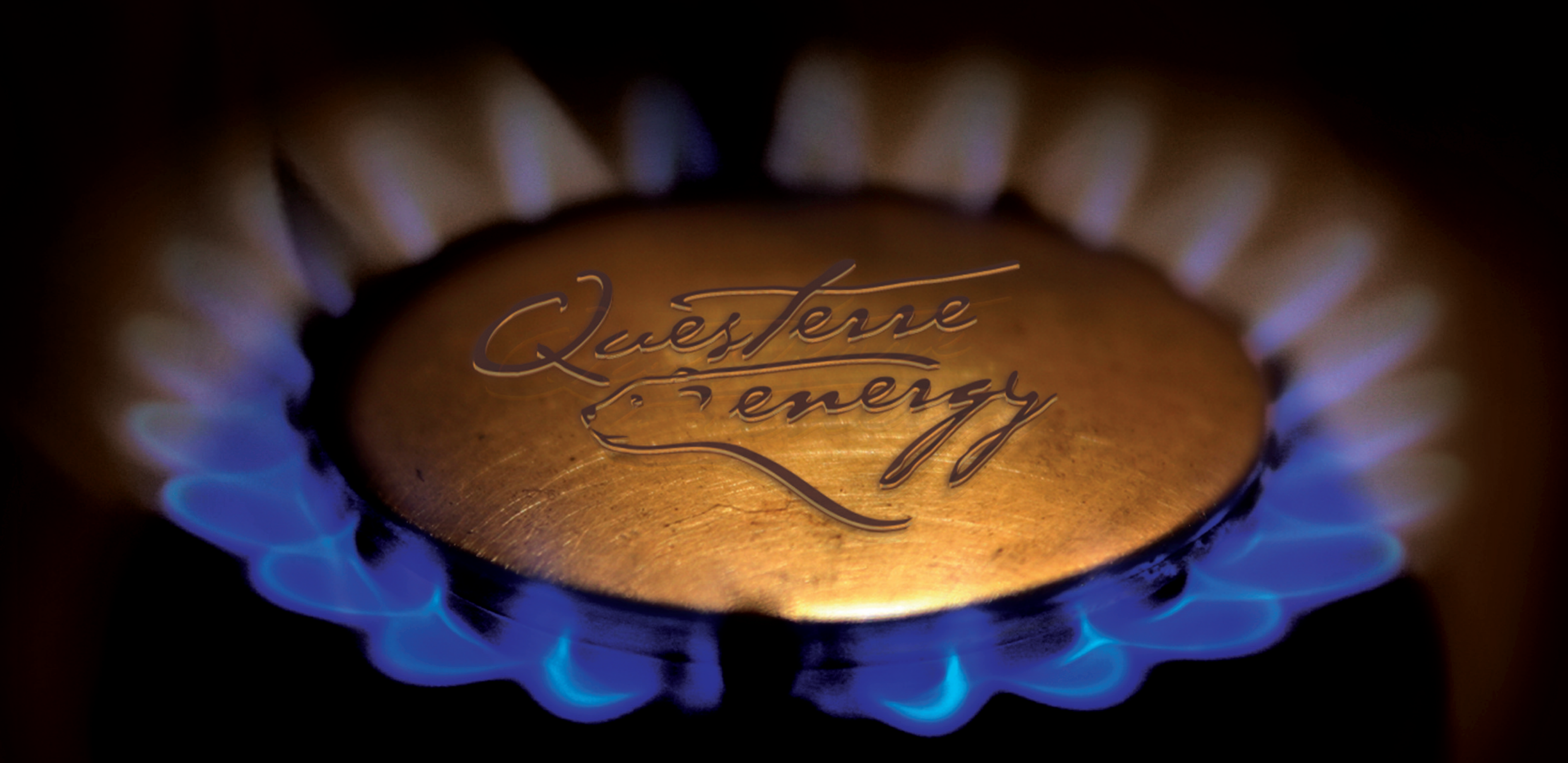
Q2

2016 QUARTERLY REPORT

QUESTERRE ENERGY CORPORATION



2016

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

We stuck to our plan of restricting significant capital spending to sustain producing reserves and liquidity.

At Kakwa, we participated in two out of six new drills on our joint venture acreage this year. Well costs continue to average approximately 15% lower than last year when adjusted for horizontal length. We also saw a positive test from an upper Montney interval. These results will likely benefit future drilling and we plan to participate in two more wells this year.

Following the energy policy released in April, the Government of Quebec introduced a new oil and gas law this June as scheduled. This is another major step forward. Parliamentary hearings on Bill 106, the proposed law, are planned to start this summer. We are hoping this law is passed in the fall and sets up the introduction of the related regulation next spring.

We are also making a small upfront investment in Jordan to see how this oil shale acreage can be developed and at what oil price. We are getting an independent assessment to confirm our view on this prospective resource.

Early in the third quarter, we completed a $4.75 million flow-through financing to improve our liquidity.

Highlights

- Quebec Government introduces draft hydrocarbon legislation
- Evaluation of retorting technologies continues for Jordan oil shale project
- Credit facilities renewed at $30 million
- Average daily production of 1,422 boe/d with cash flow from operations of $1.92 million for the quarter

Kakwa-Resthaven, Alberta

The recent $1.9 billion consolidation of Montney assets surrounding our acreage establishes the area as top tier, even at current prices.

While economics of new wells at Kakwa are among the best in the basin, we estimate a return of capital invested taking much longer than expected at strip prices. As a result, we have not participated in all wells drilled on the joint venture block to preserve our financial liquidity.

We are making incremental progress to reduce these payouts and improve our rates of return. In addition to the reduction in costs, our horizontal well lengths have increased by about 5% on average from last year. The operator is also evaluating tighter well spacing and additional intervals in the Upper Montney.

The 16-20 Well and 102/16-20 Well were drilled this year approximately 100m apart laterally with the 102/16-20 Well testing an upper interval nearly 40m higher. The 16-20 Well flowed, over the last 48 hours of its test period, at an average rate of 974 boe/d consisting of 2.8 MMcf/d of gas and 502 bbls/d of condensate. Production was impacted by the flow-back of proppant during the test period. The 102/16-20 Well, over the last 48 hours of its test period, flowed at an average rate of 1,514 boe/d consisting of 3.9 MMcf/d of gas and 849 bbl/d of condensate. These results are preliminary and not necessarily indicative of long-term performance. We plan to monitor production from both these wells and assess the potential of this upper interval on future drilling locations.

Later this year, we are also looking forward to the test results from the two wells delineating the western half of our block, the 04-16 Well and the 05-16 Well. One of these will test the same Upper Montney interval as the 102/16-20 Well. This may have an important read-through for our adjacent operated block where this interval is considerably thicker than the middle Montney interval targeted by our existing wells.

St. Lawrence Lowlands, Quebec

Our goal in Quebec is to continue working towards the passage of new hydrocarbon legislation this fall and the accompanying regulations next spring.

The draft legislation introduced this summer and the issuance of permits approving the hydraulic fracturing of wells on Anticosti Island are positive steps for the industry. They build on the extensive environmental studies completed over the last four years and, with any luck, ultimately pave the way for us to prove up our Utica discovery.

Oil Shale Mining

It has been a year since we acquired our oil shale project in Jordan.

Our internal assessment of the resource is almost finished. It incorporates all government data and data from four of the five core holes we drilled. We are engaging a third party to validate our assessment and should have this completed before year end.

By this time, we also expect to have completed our preliminary scoping economics for developing this resource. We are assessing two commercially proven retorting processes while Red Leaf continues to optimize their EcoShale process.

We remain very optimistic about this project and the role it could play in Jordan where all hydrocarbons are imported.

Operational & Financial

Kakwa continued to represent the majority of our production in 2016. During the quarter, this area produced 1,081 boe/d, resulting in average daily volumes of 1,422 boe/d. By comparison, production in the second quarter of 2015 was 1,480 boe/d and in the first quarter of 2016 was 1,538 boe/d.

Stronger prices in the second quarter offset the lower production volumes and resulted in gross revenue increasing by about 10% from the prior quarter to $4.42 million. This compares to the second quarter of last year when materially higher prices and nominally higher volumes resulted in gross revenue of $6.05 million. Despite lower G&A, the higher operating costs and lower commodity prices this year resulted in cash flow from operations of $1.92 million for the quarter (2015: $3.07 million) and $3.66 million year to date (2015: $4.33 million).

For the first six months of the year, Questerre invested almost $5 million in its assets with over 80% in Kakwa and just over 10% in Jordan. The Company expects to invest up to an additional $8 million in Kakwa over the remainder of this year.

Outlook

Over the second half of this year, we plan to participate in two additional joint venture wells at Kakwa largely funded by our recently completed flow-through financing. These incremental reserves will support our existing credit facility and maintain financial flexibility in the current pricing environment.

We also plan to invest limited capital and complete the commercial scoping study on our oil shale project in Jordan. While this project will require higher oil prices, we believe this is a worthwhile investment given the potential scale and quality of this resource. Based on the results, our goal for next year is to advance this project with a joint venture partner in the region.

Michael Binnion
President and Chief Executive Officer

This Management's Discussion and Analysis ("MD&A") was prepared as of August 11, 2016. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") as at June 30, 2016 and for the three and six month periods ended June 30, 2016 and 2015, and the 2015 MD&A and audited annual consolidated financial statements of the Company for the year ended December 31, 2015. Additional information relating to Questerre, including Questerre's Annual Information Form ("AIF") for the year ended December 31, 2015 is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an independent energy company actively engaged in the acquisition, exploration and development of oil and gas projects, in specific non-conventional projects such as tight oil, oil shale, shale oil and shale gas. 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 our 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 "anticipate", "assume", "believe", "budget", "can", "commitment", "continue", "could", "estimate", "expect", "forecast", "foreseeable", "future", "intend", "may", "might", "plan", "potential", "project", "will" 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. Management believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A.

This MD&A contains forward-looking statements including, but not limited to, those pertaining to the following:

- drilling plans and the development of producing assets;
- future production of oil, natural gas and natural gas liquids;
- legislative and regulatory developments in the Province of Quebec;
- the Flow-Through Placement (as defined herein);
- liquidity and capital resources;
- the Company's compliance with the terms of its credit facility;
- timing of the next review of the Company's credit facility by its lender;
- ability of the Company to meet its foreseeable obligations;
- expectations regarding the Company's liquidity increasing over time;
- capital expenditures and the funding thereof;
- impacts of capital expenditures on the Company's reserves;

- commitments;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness;
- joint venture partner willingness to participate in capital program;
- flow-through shares and indemnity obligations associated therewith;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

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 in the AIF:

- volatility in market prices for oil, natural gas liquids and natural gas;
- counterparty credit risk;
- access to capital;
- the terms and availability of credit facilities;
- 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, cost and availability of, among other things, capital, acquisitions of reserves, undeveloped lands, equipment, skilled personnel 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, tax, 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 are by their nature deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the 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 ("Mcf") to one barrel of oil ("bbl"), 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 certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS. As these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

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

As an indicator of Questerre's performance, cash flow from operations should not be considered as an alternative to, or more meaningful than, net cash from operating activities as determined in accordance with IFRS. Questerre's determination of cash flow from operations may not be comparable to that reported by other companies. Questerre considers cash flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund operations and support activities related to its major assets.

Cash Flow from Operations Reconciliation

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2016**	2015[(1)]	**2016**	2015[(1)]
Net cash from operating activities	**$ 730**	1,593	**$ 2,428**	$ 3,813
Interest paid (received)	**207**	(2)	**354**	$ (7)
Change in non-cash operating working capital	**979**	1,476	**873**	523
Cash flow from operations	**$ 1,916**	$ 3,067	**$ 3,655**	$ 4,329

(1) Certain figures have been revised. Refer to Note 1 of the June 30, 2016 financial statements.

This document also contains the terms "operating netbacks" and "working capital surplus (deficit)", which are non-IFRS measures. The Company considers operating netbacks to be a key measure as it demonstrates its profitability relative to current commodity prices. Operating netbacks as presented, do not have any standardized meaning prescribed by IFRS, and may not be comparable with the calculation of similar measures for other entities. Operating netbacks have been defined as revenue less royalties, transportation and operating costs. Operating netbacks are generally discussed and presented on a per boe basis.

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 portion of the share based compensation liability and risk management contracts.

Select Information

As at/for the period ended June 30,	*Three months ended* 2016	2015[1]	*Six months ended* 2016	2015[1]
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	**4,423**	6,048	**8,452**	10,176
Cash Flow from Operations	**1,916**	3,067	**3,655**	4,329
Basic ($/share)	**0.01**	0.01	**0.01**	0.02
Diluted ($/share)	**0.01**	0.01	**0.01**	0.02
Net Income (Loss)	**(2,173)**	1,333	**(2,498)**	677
Basic ($/share)	**(0.01)**	0.01	**(0.01)**	0.00
Diluted ($/share)	**(0.01)**	0.01	**(0.01)**	0.00
Capital Expenditures, net of acquisitions and dispositions	**741**	5,095	**4,899**	13,298
Working Capital Surplus (Deficit)	**(23,075)**	(18,202)	**(23,075)**	(18,202)
Total Assets	**161,721**	233,627	**161,721**	233,627
Shareholders' Equity	**125,028**	202,220	**125,028**	202,220
Common Shares Outstanding (thousands)	**264,932**	264,932	**264,932**	264,932
Weighted average - basic (thousands)	**264,932**	264,932	**264,932**	264,932
Weighted average - diluted (thousands)	**264,932**	264,936	**264,932**	264,950
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**856**	884	**872**	804
Natural Gas (Mcf/d)	**3,397**	3,573	**3,648**	3,390
Total (boe/d)	**1,422**	1,480	**1,480**	1,369
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	**49.81**	61.85	**44.84**	56.13
Natural Gas ($/Mcf)	**1.76**	3.29	**2.01**	3.28
Total ($/boe)	**34.17**	44.90	**31.38**	41.07
Netback ($/boe)				
Petroleum and Natural Gas Sales	**34.17**	44.90	**31.38**	41.07
Royalties Expense	**(2.11)**	(1.31)	**(2.03)**	(2.00)
Percentage	**6%**	3%	**6%**	5%
Direct Operating Expense	**(15.65)**	(13.85)	**(14.53)**	(14.71)
Operating Netback	**16.42**	29.75	**14.82**	24.36
Wells Drilled				
Gross	**-**	-	**2.00**	-
Net	**-**	-	**0.50**	-

(1) Certain figures have been revised. Refer to Note 1 of the June 30, 2016 financial statements.

Highlights

- Quebec Government introduces draft hydrocarbon legislation
- Evaluation of retorting technologies continues for Jordan oil shale project
- Credit facilities renewed at $30 million
- Average daily production of 1,422 boe/d with cash flow from operations of $1.92 million for the quarter

Second Quarter 2016 Activities

Western Canada

Kakwa-Resthaven, Alberta

In the first half of this year, Questerre selectively participated in new wells on its joint venture acreage.

The operator has drilled six wells in 2016 - the 03-18-63-5W6M well (the "03-18 Well"), the 06-18-63-5W6M well, the 16-20-63-5W6M well (the "16-20 Well"), 102/16-20-63-5W6M well, the 04-16-63-6W6M well and the 05-16-63-6W6M well. Questerre holds a 25% working interest in the 03-18 Well and the 16-20 Well. Questerre has elected not to participate in the remaining four wells. The Company will only earn an interest in these wells once the operator has received net revenue equal to four times the drilling and completion costs, and two times the equipping and tie-in costs of each well.

The 16-20 Well was tied in and placed on production early in the second quarter. In its first month of production from the Montney formation, gross sales from the 16-20 Well averaged 1.8 MMcf/d of gas and 421 bbls/d of condensate and other liquids (721 boe/d). The 16-20 Well was shut in for approximately 25% of this period due to completion operations on an offsetting well.

In the last two calendar months of production the 16-20 Well has averaged 2.5 MMcf/d and 496 bbls/d of condensate and other liquids (911 boe/d). Production has been restricted to reduce potential flow-back of the proppant and this is anticipated to improve the ultimate recovery from the well. Although initial results from the 16-20 Well are encouraging, these results are not necessarily indicative of long term performance and ultimate recovery.

Completion operations were also finalized on the 03-18 Well in the quarter. The 03-18 Well will be equipped and placed on production early in the third quarter. The Company intends to participate in two (0.5 net) additional wells on this joint venture acreage over the second half of 2016.

No further activities are scheduled for the Company's operated acreage in 2016.

St. Lawrence Lowlands, Quebec

In the second quarter, the Government of Quebec introduced Bill 106 to implement the 2030 Energy Policy and amend various legislative provisions, including modernizing hydrocarbon legislation in the province.

The legislation is scheduled for review in the fall session of the National Assembly. Subject to approval of the legislation in the fourth quarter of this year, the Company anticipates that new regulations for the hydrocarbon industry will be introduced in the spring of 2017. Questerre expects that operations in Quebec will remain deferred pending the approval of the new hydrocarbon legislation and regulations.

Oil Shale Mining

Questerre continued the appraisal of its oil shale project in the Kingdom of Jordan. The two main objectives are the evaluation of the scale and nature of the resource and the feasibility of commercial development.

This includes an analysis of the shale and the expected products and oil yields from multiple retorting processes. In addition to the Red Leaf EcoShale In-Capsule process, the Company is assessing two commercial retorting technologies.

The Company recently commissioned a feed prep study to assess the costs associated with preparing the ore for processing under one of these retorting technologies. It will include an assessment of the costs associated with recovering the free water from the drying of the ore prior to retorting. This follows the mining study commissioned in the first quarter.

In June 2015, Red Leaf advised that it had completed a pre-FEED commercial study for their EcoShale process. While Red Leaf has elected to proceed with development of its commercial demonstration project based on this study, its partner, a wholly owned subsidiary of the French supermajor, Total S.A., has advised it is not prepared to move forward. The companies are in discussions regarding their future plans for this demonstration project.

Corporate

Following the review conducted in the second quarter, in July 2016, the Company's credit facility with a Canadian chartered bank was reduced from $50 million to $30 million. Effective the third quarter 2016, the facility will include a $24.9 million revolving operating demand facility ("Credit Facility A") and a non-revolving acquisition and development facility of $5 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 development of existing proved non-producing/undeveloped reserves.

In July 2016, the Company completed a private placement of 26.39 million flow-through units for gross proceeds of approximately $4.75 million (the "Flow-Through Placement"). Each flow-through unit consists of one Common Share issued on "flow-through" basis and one-half of one non-flow-through share purchase warrant. Each whole warrant will entitle the holder to purchase one additional non-flow-through Common Share at a price of $0.20 for a period of 18 months from closing.

The gross proceeds of the Flow-Through Placement are expected to be used by the Company, pursuant to the provisions of the Income Tax Act (Canada), to incur eligible Canadian development expenses ("Qualifying Expenditures") after the closing date and prior to December 31, 2016 on Questerre's properties. The Company will renounce the Qualifying Expenditures to subscribers of the Flow-Through Units for the fiscal year ended December 31, 2016.

Production

Three months ended June 30,	2016			2015		
	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	219	-	219	191	-	191
Alberta	590	3,325	1,144	595	3,495	1,178
Manitoba	47	-	47	98	-	98
British Columbia	-	72	12	-	78	13
	856	3,397	1,422	884	3,573	1,480

Six months ended June 30,	2016			2015		
	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	227	-	227	208	-	208
Alberta	594	3,572	1,189	492	3,306	1,043
Manitoba	51	-	51	104	-	104
British Columbia	-	76	13	-	87	14
	872	3,648	1,480	804	3,393	1,369

Note: Oil and liquids includes light & medium crude oil and natural gas liquids. Natural gas includes conventional and shale gas.

Due to limited new volumes from the joint venture acreage in the Kakwa-Resthaven area, production in the second quarter of 2016 decreased marginally over the prior quarter and the second quarter of 2015.

In the second quarter of 2016, production averaged 1,422 boe/d compared to 1,538 boe/d in the first quarter of 2016 and 1,480 boe/d for 2015's second quarter. With Kakwa representing approximately three quarters of corporate volumes, production from this area averaged 1,081 boe/d in the quarter, compared to 1,159 boe/d in the first quarter and 1,088 boe/d in the second quarter of 2015.

For the first six months of the year, production from Kakwa increased to 1,120 boe/d in 2016 from 955 boe/d in 2015 following the expansion of the joint venture central facility in the second quarter of 2015. This contributed to year to date corporate production of 1,480 boe/d in 2016 compared to 1,369 boe/d in 2015.

Questerre's oil and liquids weighting remained largely unchanged at approximately 60% from the prior quarter and the prior year to date period. This reflects the light oil production from Saskatchewan and Manitoba as well as the roughly equal weighting of liquids and natural gas from the Kakwa area. Production from this area in the quarter was impacted by the shut-in of several older wells for the installation of gas-lift and plungers to assist with liquid loading and improve uptime. At Antler, Saskatchewan, volumes were lower than the prior quarter due to wet weather delaying the workover of several wells.

In light of its restricted capital budget in 2016, and subject to the timing of additional wells, the Company expects its average production volumes over the remainder of the year to decline from average production in the second quarter.

Second Quarter 2016 Financial Results

Petroleum and Natural Gas Sales

Three months ended June 30,	2016			2015		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 1,064	$ -	$ 1,064	$ 1,150	$ -	$ 1,150
Alberta	2,611	521	3,132	3,278	1,053	4,331
Manitoba	218	-	218	551	-	551
British Columbia	-	9	9	-	16	16
	$ 3,893	$ 530	$ 4,423	$ 4,979	$ 1,069	$ 6,048

Six months ended June 30,	2016			2015		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 1,921	$ -	$ 1,921	$ 2,220	$ -	$ 2,220
Alberta	4,822	1,292	6,114	4,919	1,974	6,893
Manitoba	395	-	395	1,030	-	1,030
British Columbia	-	22	22	-	33	33
	$ 7,138	$ 1,314	$ 8,452	$ 8,169	$ 2,007	$ 10,176

Note: Oil and liquids includes light & medium crude oil and natural gas liquids. Natural gas includes conventional and shale gas.

Materially lower commodity prices and marginally lower production volumes contributed to lower revenue in the second quarter of 2016 relative to the same period in 2015. Although higher production volumes in the first quarter of 2016 partially offset the weak commodity prices in the quarter, lower commodity prices over the entire period resulted in revenue for the first half of 2016 decreasing over the prior year.

Pricing

	Three months ended June 30,		*Six months ended June 30,*	
	2016	2015	2016	2015
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	1.40	2.65	1.61	2.70
Crude Oil - Mixed Sweet Blend ($/bbl)	56.45	70.06	49.07	59.90
Realized prices:				
Natural Gas ($/Mcf)	1.76	3.29	2.01	3.28
Crude Oil and Natural Gas Liquids ($/bbl)	49.81	61.85	44.84	56.13

Note: Oil and liquids includes light & medium crude oil and natural gas liquids. Natural gas includes conventional and shale gas.

During the second quarter, crude oil prices improved significantly over the first quarter of 2016. The West Texas Intermediate ("WTI") benchmark increased 36% to average US$45.59/bbl compared to US$33.45/bbl in the first quarter of 2016. By comparison, in the second quarter of 2015, WTI averaged $57.94/bbl.

Prices in the quarter were supported by the decline in onshore production in the United States, excluding Alaska and the unplanned outages globally including Alberta, Nigeria and Libya. Prices in Canada reflected a strengthening

Canadian dollar and a weaker differential, which remained volatile over the period. In 2016, the differential between the Canadian Light Sweet Blend ("MSW") and WTI was a premium of US$0.31/bbl in the second quarter compared to a discount of US$0.86/bbl in the first quarter. In the second quarter of 2015, MSW traded at US$1.10/bbl premium compared to a US$6.82/bbl discount in the first quarter of that year.

Realized prices for Questerre's oil and liquids production track the MSW benchmark with condensate generally receiving a premium to this price. For the second quarter the realized price for oil, condensate and other liquids averaged $49.81/bbl (2015: $61.85/bbl) with the average MSW price of $56.45/bbl (2015: $70.06/bbl).

Natural gas prices improved marginally with the reference Henry Hub price increasing to US$2.10/MMBtu in the second quarter (2015: US$2.73/MMBtu) from US$1.99/Mcf in the first quarter (2015: US$2.87/MMBtu). The improvement in the second quarter is partially attributable to lower dry gas production as a result of the decrease in liquids drilling activity in the United States and transportation constraints in the northeastern United States. Additionally, the price competitiveness of natural gas with coal in 2016, and the retirement of coal-fired power plants, have recently supported prices. In Canada, high levels of gas storage in the quarter and limited access to eastern markets resulted in a significant increase in the differential with the Henry Hub price. The differential averaged US$1.01/MMBtu in the second quarter (2015: US$0.57/MMBtu) compared to US$0.67/MMBtu in the first quarter (2015: US$0.66/MMBtu).

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 $1.76/Mcf (2015: $3.29/Mcf) compared to the AECO reference price of $1.40/Mcf (2015: $2.65/Mcf).

Royalties

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2016**	2015	**2016**	2015
Saskatchewan	**$ 60**	$ 57	**$ 115**	$ 131
Alberta	**185**	66	**385**	252
Manitoba	**28**	54	**46**	113
British Columbia	**-**	-	**-**	-
	$ 273	$ 177	**$ 546**	$ 496
% of Revenue:				
Saskatchewan	**6%**	5%	**6%**	6%
Alberta	**6%**	2%	**6%**	4%
Manitoba	**13%**	10%	**12%**	11%
British Columbia	**0%**	0%	**0%**	0%
Total Company	**6%**	3%	**6%**	5%

Royalties as a percentage of revenue in the second quarter decreased nominally to 6% from 7% in the prior quarter and increased from 3% in second quarter of 2015. This equated to a royalty rate of 6% for the first six months of 2016 compared to 5% in 2015. On an aggregate basis, due to the higher rate, royalties increased to $0.55 million from $0.50 million in this period last year.

The royalty rate on production in Alberta averaged 6% in the second quarter, a small decrease from 7% in the first quarter of 2016. In 2015, this rate was 2% due to credits received in the period for processing Crown gas through the Company's facilities, primarily at Kakwa. Royalties on production in this area are expected to average approximately 7%, including crown incentives and gross overriding royalties payable.

The Company continues to assess the impact of Alberta's Modernized Royalty Framework ("MRF") on its existing and future production in the area. Pursuant to the MRF, there will be no changes to the royalty structure for production from wells drilled prior to 2017 for a 10-year period from the MRF commencement date. After this date, Crown incentives will be replaced by a capital cost allowance with initial royalty rates of 5% of gross revenue until cumulative revenue reaches a certain threshold that reflects the total vertical depth, the total lateral length and the total proppant placed for the well. Thereafter, the well will move to post payout status with sliding scale royalties based on product type and commodity price. Once the well's production rate drops to a mature rate, the royalty rate will decrease to mitigate higher fixed costs.

Operating Costs

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2016**	2015	**2016**	2015
Saskatchewan	**$ 125**	$ 262	**$ 430**	$ 572
Alberta	**1,776**	1,482	**3,271**	2,850
Manitoba	**82**	98	**159**	170
British Columbia	**42**	23	**53**	52
	$ 2,025	$ 1,865	**$ 3,913**	$ 3,644
$/boe:				
Saskatchewan	**6.27**	15.07	**10.40**	15.19
Alberta	**17.05**	13.82	**15.12**	15.10
Manitoba	**19.22**	11.00	**17.14**	9.05
British Columbia	**38.82**	19.60	**22.38**	20.34
Total Company	**15.65**	13.85	**14.53**	14.71

Operating costs for the quarter increased over the prior quarter and the second quarter last year due to higher production costs, primarily in the Kakwa-Resthaven area of Alberta. For the six months ended June 30, 2016, the increase in gross costs reflects the higher production volumes over last year.

In Saskatchewan, operating costs on a per boe basis decreased over the prior quarter and same period last year, largely due to lower field activity, particularly workovers. The Company expects that operating costs in this area should average approximately $14/boe, consistent with first quarter 2016 costs.

Conversely, operating costs in Alberta increased by approximately 20% over the prior quarter and same period last year, as a result of higher costs in the Kakwa-Resthaven area. Specifically these primarily relate to equipment maintenance and repair costs, and chemical costs for the on-site acid gas treatment.

General and Administrative Expenses

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2016**	2015	**2016**	2015
General and administrative expenses, gross	**$ 921**	$ 1,436	**$ 1,861**	$ 2,735
Capitalized expenses and overhead recoveries	**(270)**	(327)	**(562)**	(729)
General and administrative expenses, net	**$ 651**	$ 1,109	**$ 1,299**	$ 2,006

For the three and six month periods ending June 30, 2016, gross general and administrative expenses ("G&A") were lower by just over 30% compared to the same periods in 2015. The decrease is attributable to the corporate restructuring initiatives implemented in 2015 including reductions in personnel, salaries and directors' fees in light of reduced operating activity by the Company.

Capitalized expenses and overhead recoveries as a percentage of gross G&A increased in 2016 due to personnel engaged in the appraisal of the Company's oil shale assets in Jordan.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded $2.31 million of depletion and depreciation expense for the quarter ended June 30, 2016, compared to $2.15 million for the same period last year. For the six months ended June 30, 2016, this expense totaled $4.73 million compared to $4.02 million for the same period in 2015. The increase is due to the higher production weighting from cash generating units with higher finding and development costs.

Impairment expense in the current quarter of $0.09 million relates to lease expiries. In 2015, an impairment expense of $0.26 million was recorded relating to its oil shale rights in Wyoming which were surrendered in the period.

Other Income and Expenses

Changes to the fair value of the Company's risk management contracts are recorded through net profit or loss.

The Company recorded a loss on risk management contracts of $1.0 million for the quarter ended June 30, 2016 (2015: $0.05 million gain) and a gain of $0.05 million for the six months ended June 30, 2016 (2016: $0.07 million). 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 $0.01 million for the three months ended June 30, 2016 (2015: $0.26 million loss) and a loss of $0.03 million for the first half of 2016 (2015: $1.03 million gain). The changes are due to fluctuations in the exchange rate relating to the Company's US dollar investments.

For the second quarter of 2016, the Company recorded stock based compensation expense of $0.03 million (2015: $0.08 million) and for the first half of 2016, the Company recorded expense of $0.05 million (2015: $0.09 million). The decrease in expense relates to the change in accounting for its stock based compensation awards, to assume they will be equity settled from cash settled implemented in December 2015.

Total Comprehensive Income (Loss)

Questerre's total comprehensive loss for the second quarter of 2016 was $2.17 million compared to income of $1.07 million for the same period in 2015. For the first six months of 2016, Questerre's total comprehensive loss was $2.58 million compared to income of $1.58 million for the same period in 2015. The decrease is mainly due to lower petroleum and natural gas revenue, lower deferred tax recovery, the loss on risk management contracts and higher operating and depletion and depreciation expense, offset by lower G&A in the current year.

Capital Expenditures

		Three months ended June 30,			Six months ended June 30,		
($ thousands)		**2016**		2015		**2016**		2015
Alberta	**$**	**380**	$	5,072	**$**	**4,069**	$	12,752
Saskatchewan		**56**		-		**123**		129
Jordan		**289**		12		**566**		373
Other		**16**		11		**141**		44
Total	**$**	**741**	$	5,095	**$**	**4,899**	$	13,298

For the six months ended June 30, 2016, the Company primarily incurred net capital expenditures of $4.9 million as follows:

- In Alberta, the Company spent $4.07 million to drill, complete, equip and tie-in wells targeting the condensate-rich Montney formation; and
- In Jordan, the Company spent $0.6 million on the evaluation of its oil shale assets.

For the six months ended June 30, 2015, the Company primarily incurred net capital expenditures of $13.30 million as follows:

- In Alberta, the Company spent $12.75 million to complete wells and expand infrastructure in the Kakwa-Resthaven area; and
- In British Columbia, the Company spent $0.36 million for recompletion costs relating to an oil well.

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 July 2016, the Company's credit facility was renewed at $30 million from $50 million. At June 30, 2016, $21.2 million (December 31, 2015: $14.54 million) was drawn on the credit facility and the Company was in compliance with all its covenants under the credit facility. As a consequence of the foregoing, management does not believe there is a reasonably foreseeable risk of a breach. Under the terms of the 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 (See Note 11 to the Financial Statements)) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2016 was 2.6 and the covenant was met.

The size of the credit facility is determined by, among other things, the Company's current reserve report, results of operations and forecasted commodity prices. The next scheduled review is expected to be completed in the fourth quarter of 2016.

The credit facility is a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facility be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity.

Questerre had a working capital deficit of $23.08 million at June 30, 2016 as compared to a deficit of $21.48 million at December 31, 2015. Management believes that with its recently completed private placement for gross proceeds of $4.75 million, current credit facility and expected positive operating cash flows from operations, the Company should generate sufficient cash flows to meet its foreseeable obligations in the normal course of operations. Questerre anticipates commodity prices should improve which is expected to improve cash flow and reduce the working capital deficit to the extent cash flow from operations exceeds planned capital expenditures. On an ongoing basis, the Company will manage where possible future capital expenditures in order to maintain liquidity (See "Commitments"). However, 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. In light of current commodity prices, the Company has restricted its capital investment in 2016 and intends to invest up to one half of the 2016 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2015. It anticipates that, as a result, reserves associated with wells not drilled in 2016 will remain in the proved undeveloped category. To the extent the Company does not participate with its joint venture partner in drilling additional wells to which reserves have been assigned, it will lose the proved and probable reserves assigned to those wells.

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 2015 Annual MD&A and the AIF.

Cash Flow from Operating Activities

Cash flow from operations for the second quarter of 2016 was $1.92 million and $3.07 million for the same period in 2015. Net cash from operating activities for the three months ended June 30, 2016 and 2015 was $0.73 million and $1.59 million, respectively. The Company's cash flow from operating activities decreased from 2015 due to the lower cash flow from operations, the decreased change in non-cash working capital and higher interest expense.

Cash flow from operations was $3.66 million for the six months ended June 30, 2016, and $4.33 million for the same period in 2015. Net cash from operating activities for the six months ended June 30, 2016 and 2015 was $2.43 million and $3.81 million, respectively. The Company's cash flow from operations decreased from 2015 primarily due to lower commodities prices.

Cash Flow used in Investing Activities

Cash flow used in investing activities was $1.70 million for the quarter ended June 30, 2016 and $9.0 million for the six months ended June 30, 2016. For the six months ended June 30, 2016, capital expenditures of $4.9 million were incurred mainly for drilling and completion activity in the Kakwa-Resthaven area. The change in non-cash working balance decreased to $4.1 million due to a lower capital expenditure program.

For the three and six months ended June 30, 2015, the Company's cash flow used in investing activities was $10.81 million and $22.01 million, respectively. For the six months ended June 30, 2015, capital expenditures of $13.30 million were incurred mainly for drilling and completion activity in the Kakwa-Resthaven area.

Cash Flow from Financing Activities

Cash flow provided by financing activities was $1.04 million for the quarter ended June 30, 2016 and $6.64 million for the six months ended June 30, 2016. The amounts reflect the increase in the utilization of the credit facilities net of repayments.

The Company received $7.2 million from financing activities for the three and six months ended June 30, 2015 representing drawdowns under Credit Facility A net of repayments.

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" common voting shares and an unlimited number of preferred shares, issuable in one or more series. At June 30, 2016, there were no Class "B" common voting shares or preferred shares outstanding. The following table provides a summary of the outstanding Common Shares and options as at the date of the MD&A, the current quarter-end and the preceding year-end.

(thousands)	August 11, 2016	June 30, 2016	December 31, 2015
Common Shares	291,324	264,932	264,932
Stock options	17,517	17,517	19,982
Warrants	13,196	-	-
Weighted average common shares			
Basic		264,932	264,932
Diluted		264,932	264,932

In July 2016, the Company completed the Flow-Through Placement, a private placement of 26.39 million flow-through units for gross proceeds of approximately $4.75 million. Each flow-through unit consists of one Common Share issued on a flow-through basis and one-half of one non-flow-through share purchase warrant. Each whole warrant entitles the holder to purchase one additional non-flow-through Common Share at a price of $0.20 for a period of 18 months from closing.

A summary of the Company's stock option activity during the six months ended June 30, 2016 and year ended December 31, 2015 follows:

	June 30, 2016		December 31, 2015	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average *Exercise Price*
Outstanding, beginning of period	19,982	$0.72	17,792	$1.96
Granted	4,100	0.18	10,532	0.29
Forfeited	(3,305)	0.48	(2,819)	1.10
Expired	(3,260)	1.85	(5,523)	3.68
Exercised	-	-	-	-
Outstanding, end of period	17,517	$0.43	19,982	$0.72
Exercisable, end of period	5,369	$0.63	6,808	$0.97

Commitments

A summary of the Company's net commitments at June 30, 2016 follows:

($ thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Transportation, Marketing and Processing	$ 1,363	$ 4,728	$ 4,728	$ 3,990	$ 3,990	$ 23,942	$ 42,741
Office Leases	68	122	99	99	90	-	478
	$ 1,432	$ 4,849	$ 4,827	$ 4,089	$ 4,080	$ 23,942	$ 43,219

In the fall of 2013, the Company entered into a series of take or pay agreements for the processing, transportation, fractionating and marketing of 20 MMcf/d of raw gas and associated liquids production in the Kakwa-Resthaven area (the "Infrastructure Contracts"). In December 2014, the Company assigned a 57.5% interest in the Infrastructure Contracts on a permanent basis to third parties. Concurrently, the Company also assigned an 18.75% interest in the Infrastructure Contracts on a temporary basis to a third party until December 2016.

Questerre has no capital commitments in 2016. In order to maintain its capacity to execute its business strategy, the Company expects that it will need to continue the development of its producing assets. There will also be expenditures in relation to G&A and other operational expenses. These expenditures are not yet commitments, but Questerre expects to fund such amounts primarily out of cash flow from operations and its existing credit facilities.

Risk Management

Companies engaged in the petroleum and natural gas industry face a variety of risks. For Questerre, these include risks associated with exploration and development drilling as well as production operations, commodity prices, exchange and interest rate fluctuations. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates and government regulations could have an impact on the Company's future operating results and/or financial condition. While management realizes that all the risks may not be controllable, Questerre believes that they can be monitored and managed. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF and Note 6 to the audited consolidated financial statements for the year ended December 31, 2015.

A significant risk for Questerre, as a junior exploration company, is access to capital. The Company attempts to secure both equity and debt financing on terms it believes are attractive in current markets. Management also endeavors to seek participants to farm-in on the development of its projects on favorable terms. However, there can be no assurance that the Company will be able to secure sufficient capital, if required, or that such capital will be available on terms satisfactory to the Company.

As future capital expenditures will be financed out of cash flow from operations, borrowings and possible future equity sales, the Company's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry, and the Company's securities in particular. To the extent that external sources of capital become limited or unavailable, or available but on onerous terms, the Company's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result. Based on current funds available and expected cash flow from operations, the Company believes it has sufficient funds available to fund its projected capital expenditures. However, if cash flow from operations are lower than expected, or capital costs for these projects exceed current estimates, or if the Company incurs major unanticipated expense related to development or maintenance of its existing properties, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Company's capital expenditure plans may result in a delay in development or production on the Company's properties.

Questerre faces a number of financial risks over which it has no control, such as commodity prices, exchange rates, interest rates, access to credit and capital markets, as well as changes to government regulations and tax and royalty policies.

The Company uses the following guidelines to address financial exposure:

- Internally generated cash flow provides the initial source of funding on which the Company's annual capital expenditure program is based.
- Equity, including flow-through shares, if available on acceptable terms, may be raised to fund acquisitions and capital expenditures.
- Debt may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be controlled.
- Farm-outs of projects may be arranged if management considers that a project requires too much capital or where the project affects the Company's risk profile.

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. In the past, the Company managed credit risk exposure by investing 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, if possible.

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 are paid in the following month from major oil and natural gas marketing and infrastructure companies. 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.

The Company has issued, and may continue in the future to issue, flow-through shares to investors. The Company uses its best efforts to ensure that qualifying expenditures of Canadian Exploration Expense (“CEE”) or Canadian Development Expense as required are incurred in order to meet its flow-through obligations. However, in the event that the Company does not incur sufficient qualifying expenditures, or has CEE expenditures reclassified under audit by the Canada Revenue Agency, the Company may be required to liquidate certain of its assets in order to meet the indemnity obligations under the flow-through share subscription agreements.

Exploration and development drilling risks are managed through the use of geological and geophysical interpretation technology, employing technical professionals, and working in areas where those individuals have experience. For its non-operated properties, the Company strives to develop a good working relationship with the operator, and monitors the operational activity on the property. The Company believes it carries appropriate insurance coverage for risks associated with its operations.

The Company may use financial instruments to reduce corporate risk in certain situations. Questerre's hedging policy is up to a maximum of 40% of total production at management's discretion. At June 30, 2016, Questerre had the following commodity risk management contracts in place:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Asset (Liability) *($ thousands)*
Crude oil swap	200 bbls/d	$70/bbl	Jul. 1, 2016 - Dec. 31, 2016	191
Natural gas swap	2,000 gj/d	$2.54/gj	Jul. 1, 2016 - Dec. 31, 2016	27
AECO - call option sale	3,000 gj/d	$2.70/gj	Jan. 1, 2017 - Dec. 31, 2017	(433)
WTI Nymex - call option sale	200 bbls/d	$80/bbl	Jan. 1, 2017 - Dec. 31, 2017	(314)

Environmental Regulation and Risk

The oil and natural gas industry is currently subject to environmental regulations pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases of emissions and regulation on the storage and transportation of various substances produced or utilized, in association with certain oil and gas industry operations, which can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures, and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties, or the issuance of clean-up orders. The Company believes that it mitigates the potential financial exposure of environmental risks by complying with the existing regulations and maintaining adequate insurance. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These estimates and judgments have risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Petroleum and Natural Gas Reserves

All of Questerre's petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with NI 51-101 *Standards of Disclosure for Oil and Gas Activities* and the COGE Handbook. For further information, please refer to "Statement of Reserves Data and Other Oil and Gas Information" in the AIF.

The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices. These estimates are evaluated by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports, and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. If probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the estimated proved plus probable reserves, and there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves.

Reserve estimates impact a number of the areas, in particular, the valuation of property, plant and equipment and the calculation of depletion.

Cash Generating Units

A Cash Generating Unit ("CGU") is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations. Factors considered in the classification include geography and the manner in which management monitors and makes decisions about its operations.

Impairment of Property, Plant and Equipment, Exploration and Evaluation and Goodwill

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 that 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 and the fair value less cost to dispose. 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, future operating and development costs and recent land transactions. Changes to these assumptions will affect the recoverable amounts of the CGUs, and may require a material adjustment to their related carrying value.

Goodwill is the excess of the purchase price paid over the fair value of the net assets acquired. Since goodwill results from purchase accounting, it is imprecise and requires judgment in the determination of the fair value of assets and liabilities. Goodwill is assessed for impairment on an operating segment level based on the recoverable amount for each CGU of the Company. Therefore, impairment of goodwill uses the same key judgments and assumptions noted above for impairment of assets.

Asset Retirement Obligation

Determination of the Company's asset retirement obligation is based on internal estimates using current costs and technology, in accordance with existing legislation and industry practice, and must also estimate timing, a risk-free rate and inflation rate in the calculation. These estimates are subject to change over time and, as such, may impact the charge against profit or loss. The amount recognized is the present value of estimated future expenditures required to settle the obligation using a risk-free rate. The associated abandonment and retirement costs are capitalized as part of the carrying amount of the related asset. The capitalized amount is depleted on a unit of production basis in accordance with the Company's depletion policy. Changes to assumptions related to future expected costs, risk-free rates and timing may have a material impact on the amounts presented.

Share Based Compensation

The Company has a stock option plan enabling employees, officers and directors to receive Common Shares or cash at exercise prices equal to the market price or above on the date the option is granted. Under the equity settled method, compensation costs attributable to stock options granted to employees, officers or directors are measured at fair value using the Black-Scholes option pricing model. The assumptions used in the calculation are: the volatility of the stock price, risk-free rates of return and the expected lives of the options. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Changes to assumptions may have a material impact on the amounts presented.

Income Tax Accounting

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

The Company has revised its estimate related to deferred tax assets in the year. As at December 31, 2015, the recoverability of deferred tax assets was assessed using proved reserves instead of proved and probable reserves, which were used in the prior year. This change was the result of lower forecasted commodity prices.

The determination of the Company's income and other tax assets or liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax asset or liability may differ significantly from that estimated and recorded by management.

Investment in Red Leaf

Questerre has investments in certain private companies, including Red Leaf, which it classifies as an available for sale financial instrument and carries at fair value. The Company measures the fair market value of Red Leaf by reference to recent corporate transactions of Red Leaf, or in the absence of such transactions, other valuation techniques such as the net asset value approach.

The Company also assesses factors that might indicate that the corporate transaction price might not be representative of fair value at the measurement date. These factors include significant changes in the performance of the investee compared with budgets, plans or milestones, changes in management or strategy and significant changes in the price of oil. Considerable judgment is required in measuring the fair value of the Company's investment in Red Leaf, which may result in material adjustments to its related carrying value.

Revision of prior period comparatives

The Company revised its December 31, 2014 comparative financial statements to reflect an overstatement of its share based payment liability of $5.19 million, and an overstatement of its share based compensation expense and capitalized share based payment of $3.3 million and $1.89 million, respectively. These revisions also impacted the comparative quarterly financial statements in 2015. The Company assessed the materiality of this adjustment and concluded that it was not material to any of the previously issued consolidated financial statements. As a result, the Company revised these statements for these changes. The factors that it considered when assessing materiality were that there is no cash or credit facility impact to these changes and that there was no changes in amounts paid to employees upon exercise of options. Refer to Note 2 of the consolidated financial statements for the year ended December 31, 2015 for the impacts of the revision.

Accounting Policy Changes

Changes in Accounting Policies for 2016

There were no new or amended accounting standards or interpretations adopted during the three months ended June 30, 2016.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the six months ended June 30, 2016 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, 2015.

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 April 1, 2016 and ended on June 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Quarterly Financial Information

($ thousands, except as noted)	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015 (1)
Production (boe/d)	1,422	1,538	1,648	1,934
Average Realized Price ($/boe)	34.17	28.79	35.03	36.69
Petroleum and Natural Gas Sales	4,423	4,029	5,311	6,528
Cash Flow from Operations	1,916	1,740	2,269	3,182
Basic and Diluted ($/share)	0.01	0.01	0.01	0.01
Net Income (Loss)	(2,173)	(325)	(56,044)	(18,169)
Basic and Diluted ($/share)	(0.01)	-	(0.21)	(0.07)
Capital Expenditures, net of acquisitions and dispositions	741	4,158	1,014	6,213
Working Capital Surplus (Deficit)	(23,075)	(24,044)	(21,478)	(21,334)
Total Assets	161,721	163,547	161,894	217,794
Shareholders' Equity	125,028	127,134	127,453	183,151
Weighted Average Common Shares Outstanding				
Basic (thousands)	264,932	264,932	264,932	264,932
Diluted (thousands)	264,932	264,932	264,932	264,932

($ thousands, except as noted)	June 30, 2015 (1)	March 31, 2015 (1)	December 31, 2014 (1)	September 30, 2014
Production (boe/d)	1,480	1,257	1,468	849
Average Realized Price ($/boe)	44.90	36.49	56.37	76.34
Petroleum and Natural Gas Sales	6,048	4,128	7,613	5,963
Cash Flow from Operations	3,067	1,262	4,157	2,448
Basic and Diluted ($/share)	0.01	-	0.02	0.01
Net Income (Loss)	1,333	(656)	(39,117)	680
Basic and Diluted ($/share)	0.01	-	(0.15)	-
Capital Expenditures, net of acquisitions and dispositions	5,095	8,203	9,672	23,362
Working Capital Surplus (Deficit)	(18,202)	(16,165)	(9,247)	(3,861)
Total Assets	233,627	230,905	232,770	289,928
Shareholders' Equity	202,220	201,147	200,641	246,049
Weighted Average Common Shares Outstanding				
Basic (thousands)	264,932	264,932	264,932	264,932
Diluted (thousands)	264,936	264,934	264,934	265,976

(1) Certain figures have been revised. Refer to Note 1 of the June 30, 2016 financial statements.

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 decreased to 1,422 boe/d for the three months ended June 30, 2016 as compared with 1,480 boe/d for the same period in the prior year. Production has generally increased over the last four quarters primarily due to the development of its Kakwa-Resthaven assets.
- The working capital deficit has increased as capital expenditures have been higher than cash flow from operations.
- Capital expenditures decreased in 2015 over the prior year as a result of reduced activity in light of lower commodity prices. The amount of capital expenditures over the quarters has varied primarily due to the timing and number of wells drilled and completed for the Kakwa-Resthaven asset.
- Shareholders' equity decreased in 2015 over prior years due to impairment charges recorded in the fourth quarter of the year relating to its property, plant and equipment, exploration and evaluation assets and its investment in Red Leaf.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during the period ended June 30, 2016.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended June 30, 2016.

Subsequent thereto, certain directors and officers of the Company participated in the Flow-Through Placement, which constituted a "related party transaction" within the meaning of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"). Questerre relied upon exemptions from the formal valuation and minority approval requirements of MI 61-101 based on a determination that the fair market value of the placement, insofar as it involved related parties, did not exceed 25% of the market capitalization of the Company.

Condensed Consolidated interim Balance Sheets *(unaudited)*

($ thousands)	Note	June 30, 2016	December 31, 2015
Assets			
Current Assets			
Cash and cash equivalents		$ 407	$ 343
Accounts receivable		2,596	2,668
Current portion of risk management contracts	10	-	1,032
Deposits and prepaid expenses		808	582
		3,811	4,625
Investments	3	600	632
Property, plant and equipment	4	85,963	87,547
Exploration and evaluation assets	5	50,170	47,917
Goodwill		2,346	2,346
Deferred tax assets		18,831	18,827
		$ 161,721	$ 161,894
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 5,704	$ 10,529
Current portion of risk management contracts	10	120	-
Credit facilities	11	21,182	14,542
		27,006	25,071
Unrealized risk management contracts	10	409	618
Asset retirement obligation	6	9,278	8,752
		36,693	34,441
Shareholders' Equity			
Share capital	7	347,345	347,345
Contributed surplus		17,103	16,951
Accumulated other comprehensive income		130	209
Deficit		(239,550)	(237,052)
		125,028	127,453
		$ 161,721	$ 161,894

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

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

($ thousands, except per share amounts)	Note	Three months ended June 30, 2016	Three months ended June 30, 2015 Revised See Note 1	Six months ended June 30, 2016	Six months ended June 30, 2015 Revised See Note 1
Revenue					
Petroleum and natural gas sales		$ **4,423**	$ 6,048	$ **8,452**	$ 10,176
Royalties		**(273)**	(177)	**(546)**	(496)
Petroleum and natural gas revenue, net of royalties		**4,150**	5,871	**7,906**	9,680
Expenses					
Direct operating		**2,025**	1,865	**3,913**	3,644
General and administrative		**651**	1,109	**1,299**	2,006
Depletion and depreciation	4	**2,305**	2,153	**4,729**	4,023
Impairment of assets	3,4,5	**86**	256	**86**	608
Loss (gain) on risk management contracts	10	**997**	(51)	**(47)**	(71)
Share based compensation		**28**	79	**54**	92
Accretion of asset retirement obligation	6	**22**	37	**52**	66
Interest (income) expense		**205**	8	**352**	(15)
Other (income) expense		**4**	45	**(34)**	79
Income (loss) before taxes		**(2,173)**	370	**(2,498)**	(752)
Deferred tax recovery		**-**	(963)	**-**	(1,429)
Net income (loss)		**(2,173)**	1,333	**(2,498)**	677
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income (loss):					
Foreign currency translation adjustment		**(7)**	-	**(51)**	-
Gain (loss) on foreign exchange on investments	3	**7**	(260)	**(28)**	1,030
Reclass to net income (loss) on investment impairment		**-**	-	**-**	(128)
		-	(260)	**(79)**	902
Total comprehensive income (loss)		$ **(2,173)**	$ 1,073	$ **(2,577)**	$ 1,579
Net income (loss) per share					
Basic and diluted	7	$ **(0.01)**	$ 0.01	$ **(0.01)**	$ -

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

Condensed Consolidated Interim Statements of Changes in Equity *(unaudited)*

($ thousands)	Note		2016		2015
					Six months ended June 30,
					Revised
					See Note 1
Share Capital					
Balance, beginning of period	7	$	347,345	$	347,345
Balance, end of period			347,345		347,345
Contributed Surplus					
Balance, beginning of period			16,951		16,686
Share based compensation			152		-
Balance, end of period			17,103		16,686
Accumulated Other Comprehensive Income					
Balance, beginning of period			209		128
Other comprehensive income (loss)			(79)		902
Balance, end of period			130		1,030
Deficit					
Balance, beginning of period			(237,052)		(163,518)
Net income (loss)			(2,498)		677
Balance, end of period			(239,550)		(162,841)
Total Shareholders' Equity		$	125,028	$	202,220

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

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

($ thousands)	Note	Three months ended June 30, 2016	2015 Revised See Note 1	Six months ended June 30, 2016	2015 Revised See Note 1
Operating Activities					
Net income (loss)		**$ (2,173)**	$ 1,333	**$ (2,498)**	$ 677
Adjustments for:					
Depletion and depreciation	4	**2,305**	2,153	**4,729**	4,023
Impairment of assets	3,4,5	**86**	256	**86**	608
Unrealized loss on risk management contracts	10	**1,450**	166	**942**	311
Share based compensation		**28**	79	**54**	92
Accretion of asset retirement obligation	6	**22**	37	**52**	66
Deferred tax recovery		**-**	(963)	**-**	(1,429)
Interest (income) expense		**205**	8	**352**	(15)
Other items not involving cash		**(7)**	-	**(51)**	-
Abandonment expenditures	6	**-**	(2)	**(11)**	(4)
Cash flow from operations		**1,916**	3,067	**3,655**	4,329
Interest (paid) received		**(207)**	2	**(354)**	7
Change in non-cash working capital		**(979)**	(1,476)	**(873)**	(523)
Net cash from operating activities		**730**	1,593	**2,428**	3,813
Investing Activities					
Property, plant and equipment expenditures	4	**(233)**	(1,575)	**(232)**	(1,734)
Exploration and evaluation expenditures	5	**(509)**	(3,520)	**(4,668)**	(11,564)
Change in non-cash working capital		**(957)**	(5,710)	**(4,104)**	(8,703)
Net cash used in investing activities		**(1,699)**	(10,805)	**(9,004)**	(22,001)
Financing Activities					
Increase in credit facilities		**5,337**	12,310	**15,540**	12,310
Repayment of credit facilities		**(4,300)**	(5,110)	**(8,900)**	(5,110)
Net cash from financing activities		**1,037**	7,200	**6,640**	7,200
Change in cash and cash equivalents		**68**	(2,012)	**64**	(10,988)
Cash and cash equivalents, beginning of period		**339**	2,029	**343**	11,005
Cash and cash equivalents, end of period		**$ 407**	$ 17	**$ 407**	$ 17

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 actively engaged in the acquisition, exploration and development of oil and gas projects, in specific non-conventional projects such as tight oil, oil shale, shale oil and shale gas. These condensed consolidated interim financial statements of the Company as at and for the three months ended June 30, 2016 and 2015, 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, 2015, with the exception of deferred taxes. 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, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on August 11, 2016.

Revision of prior period comparatives

The Company revised its December 31, 2014 financial statements to reflect an overstatement of its share based payment liability of $5.19 million and an overstatement of its share based compensation expense and capitalized share based payment of $3.3 million and $1.89 million, respectively. The Company assessed the materiality of this adjustment and concluded that it was not material to any of the previously issued consolidated financial statements. As a result, the Company revised these statements for these changes. The factors that it considered when assessing materiality were that there was no cash or credit facility impact to these changes and that there were no changes in amounts paid to employees upon exercise of options.

The following tables present the effect of this correction on individual line items within the Company's comprehensive loss, changes in equity and cash flow as at and for the three and six months ended June 30, 2015. The Company also made certain presentation changes to the cash flow statement to better reflect its cash flow from operations, which are reflected below.

Income Statement Revisions – Three Months Ended June 30, 2015

($ thousands)	As Previously Reported	Adjustment	As Revised
Share based compensation (recovery)	(20)	99	79
Deferred tax recovery	(963)	-	(963)
Net Loss	1,432	(99)	1,333
Total comprehensive income	1,172	(99)	1,073

Cash Flow Statement Revisions and Presentation Changes – Three Months Ended June 30, 2015

($ thousands)	As Previously Reported	Presentation Change	Adjustment	As Revised
Net income (loss)	1,432	-	(99)	1,333
Share based compensation (recovery)	(20)	-	99	79
Deferred tax recovery	(963)	-	-	(963)
Interest (income) expense	-	8	-	8
Cash flow from operations	3,059	8	-	3,067
Interest (paid) received	-	2	-	2
Change in non-cash working capital	(1,466)	(10)	-	(1,476)
Net cash from operating activities	1,593	-	-	1,593
		-		

Income Statement Revisions – Six Months Ended June 30, 2015

($ thousands)	As Previously Reported	Adjustment	As Revised
Share based compensation (recovery)	(108)	200	92
Deferred tax recovery	(1,429)	-	(1,429)
Net Loss	877	(200)	677
Total comprehensive income	1,779	(200)	1,579

Cash Flow Statement Revisions and Presentation Changes – Six Months Ended June 30, 2015

($ thousands)	As Previously Reported	Presentation Change	Adjustment	As Revised
Net income (loss)	877	-	(200)	677
Share based compensation (recovery)	(108)	-	200	92
Deferred tax recovery	(1,429)	-	-	(1,429)
Interest (income) expense	-	(15)	-	(15)
Cash flow from operations	4,344	(15)	-	4,329
Interest (paid) received	-	7	-	7
Change in non-cash working capital	(531)	8	-	(523)
Net cash from operating activities	3,813	-	-	3,813

2. Accounting Policy Changes

Changes in Accounting Policies for 2016

There were no new or amended accounting standards or interpretations adopted during the six months ended June 30, 2016.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the six months ended June 30, 2016 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, 2015.

3. Investments

The investments balance is comprised of the following investments:

($ thousands)		June 30, 2016		December 31, 2015
Red Leaf Resources Inc.	$	470	$	500
Investment in private company		130		132
	$	600	$	632

The following table sets out the changes in investments:

($ thousands)		June 30, 2016		December 31, 2015
Balance, beginning of year	$	632	$	16,541
Gain (Loss) on foreign exchange		(32)		2,790
Impairment		-		(18,699)
Balance, end of period	$	600	$	632

For the six months ended June 30, 2016, the loss on foreign exchange relating to investments was $0.03 million (June 30, 2015: $1.20 million gain), which was recorded in other comprehensive income (loss) net of deferred tax of $0.004 million (June 30, 2015: $0.17 million).

4. Property, Plant and Equipment

The following table provides a reconciliation of the Company's property, plant and equipment assets:

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Cost or deemed cost:						
Balance, December 31, 2014	$	175,686	$	1,334	$	177,020
Additions		2,116		-		2,116
Transfer from exploration and evaluation assets		26,299		-		26,299
Balance, December 31, 2015		204,101		1,334		205,435
Additions		460		-		460
Transfer from exploration and evaluation assets		2,684		-		2,684
Balance, June 30, 2016	**$**	**207,245**	**$**	**1,334**	**$**	**208,579**
Accumulated depletion, depreciation and impairment losses:						
Balance, December 31, 2014	$	79,821	$	1,192	$	81,013
Depletion and depreciation		9,676		54		9,730
Impairment		27,145		-		27,145
Balance, December 31, 2015		116,642		1,246		117,888
Depletion and depreciation		4,710		19		4,729
Balance, June 30, 2016	**$**	**121,352**	**$**	**1,265**	**$**	**122,617**

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Net book value:						
At December 31, 2015	$	87,459	$	88	$	87,547
At June 30, 2016	**$**	**85,893**	**$**	**69**	**$**	**85,963**

During the period ended June 30, 2016, the Company capitalized administrative overhead charges related to development activities of $0.03 million including $0.001 million of stock based compensation expense. For the year ended December 31, 2015, the Company derecognized $0.03 million in capitalized stock based compensation expense directly related to these activities. Included in the June 30, 2016 depletion calculation are future development costs of $131.47 million (December 31, 2015: $134.74 million).

5. Exploration and Evaluation Assets

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

($ thousands)		June 30, 2016		December 31, 2015
Balance, beginning of year	$	47,917	$	81,900
Additions		5,023		18,943
Transfers to property, plant and equipment		(2,684)		(26,299)
Dispositions		-		-
Impairment (incl. undeveloped land expiries)		(86)		(26,627)
Balance, end of period	$	50,170	$	47,917

During the period ended June 30, 2016, the Company capitalized administrative overhead charges of $0.63 million (December 31, 2015: $1.38 million) including $0.1 million of stock based compensation expense (December 31, 2015: nil) directly related to exploration and evaluation activities.

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 $9.28 million as at June 30, 2016 (December 31, 2015: $8.75 million) based on an undiscounted total future liability of $11.41 million (December 31, 2015: $11.31 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 1.12% (December 31, 2015: 1.35%). An inflation rate of 2.2% (December 31, 2015: 2.2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

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

($ thousands)		June 30, 2016		December 31, 2015
Balance, beginning of year	$	8,752	$	8,133
Liabilities disposed		-		(68)
Liabilities incurred		143		296
Liabilities settled		(11)		(60)
Revisions due to change in discount rates		342		(379)
Revisions due to change in estimates		-		715
Accretion		52		115
Balance, end of period	$	9,278	$	8,752

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 June 30, 2016, 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, 2015 to June 30, 2016	**264,932**	**$ 347,345**

See Note 12 for Common Shares issued subsequent to period end.

b) Per share amounts

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

	Three months ended June 30,		*Six months ended June 30,*	
(thousands, except as noted)	**2016**	2015	**2016**	2015
Net income (loss) ($thousands)	**$ (2,173)**	$ 1,333	**$ (2,498)**	$ 677
Issued Common Shares at beginning of period	**264,932**	264,932	**264,932**	264,932
Weighted average number of Common Shares outstanding (basic)	**264,932**	264,932	**264,932**	264,932
Basic net loss per share	**$ (0.01)**	$ 0.01	**$ (0.01)**	$ -

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

	Three months ended June 30,		*Six months ended June 30,*	
(thousands, except as noted)	**2016**	2015	**2016**	2015
Net income (loss) ($thousands)	**$ (2,173)**	$ 1,333	**$ (2,498)**	$ 677
Weighted average number of Common Shares outstanding (basic)	**264,932**	264,932	**264,932**	264,932
Effect of outstanding options	**-**	4	**-**	18
Weighted average number of Common Shares outstanding (diluted)	**264,932**	264,936	**264,932**	264,950
Diluted net loss per share	**$ (0.01)**	$ 0.01	**$ (0.01)**	$ -

Under the current stock option plan, options can be exchanged for Common Shares of the Company, or for cash at the Company's discretion. As a result, they are considered potentially dilutive and are included in the calculation of diluted income (loss) per share for the period. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. At June 30, 2016, all options (June 30, 2015: 18.36 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.

In December 31, 2015, the Company changed the accounting for its stock-based compensation awards to assume that options will be equity-settled instead of cash-settled. The change was made to reflect the settlement history of the options.

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

	June 30, 2016		December 31, 2015	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average *Exercise Price*
Outstanding, beginning of period	19,982	$0.72	17,792	$1.96
Granted	4,100	0.18	10,532	0.29
Forfeited	(3,305)	0.48	(2,819)	1.10
Expired	(3,260)	1.85	(5,523)	3.68
Exercised	-	-	-	-
Outstanding, end of period	17,517	$0.43	19,982	$0.72
Exercisable, end of period	5,369	$0.63	6,808	$0.97

During the period ended June 30, 2016, 4,100,000 stock options were granted and the following assumptions utilized for the calculation of stock-based compensation expense: volatility 67.15%, risk free rate 0.53%, and unvested forfeiture rate 13.43%.

9. Capital Management

The Company believes with its current credit facility and positive expected cash flows from operations (an additional IFRS measure defined as net cash from operating activities before changes in non-cash working capital and interest paid or received) 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 or access to credit facilities are available to fund these capital expenditures. Refer to Notes 11 and 12.

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 2016, the Company reported a reduced capital program for 2016 and subsequent to the end of the quarter, completed an equity placement for gross proceeds of $4.75 million.

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 credit facilities and adjusting its capital spending. Questerre monitors its capital structure based on the current and projected cash flow from operations.

($ thousands)		June 30, 2016		December 31, 2015
Credit facilities	$	21,182	$	14,542
Shareholders' equity		125,028		127,453
	$	146,210	$	141,995

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, 2016 included cash and cash equivalents, accounts receivable, risk management contracts, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at June 30, 2016, 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 both by the relationship between the Canadian and United States dollar and world economic events that dictate the levels of supply and demand. The Company may enter into oil and natural gas contracts to protect, to the extent possible, its cash flows from future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas.

As at June 30, 2016, the Company had the following outstanding commodity risk management contracts:

The Company's risk management position is as follows:

($ thousands)		**June 30, 2016**		December 31, 2015
Risk Management (Assets) Liabilities				
Current portion	$	120	$	(1,032)
Non-current portion		409		618
	$	529	$	(414)

The Company recorded an unrealized loss of $0.94 million for the six month period ended June 30, 2016 and an unrealized loss of $0.31 million for the same period in 2015. The Company also recorded a realized gain of $1.0 million for the six month period ended June 30, 2016 and a realized gain of $0.38 million for the same period in 2015.

The value of Questerre's commodity price risk management contracts fluctuates with changes in the underlying market price of the relevant commodity. A summary of the impact to net income (loss) as a result of changes to commodity prices follows:

Risk Management Contract	Sensitivity Range	Increase *($ thousands)*	Decrease
Crude oil swap	$1/bbl increase or decrease to WTI price	36,800	(36,800)
Natural gas swap	$1/bbl increase or decrease to WTI price over $80/bbl	73,000	(73,000)
AECO futures sale	$0.50/GJ increase or decrease to AECO price	184,000	(184,000)
sale	$0.50/GJ increase or decrease to AECO price over $2.7/GJ	547,500	(547,500)

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.

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and are updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital.

Since the Company operates in the upstream oil and gas industry, it requires sufficient cash to fund capital programs necessary to maintain or increase production, develop reserves and to potentially acquire strategic assets. The Company's capital programs are funded principally by cash obtained through its credit facility, equity issuances and from operating activities. During times of low oil and natural gas prices, a portion of capital programs can generally be deferred, however, due to the long cycle times and the importance to future cash flow in maintaining the Company's production, it may be necessary to utilize alternative sources of capital to continue the Company's strategic investment plan during periods of low commodity prices. As a result, the Company frequently evaluates the options available with respect to sources of long and short-term capital resources. Occasionally, to the extent possible, the Company will use derivative instruments to manage cash flow in the event of commodity price declines.

The Company's financial obligations relate to its obligations under its credit facility (See Note 11) and trade and other payables, which consist of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. The Company processes invoices within a normal payment period and all amounts are due within the next 12 months.

11. Credit Facility

As at June 30, 2016, the credit facility includes 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 facility, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The bank's prime rate currently is 2.70% per annum. The facility is secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the 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 June 30, 2016 was 2.6 and the covenant was met. At June 30, 2016, $21.18 million (December 31, 2015: $14.54 million) was drawn on Credit Facility A.

The credit facility is a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facility, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity.

Subsequent to quarter end, the Company's credit facilities were renewed at $30 million. The facility will include a $24.9 million Credit Facility A and a $5 million Credit Facility B. The next scheduled review of the Company's credit facility is expected to be completed in the fourth quarter of 2016.

12. Subsequent Events

Early in the third quarter, the Company completed a private placement of 26.39 million flow-through units for gross proceeds of approximately $4.75 million. Each flow-through unit consists of one Common Share issued on "flow-through" basis and one-half of one non-flow-through share purchase warrant. Each whole warrant will entitle the holder to purchase one additional non-flow-through Common Share at a price of $0.20 for a period of 18 months from closing.

The gross proceeds of the Flow-Through Placement will be used by the Company, pursuant to the provisions of the Income Tax Act (Canada), to incur eligible Canadian development expenses ("Qualifying Expenditures") after the closing date and prior to December 31, 2016 on Questerre's properties. The Company will renounce the Qualifying Expenditures to subscribers of the Flow-Through Units for the fiscal year ended December 31, 2016.

Corporate Information

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