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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.

We continue to manage our reduced capital program with the goal of maintaining reserves and preserving our liquidity.

During the first quarter, we participated in drilling two (0.5 net) wells on our Kakwa joint venture acreage. All in costs, on a per metre of horizontal drilled basis, are approximately 20% lower than last year, improving our returns in the current environment. We plan only to selectively participate in future wells depending on commodity prices and liquidity.

We also invested very limited capital to appraise our oil shale project in Jordan which could have the right scale and rock properties. While Red Leaf re-engineers their capsule design to be economic at US$55-$60/bbl, we are testing our shale under two commercial retorting processes.

Just after the quarter end, the Government of Quebec published their new energy policy. Later than anticipated, but as we expected, it allows for the exploitation of local oil and gas in the province. This is a major step forward for our gas discovery. It lays the groundwork for the new hydrocarbon legislation which should be released before this summer.

Highlights

- Participated in two (0.5 net) one and a half mile horizontal wells at Kakwa-Resthaven
- Quebec Government publishes new energy policy supporting exploitation of local oil and gas
- Commenced evaluation of retorting technologies for Jordan oil shale project
- Average daily production of 1,538 boe/d with cash flow from operations of $1.74 million for the quarter

Kakwa-Resthaven, Alberta

On the basis that our 1P type curves still generate positive returns at strip prices, we are selectively participating in additional wells at Kakwa.

These returns could improve if we build on our successes from last year, where we drilled longer horizontal legs using optimized completions to increase recoveries. We are moving in the right direction. Our first well this year, 03-18, is about 25% longer and well costs are 20% lower than our last three wells in 2015. Our second well, 16-20, was drilled and completed at an estimated cost of approximately $4,400 per m of horizontal, or 20% lower. Production from new wells is being restricted to determine if slower flow back further enhances ultimate recoveries.

Although drilling and completion costs are declining and returns are positive, at today's prices, it takes almost five years for us to see a payout of our capital investment. As a result, to protect our liquidity, we may not fully participate in the operator's drilling program for 2016. We will not earn an interest in wells that we do not participate in; however, this will not affect our working interest in the lands as 90% of our acreage is held by production. With over 70 additional locations remaining, we believe not participating in a small number of these locations to maintain our liquidity is warranted in the circumstances.

Oil Shale Mining

With a restricted capital budget, we focused on how we could commercially develop our oil shale project in Jordan. We are leveraging our experience and completing as much as possible of this technical work in house, specifically the resource assessment and the evaluation of alternative processes.

We are testing the ore under three processes, including Red Leaf's EcoShale InCapsule process. The testing will give us an idea of the suitability of the shale to each of these processes, the products from the process and, at a high level, scoping capital and operating costs. We also commissioned a mining study to determine the costs of extraction.

Of interest, a variation of one of the three processes we are evaluating will be used for a 554 MW oil shale fired power plant to be constructed in Jordan. The plant will be one of the largest in the country and is scheduled to be on stream in early 2019. Debt financing of approximately US$1.6 billion is to be provided by two Chinese banks.

Operational & Financial

Production from the Kakwa-Resthaven area averaged 1,159 boe/d and contributed to daily production of 1,538 boe/d. By comparison, in the first quarter of 2015, production from this area averaged 819 boe/d with Company production of 1,257 boe/d.

The decline in commodity prices in the quarter was mainly offset by the increased production volumes resulting in gross revenue declining just over 2% to $4.03 million. Lower G&A and realized gains on hedged volumes contributed to cash flow from operations of $1.74 million (2015: $1.26 million).

Capital investment declined by just under 50% from $8.2 million last year to $4.2 million in 2016. Consistent with prior quarters, over 80% of this amount was for the Kakwa area. The Company anticipates incremental investment in this area in 2016 could be up to $7 million.

Outlook

Maintaining financial flexibility remains our priority.

The prolonged downturn in the industry will likely result in lenders reducing their oil and gas exposure, which could impact our existing facilities. To mitigate this potential exposure, we are continuing to aim our capital investment to supporting our reserves-based lending facility.

Within this limited budget we are cautiously allocating capital to our oil shale project in Jordan. The main task for this year is to assess the feasibility of possible development. The early results and potential scale encourage us to continue our technical work.

More encouraging has been the release of the energy policy in Quebec after five years of environmental studies. We are very proud of our role in achieving this positive outcome.

Though the main objective is to reduce Quebec's dependence on hydrocarbons, the policy recognizes the importance of natural gas as a transition fuel. Within limits, the policy supports the exploitation of local oil and gas which should help Quebec reduce its energy imports and its greenhouse gas emissions. We are very hopeful this dovetails with the upcoming hydrocarbon legislation to allow us to resume, after all these years, the piloting work for our Utica discovery.

Michael Binnion
President and Chief Executive Officer

This Management's Discussion and Analysis ("MD&A") was prepared as of May 12, 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 March 31, 2016 and for the three month period ended March 31, 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;
- results of the appraisal of the Company's oil shale project in the Kingdom of Jordan;
- 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;

- assessments of the future plan of the Company's credit facility lender in respect of oil and natural gas industry exposure;
- 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 March 31,	
($ thousands)	2016	2015[1]
Net cash from operating activities	$ 1,699	$ 2,220
Interest paid (received)	147	(5)
Change in non-cash operating working capital	(106)	(953)
Cash flow from operations	$ 1,740	$ 1,262

(1) Certain figures have been revised. Refer to Note 1 of the March 31, 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 portions of the share based compensation liability and risk management contracts.

Select Information

As at/for the three months ended March 31,	2016	2015[1]
Financial ($ thousands, except as noted)		
Petroleum and Natural Gas Sales	4,029	4,128
Cash Flow from Operations	1,740	1,262
Per share - Basic ($/share)	0.01	-
Per share - Diluted ($/share)	0.01	-
Net Income (Loss)	(325)	(656)
Per share - Basic ($/share)	-	-
Per share - Diluted ($/share)	-	-
Capital Expenditures, net of acquisitions and dispositions	4,158	8,203
Working Capital Surplus (Deficit)	(24,044)	(16,165)
Total Assets	163,547	230,905
Shareholders' Equity	127,134	201,147
Common Shares Outstanding (thousands)	264,932	264,932
Weighted average - basic (thousands)	264,932	264,932
Weighted average - diluted (thousands)	264,932	264,932
Operations (units as noted)		
Average Production		
Crude Oil and Natural Gas Liquids (bbl/d)	888	722
Natural Gas (Mcf/d)	3,900	3,206
Total (boe/d)	1,538	1,257
Average Sales Price		
Crude Oil and Natural Gas Liquids ($/bbl)	40.06	49.05
Natural Gas ($/Mcf)	2.23	3.26
Total ($/boe)	28.79	36.49
Netback ($/boe)		
Petroleum and Natural Gas Sales	28.79	36.49
Royalties Expense	(1.95)	(2.82)
Percentage	7%	8%
Direct Operating Expense	(13.50)	(15.73)
Operating Netback	13.34	17.94
Wells Drilled		
Gross	2.00	-
Net	0.50	-

(1) Certain figures have been revised. Refer to Note 1 of the March 31, 2016 financial statements.

Highlights

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- Quebec Government publishes new energy policy supporting exploitation of local oil and gas
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First Quarter 2016 Activities

Western Canada

Kakwa-Resthaven, Alberta

Questerre participated in the drilling of two (0.5 net) wells on its joint venture acreage in the first quarter of the year.

The 03-18-63-5W6M well (the "03-18 Well") was drilled with a lateral of 2900m in the Montney formation. Completion operations are scheduled for early in the third quarter. They are programmed to include approximately 67 frac stages in the horizontal section.

Questerre also participated in the 16-20-63-5W6M well (the "16-20 Well"). The well was drilled with a lateral of 2100m in the target Montney formation. Completion operations included approximately 80 frac stages in the horizontal section. The well was tied in and put on production early in the second quarter. Questerre holds a 25% working interest in the 03-18 Well and the 16-20 Well.

For the remainder of 2016, the Company plans to participate selectively in additional wells drilled on its joint venture acreage. Questerre expects these wells will maintain production to fulfill the joint venture's take or pay commitments for processing and transportation.

Oil Shale Mining

Questerre continued the appraisal of its recently acquired 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.

Testing of core from its drilling program last fall is underway. 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 also commissioned a mining study to determine the feasibility and costs associated with extracting this resource.

Production

Three months ended March 31,	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	236	-	236	226	-	226
Alberta	598	3,816	1,234	387	3,119	908
British Columbia	-	84	14	-	87	14
Manitoba	54	-	54	109	-	109
	888	3,900	1,538	722	3,206	1,257

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

Average daily volumes increased over the prior year with higher production from the Kakwa-Resthaven area of Alberta as several wells were completed and placed on production in 2015. For the first quarter of 2016, the Company`s production averaged 1,538 boe/d compared to 1,257 boe/d in 2015 and 1,648 boe/d in the fourth quarter of 2015.

Production from this area grew from 819 boe/d last year to 1,159 boe/d this year. As natural gas represents 50% of the volumes from Kakwa (2015: 56%) the Company's weighting of crude and liquids averaged approximately 58% (2015: 57%). The weighting also reflects the natural declines in the Pierson area offset partially by a nominal increase from the Antler area.

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

First Quarter 2016 Financial Results

Petroleum and Natural Gas Sales

Three months ended March 31,	2016			2015		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 857	$ -	$ 857	$ 1,070	$ -	$ 1,070
Alberta	2,211	771	2,982	1,641	921	2,562
British Columbia	-	13	13	-	17	17
Manitoba	177	-	177	479	-	479
	$ 3,245	$ 784	$ 4,029	$ 3,190	$ 938	$ 4,128

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

Petroleum and natural gas sales in the quarter declined by just over 2% to $4.03 million from $4.13 million in the first quarter of 2015. This represents a 26% decline due to lower commodity prices, particularly natural gas, largely mitigated by a 24% increase in production volumes in Alberta.

Pricing

Three months ended March 31,	2016	2015
Benchmark prices		
Natural Gas - AECO, daily spot ($/Mcf)	1.83	2.75
Crude Oil - Edmonton Light Sweet Blend ($/bbl)	41.68	49.74
Realized prices		
Natural Gas ($/Mcf)	2.23	3.26
Crude Oil and Natural Gas Liquids ($/bbl)	40.06	49.05

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

Crude oil prices continued their decline from the fourth quarter of 2015, falling in February to their lowest levels in thirteen years. The benchmark West Texas Intermediate ("WTI") averaged US$33.45/bbl over the quarter compared to US$48.63/bbl in the first quarter of last year.

Concerns about increasing exports from Iran following the lifting of sanctions in January, onshore oil storage potentially reaching capacity, and the impact of a slowing Chinese economy on demand contributed to the weakness in prices. This was despite lower rig counts and declines in onshore US production. In Canada the impact of the decline was partly offset by a stronger US dollar and weaker differential. In 2016, the differential between the Canadian Light Sweet blend ("MSW") and WTI declined to US$0.86/bbl from US$6.49/bbl in 2015.

As the majority of Questerre's production is light oil and condensate, its realized price averaged $40.06/bbl (2015: $49.05/bbl) compared to a benchmark price of $41.68/bbl (2015: $49.74/bbl). While condensate typically receives a premium to MSW, the lower price in the quarter includes the materially lower prices for other liquids, particularly propane.

Natural gas prices experienced a similar decline as the reference Henry Hub average US$1.98/Mcf compared to US$2.87/Mcf last year.

This is primarily due to the resilient supply in North America. While gas rig counts have decreased by 94% since their peak in September 2008, natural gas production has increased by 34% to average approximately 75 Bcf/d. Lower heating demand from a warmer winter and slower than expected growth for power usage have also contributed to a storage surplus of approximately 1 Tcf over the five year average. Canadian natural gas prices were also depressed by the warm winter with domestic storage approaching record levels.

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 $2.23/Mcf (2015: $3.26/Mcf) compared to the AECO reference price of $1.83/Mcf (2015: $2.75/Mcf).

Royalties

($ thousands)		*Three months ended March 31,* 2016		2015
Saskatchewan	$	55	$	74
Alberta		200		186
British Columbia		-		-
Manitoba		18		59
	$	273	$	319
% of Revenue				
Saskatchewan		6%		7%
Alberta		7%		7%
British Columbia		0%		0%
Manitoba		11%		12%
Total Company		7%		8%

As a percentage of revenue, royalties in the first quarter of 2016 decreased to 7% from 8% in the prior year. This lower rate resulted in the decline in gross royalties to $0.27 million from $0.32 million in 2015.

Royalties in Alberta mainly represent the royalty rate payable on production from the Kakwa-Resthaven area. In addition to a 2% gross overriding royalty on its joint venture acreage, production from the Kakwa-Resthaven area benefits from incentives including the New Well Royalty Rate and the Natural Gas Deep Drilling Program. Respectively, these provide for royalties of 5% for the earlier of the first 12 months of production or 0.5 Bcf equivalent of production and a royalty credit based on the total measured depth of the well with royalties of up to 5%. The Company is assessing the impact of Alberta's Modernized Royalty Framework on its existing and future production from this area.

Operating Costs

($ thousands)		*Three months ended March 31,* 2016		2015
Saskatchewan	$	305	$	310
Alberta		1,495		1,368
British Columbia		11		28
Manitoba		77		73
	$	1,888	$	1,779
$/boe				
Saskatchewan		14.19		15.22
Alberta		13.32		16.75
British Columbia		8.28		21.82
Manitoba		15.65		7.41
Total Company		13.50		15.73

Gross operating costs for the quarter increased over the prior year as a result of higher production volumes.

On a unit of production basis, operating costs decreased to $13.50/boe compared to $15.73/boe in the first quarter of 2015.

Operating costs in Alberta were lower due to the higher production volumes from the Kakwa joint venture acreage where the majority of costs are fixed. Similarly, in Saskatchewan the higher proportion of fixed costs were borne by higher production volumes resulting in a lower cost on a boe basis. In Manitoba, higher fixed costs in 2016 and lower production volumes resulted in higher costs on a boe basis.

General and Administrative Expenses

		Three months ended March 31,		
($ thousands)		2016		2015
General and administrative expenses, gross	$	940	$	1,300
Capitalized expenses and overhead recoveries		(292)		(403)
General and administrative expenses, net	$	648	$	897

Gross general and administrative expenses ("G&A") were lower by almost 30% for the three months ended March 31, 2016 compared to the same period 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 decreased in 2016 over 2015. This decrease is attributable to fewer staff employed in the current year to develop the Company's Kakwa-Resthaven area.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded $2.42 million of depletion and depreciation expense for the quarter ended March 31, 2016 compared to $1.87 million for the same period in 2015. The higher expense is due to higher production volumes. Additionally, on a per unit basis, depletion increased from $16.44/boe in 2015 to $17.26/boe in 2016 with higher volumes in the current year from cash generating units with higher finding and development costs.

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 gain on risk management contracts of $1.04 million for the quarter ended March 31, 2016 compared to a gain of $0.02 million on risk management contracts for the same period in 2015. The changes are due to fluctuations in the underlying market prices of the relevant commodities.

The Company recorded a loss on foreign exchange, net of deferred tax, through other comprehensive income (loss), of $0.04 million for the three months ended March 31, 2016 (2015: $1.29 million gain). The changes are due to fluctuations in the exchange rate relating to the Company's US dollar investments.

For the three months ended March 31, 2016, the Company recorded stock based compensation expense of $0.03 million (2015: $0.01 million). The increase 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 first quarter of 2016 was $0.40 million compared to income of $0.51 million for the same period in 2015. The decrease is mainly due to higher depletion and depreciation expense and a lower deferred tax recovery offset by higher gain on risk management contracts in the current year.

Capital Expenditures

		Three months ended March 31,		
($ thousands)		2016		2015
Alberta	$	3,689	$	7,680
British Columbia		-		361
Saskatchewan		67		129
Jordan & Other		402		33
Total	$	4,158	$	8,203

For the three months ended March 31, 2016, the Company incurred net capital expenditures of $4.2 million as follows:

- In Alberta, the Company spent $3.7 million to drill and complete wells targeting the condensate-rich Montney formation.
- In Jordan, the Company spent $0.4 million on the evaluation of its oil shale assets.

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

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

Liquidity and Capital Resources

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

In November 2015, the Company's credit facility was renewed at $50 million. At March 31, 2016, $20.14 million (December 31, 2015: $14.54 million) was drawn on the credit facility, and the Company is in compliance with all its covenants under the credit facility, and management believes that there is not a reasonably foreseeable risk of a breach thereof. 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 March 31, 2016 was 2.0 and the covenant is 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 by the end of the second quarter of 2016.

The current commodity price environment has resulted in tighter capital markets. The credit facility is a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. The lender has recently announced it has increased its provision for losses on its oil and gas production portfolio, which the Company anticipates will likely result in the lender reducing its exposure to the industry. 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 $24.04 million at March 31, 2016 as compared to a deficit of $21.48 million at December 31, 2015. Management believes that with its current credit facility and expected positive operating cash flows from operations, the Company will generate sufficient cash flows to meet its foreseeable obligations in the normal course of operations. With improving commodity prices, Questerre anticipates liquidity to increase over time, as cash flow from operations exceeds planned capital expenditures in the future and debt is reduced. On an ongoing basis, while the Company will utilize available flexibility relating to the timing of commitments for future capital expenditures in order to maintain liquidity (See "Commitments"), 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.

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

Net cash from operating activities for the three months ended March 31, 2016 and 2015 was $1.70 million and $2.22 million, respectively. The Company's cash flow from operating activities increased from 2015 due to higher realized gains on its risk management contracts and lower G&A. This was offset by the decreased change in non-cash working capital.

Cash Flow used in Investing Activities

Cash flow used in investing activities was $7.31 million for the quarter ended March 31, 2016 and $11.20 million for the three months ended March 31, 2015.

For the three months ended March 31, 2016, capital expenditures of $4.16 million were incurred mainly for the drilling of two (0.5 net) wells in the Kakwa-Resthaven area. For the three months ended March 31, 2015, capital expenditures of $8.20 million were incurred in the same area to complete three (0.75 net) wells and related infrastructure costs.

Cash Flow from Financing Activities

Cash flow provided by financing activities was $5.6 million in the quarter ended March 31, 2016 (2015: Nil). The amount reflects increase in the utilization of credit facilities of $10.2 million net of repayments of $4.6 million in the period.

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" common voting shares and an unlimited number of preferred shares, issuable in one or more series. At March 31, 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)	May 12, 2016	March 31, 2016	December 31, 2015
Common shares	264,932	264,932	264,932
Stock options	14,969	14,969	19,982
Weighted average common shares			
Basic		264,932	264,932
Diluted		264,932	264,932

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

	March 31, 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	-	-	10,532	0.29
Forfeited	(2,303)	0.48	(2,819)	1.10
Expired	(2,710)	2.05	(5,523)	3.68
Exercised	-	-	-	-
Outstanding, end of period	14,969	$0.51	19,982	$0.72
Exercisable, end of period	5,120	$0.70	6,808	$0.97

Commitments

A summary of the Company's net commitments at March 31, 2016 follows:

($ thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Transportation, Marketing and Processing	$ 2,045	$ 4,728	$ 4,728	$ 3,990	$ 3,990	$ 23,942	$ 43,423
Office Leases	107	137	86	86	79	-	495
	$ 2,152	$ 4,865	$ 4,814	$ 4,076	$ 4,069	$ 23,942	$ 43,918

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 manages 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") are incurred in order to meet its flow-through obligations. However, in the event that the Company incurs qualifying expenditures of Canadian Development Expense ("CDE") 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 March 31, 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	Apr. 1, 2016 - Dec. 31, 2016	869
Natural gas swap	2,000 gj/d	$2.54/gj	Apr. 1, 2016 - Dec. 31, 2016	506
AECO - call option sale	3,000 gj/d	$2.70/gj	Jan. 1, 2017 - Dec. 31, 2017	(282)
WTI Nymex - call option sale	200 bbls/d	$80/bbl	Jan. 1, 2017 - Dec. 31, 2017	(172)

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 that 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 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 ("VIU") and the FVLCD. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes, the discount rate, 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. 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 March 31, 2016.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three months ended March 31, 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 January 1, 2016 and ended on March 31, 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)	**March 31, 2016**	December 31, 2015	September 30, 2015 [1]	June 30, 2015 [1]
Production (boe/d)	**1,538**	1,648	1,934	1,480
Average Realized Price ($/boe)	**40.06**	35.03	36.69	44.90
Petroleum and Natural Gas Sales	**4,029**	5,311	6,528	6,048
Cash Flow from Operations	**1,740**	2,269	3,182	3,067
Basic and Diluted ($/share)	**0.01**	0.01	0.01	0.01
Net Income (Loss)	**(325)**	(56,044)	(18,169)	1,333
Basic and Diluted ($/share)	**-**	(0.21)	(0.07)	0.01
Capital Expenditures, net of acquisitions and dispositions	**4,158**	1,014	6,213	5,095
Working Capital Surplus (Deficit)	**(24,044)**	(21,478)	(21,334)	(18,202)
Total Assets	**163,547**	161,894	217,794	233,627
Shareholders' Equity	**127,134**	127,453	183,151	202,220
Weighted Average Common Shares Outstanding				
Basic (thousands)	**264,932**	264,932	264,932	264,932
Diluted (thousands)	**264,932**	264,932	264,932	264,936

($ thousands, except as noted)	March 31, 2015 [1]	December 31, 2014 [1]	September 30, 2014	June 30, 2014
Production (boe/d)	1,257	1,468	849	849
Average Realized Price ($/boe)	36.49	56.37	76.34	82.08
Petroleum and Natural Gas Sales	4,128	7,613	5,963	6,342
Cash Flow from Operations	1,262	4,157	2,448	2,925
Basic and Diluted ($/share)	-	0.02	0.01	0.01
Net Income (Loss)	(656)	(39,117)	680	520
Basic and Diluted ($/share)	-	(0.15)	-	-
Capital Expenditures, net of acquisitions and dispositions	8,203	9,672	23,362	11,254
Working Capital Surplus (Deficit)	(16,165)	(9,247)	(3,861)	16,945
Total Assets	230,905	232,770	289,928	274,625
Shareholders' Equity	201,147	200,641	246,049	243,361
Weighted Average Common Shares Outstanding				
Basic (thousands)	264,932	264,932	264,932	264,928
Diluted (thousands)	264,934	264,934	265,976	266,081

(1) Certain figures have been revised. Refer to Note 1 of the March 31, 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 increased to 1,538 boe/d for the three months ended March 31, 2016 as compared with 1,257 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 March 31, 2016.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended March 31, 2016.

Condensed Consolidated interim Balance Sheets *(unaudited)*

($ thousands)	Note		March 31, 2016		December 31, 2015
Assets					
Current Assets					
Cash and cash equivalents		$	339	$	343
Accounts receivable			2,073		2,668
Current portion of risk management contracts	10		1,261		1,032
Deposits and prepaid expenses			610		582
			4,283		4,625
Investments	3		592		632
Property, plant and equipment	4		85,438		87,547
Exploration and evaluation assets	5		52,056		47,917
Goodwill			2,346		2,346
Deferred tax assets			18,832		18,827
		$	163,547	$	161,894
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities		$	6,922	$	10,529
Credit facilities	11		20,144		14,542
			27,066		25,071
Unrealized risk management contracts	10		340		618
Asset retirement obligation	6		9,007		8,752
			36,413		34,441
Shareholders' Equity					
Share capital	7		347,345		347,345
Contributed surplus			17,036		16,951
Accumulated other comprehensive income			130		209
Deficit			(237,377)		(237,052)
			127,134		127,453
		$	163,547	$	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 as noted)	Note	*Three months ended March 31,* 2016	2015
			Revised (See Note 1)
Revenue			
Petroleum and natural gas sales		$ 4,029	$ 4,128
Royalties		(273)	(319)
Petroleum and natural gas revenue, net of royalties		3,756	3,809
Expenses			
Direct operating		1,888	1,779
General and administrative		648	897
Depletion and depreciation	4	2,424	1,870
Impairment of assets	3,4,5	-	352
Loss (gain) on risk management contracts	10	(1,044)	(20)
Share based compensation - expense	8	26	13
Accretion of asset retirement obligation	6	30	29
Interest (income) expense		148	(23)
Other (income) expense		(39)	34
Income (loss) before taxes		(325)	(1,122)
Deferred tax expense (recovery)		-	(466)
Net loss		(325)	(656)
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to net income (loss):			
Foreign Currency Translation Adjustment		(44)	-
Gain (loss) on foreign exchange	3	(35)	1,290
Reclass to net income (loss) on investment impairment		-	(128)
		(79)	1,162
Total comprehensive income (loss)		$ (404)	506
Net income (loss) per share			
Basic and diluted	7	$ -	$ -

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

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

($ thousands)	Note		*Three months ended March 31,* 2016		2015
					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	8		85		-
Balance, end of period			17,036		16,686
Accumulated Other Comprehensive Income (Loss)					
Balance, beginning of period			209		128
Other comprehensive income (loss)			(79)		1,162
Balance, end of period			130		1,290
Deficit					
Balance, beginning of period			(237,052)		(163,518)
Net income (loss)			(325)		(656)
Balance, end of period			(237,377)		(164,174)
Total Shareholders' Equity		$	127,134	$	201,147

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

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

($ thousands)	Note	*Three months ended March 31,* 2016	2015
			Revised
			(See Note 1)
Operating Activities			
Net loss		$ (325)	$ (656)
Adjustments for:			
Depletion and depreciation	4	2,424	1,870
Impairment of assets	3,4,5	-	352
Unrealized loss (gain) on risk management contracts	10	(507)	145
Share based compensation	8	26	13
Accretion of asset retirement obligation	6	30	29
Deferred tax expense (recovery)		-	(466)
Interest (income) expense		147	(23)
Other items not involving cash		(44)	-
Abandonment expenditures	6	(11)	(2)
Cash flow from operations		1,740	1,262
Interest (paid) received		(147)	5
Change in non-cash working capital		106	953
Net cash from operating activities		1,699	2,220
Investing Activities			
Property, plant and equipment expenditures	4	2	(159)
Exploration and evaluation expenditures	5	(4,160)	(8,044)
Change in non-cash working capital		(3,147)	(2,993)
Net cash used in investing activities		(7,305)	(11,196)
Financing Activities			
Increase in credit facilities		10,202	-
Repayment of credit facilities		(4,600)	-
Net cash from financing activities		5,602	-
Change in cash and cash equivalents		(4)	(8,976)
Cash and cash equivalents, beginning of period		343	11,005
Cash and cash equivalents, end of period		$ 339	$ 2,029

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 March 31, 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 May 12, 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 months ended March 31, 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 March 31, 2015

($ thousands)	As Previously Reported	Adjustment	As Revised
Share based compensation (recovery)	(88)	101	13
Deferred tax recovery	(466)	-	(466)
Net Loss	(555)	(101)	(656)
Total comprehensive income	607	(101)	506

Cash Flow Statement Revisions and Presentation Changes – Three Months Ended March 31, 2015

($ thousands)	As Previously Reported	Presentation Change	Adjustment	As Revised
Net income (loss)	(555)	-	(101)	(656)
Share based compensation (recovery)	(88)	-	101	13
Deferred tax recovery	(466)	-	-	(466)
Interest (income) expense	-	(23)	-	(23)
Cash flow from operations	1,285	(23)	-	1,262
Interest (paid) received	-	5	-	5
Change in non-cash working capital	935	18	-	953
Net cash from operating activities	2,220	-	-	2,220

2. 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 March 31, 2016.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three months ended March 31, 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)		March 31, 2016		December 31, 2015
Red Leaf Resources Inc.	$	468	$	500
Investment in private company		124		132
	$	592	$	632

The following table sets out the changes in investments:

($ thousands)		March 31, 2016		December 31, 2015
Balance, beginning of year	$	632	$	16,541
Gain (Loss) on foreign exchange		(40)		2,790
Impairment		-		(18,699)
Balance, end of period	$	592	$	632

For the three months ended March 31, 2016, the loss on foreign exchange relating to investments was $0.04 million (March 31, 2015: gain of $1.49 million), which was recorded in other comprehensive income (loss) net of deferred tax of $0.01 million (March 31, 2015: $0.20 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		67		-		67
Transfer from exploration and evaluation assets		248		-		248
Balance, March 31, 2016	**$**	**204,416**	**$**	**1,334**	**$**	**205,750**
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		2,415		9		2,424
Balance, March 31, 2016	**$**	**119,057**	**$**	**1,255**	**$**	**120,312**

($ thousands)		Oil and Natural Gas Assets		Other Assets		Total
Net book value:						
At December 31, 2015	$	87,459	$	88	$	87,547
At March 31, 2016	**$**	**85,359**	**$**	**79**	**$**	**85,438**

During the period ended March 31, 2016, the Company did not capitalize any administrative overhead charges related to development activities. 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 March 31, 2016 depletion calculation are future development costs of $131.65 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)		March 31, 2016		December 31, 2015
Balance, beginning of year	$	47,917	$	81,900
Additions		4,387		18,943
Transfers to property, plant and equipment		(248)		(26,299)
Dispositions		-		-
Impairment (incl. undeveloped land expiries)		-		(26,627)
Balance, end of period	$	52,056	$	47,917

During the period ended March 31, 2016, the Company capitalized administrative overhead charges of $0.35 million (December 31, 2015: $1.38 million) including $0.06 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 $9.01 million as at March 31, 2016 (December 31, 2015: $8.75 million) based on an undiscounted total future liability of $11.47 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 1.29% (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)		March 31, 2016		December 31, 2015
Balance, beginning of year	$	8,752	$	8,133
Liabilities disposed		-		(68)
Liabilities incurred		135		296
Liabilities settled		(11)		(60)
Revisions due to change in discount rates		101		(379)
Revisions due to change in estimates		-		715
Accretion		30		115
Balance, end of period	$	9,007	$	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 March 31, 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 March 31, 2016	264,932	$ 347,345

b) Per share amounts

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

	Three months ended March 31,	
(thousands, except as noted)	2016	2015
Net loss	$ (325)	$ (656)
Issued Common Shares at beginning of period	264,932	264,932
Effect of options exercised	-	-
Weighted average number of Common Shares outstanding (basic)	264,932	264,932
Basic net loss per share	$ -	$ -

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

	Three months ended March 31,	
(thousands, except as noted)	2016	2015
Net income loss	$ (325)	$ (656)
Weighted average number of Common Shares outstanding (basic)	264,932	264,932
Effect of outstanding options	-	-
Weighted average number of Common Shares outstanding (diluted)	264,932	264,932
Diluted net loss per share	$ -	$ -

Under the current stock option plan, options can be exchanged for Common Shares of the Company, or for cash at the Company's discretion. As a result, they are considered potentially dilutive and are included in the calculation of diluted income (loss) per share for the period. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. At March 31, 2016, all options (March 31, 2015: 16.67 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:

	March 31, 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	-	-	10,532	0.29
Forfeited	(2,303)	0.48	(2,819)	1.10
Expired	(2,710)	2.05	(5,523)	3.68
Exercised	-	-	-	-
Outstanding, end of period	14,969	$0.51	19,982	$0.72
Exercisable, end of period	5,120	$0.70	6,808	$0.97

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 noncash 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 Note 11.

The volatility of commodity prices has a material impact on Questerre's cash flow from operations. Questerre attempts to mitigate the effect of lower prices by entering into risk management contracts, shutting in production in unusually low pricing environments, reallocating capital to more profitable areas and reducing capital spending based on results and other market considerations. To this end, in early 2016, the Company reported a reduced capital program for 2016.

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)		March 31, 2016		December 31, 2015
Credit facilities	$	20,144	$	14,542
Shareholders' equity		127,134		127,453
	$	147,278	$	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 March 31, 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 March 31, 2016, the Company had the following outstanding commodity risk management contracts:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Asset (Liability) *($ thousands)*
Crude oil swap	200 bbls/d	$70/bbl	Apr. 1, 2016 - Dec. 31, 2016	869
Natural gas swap	2,000 gj/d	$2.54/gj	Apr. 1, 2016 - Dec. 31, 2016	506
AECO - call option sale	3,000 gj/d	$2.70/gj	Jan. 1, 2017 - Dec. 31, 2017	(282)
WTI Nymex - call option sale	200 bbls/d	$80/bbl	Jan. 1, 2017 - Dec. 31, 2017	(172)

The Company's risk management position is as follows:

($ thousands)	March 31, 2016	December 31, 2015
Risk Management Assets		
Current portion	$ 1,261	$ 1,032
	$ 1,261	$ 1,032

($ thousands)	March 31, 2016	December 31, 2015
Risk Management Liabilities		
Non-current portion	$ 340	$ 618
	$ 340	$ 618

The Company recorded an unrealized gain of $0.51 million for the three month period ended March 31, 2016 and an unrealized loss of $0.15 million for the same period in 2015. The Company also recorded a realized gain of $0.54 million for the three month period ended March 31, 2016 and a realized gain of $0.17 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	Decrease
		($ thousands)	
Crude oil swap	$1/bbl increase or decrease to WTI price	55,000	(55,000)
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	275,000	(275,000)
WTI Nymex futures 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.

11. Credit Facility

In November 2015, the Company's credit facility with a Canadian chartered bank was renewed at $50 million. The next scheduled review of the Company's credit facility is expected to be completed by 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 2.85% 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 March 31, 2016 was 2.0 and the covenant is met. At March 31, 2016, $20.14 million (December 31, 2015: $14.54 million) was drawn on Credit Facility A.

The current commodity price environment has resulted in tighter capital markets. The credit facility is a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company`s control. The lender has recently announced it has increased its provision for losses on its oil and gas production portfolio, which the Company anticipates will likely result in the lender reducing its exposure to the industry. 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.

Corporate Information

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