Q2

2017

QUARTERLY REPORT

QUESTERRE ENERGY CORPORATION

2017

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 SIGNIFICANT 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

While we invested in building reserves at Kakwa, we continued to move Quebec and Jordan forward during the quarter.

In addition to the infrastructure expansion at Kakwa, three joint venture wells were completed. Capital costs are trending lower per metre of horizontal drilled. In total, we are planning for up to seven (1.68 net) wells for 2017 including one (0.25 net) well that spud last December.

In Quebec, we are working on a 'path to zero emissions natural gas production' to support social acceptability for a pilot project. This dovetails with the government's action plan for their energy policy with the goal of reducing emissions. It includes promoting local natural gas and a new approach to hydrocarbons. Based on this plan, we expect the draft hydrocarbon regulations this summer and hopefully finalized by year-end.

To accelerate the appraisal of our oil shale project in Jordan, we made a strategic investment in Red Leaf. They are optimizing the EcoShale process which we are prioritizing for Jordan and, in particular, the use of reusable capsules based on existing refining technology. This could materially reduce break-even oil prices for this significant oil shale deposit.

Highlights

- Development at Kakwa continues with well completions and infrastructure expansion
- Government of Quebec releases Energy Policy's 2017-2020 Action Plan with natural gas key to the province's energy transition
- Acquired minority interest in Red Leaf to accelerate feasibility study of oil shale project in Jordan
- Average daily production of 1,037 boe/d and 490 boe/d currently behind pipe with adjusted funds flow from operations of $0.89 million[1]

Kakwa, Alberta

Early well results support the increased investment in the Kakwa joint venture acreage this year.

We are experimenting with more efficient sand tonnage and pump rates on our new wells. Based on the improvements last year, we anticipate that these and future wells will benefit from the ongoing improvements in completion design.

Future wells will also benefit from our investment in infrastructure. This will be $2.5 million higher than originally estimated due to planned expansion in the capacity of the central water facility, and cost overruns on the amine unit. This should contribute to reducing our current operating costs for chemical sweetening and future capital costs for completions.

Our investment in infrastructure includes a central gas lift facility and associated pipelines that was commissioned at the end of the quarter. We expect this will make a material improvement in uptime for older wells.

St. Lawrence Lowlands, Quebec

Our vision for clean natural gas from Quebec is to be zero emissions, zero drinking water usage and 100% biodegradable chemicals. We expect we can deliver one of the lowest supply costs in North America in a market that currently has one of the highest.

Working with a Quebec-based engineering firm, we are evaluating tie-ins to the local power grid to replace diesel with zero emissions hydroelectricity in the generators and compressors used for drilling and production. By capturing and recycling flow-back water, similar to our operations at Kakwa, we can minimize our fresh water usage. We are also looking at grey water from sewage treatment plants as an alternative to fresh water for completions. One of our future goals is to move completions to entirely biodegradable chemicals.

Oil Shale Mining

We made progress towards our goal of finding a way to commercialize our giant oil shale deposit in Jordan.

Red Leaf's reusable capsule design has several advantages for our Jordanian oil shale. It efficiently heats and produces oil from the shale while capturing the produced water for future use in the process. Using large steel vessels found in coker facilities in refineries as reusable capsules has the potential to materially lower break-even prices. Red Leaf estimates that moving to a reusable capsule design from its single use capsule design, for their project in Utah, could lower breakeven prices from US$70-$100/bbl to US$50-$60/bbl.

We are working closely with Red Leaf to optimize the yield from our oil shale with this reusable capsule design. The data from this work will be incorporated into a feasibility study on Jordan conducted by Red Leaf and AECOM, a large US-based international engineering firm, this fall.

Operational & Financial

Our production declined over the prior year as we did not fully participate in the 2016 drilling program at Kakwa. Production averaged 1,037 boe/d (2016: 1,422 boe/d) for the quarter and 1,080 boe/d for the first six months of the year (2016: 1,480 boe/d) with Kakwa accounting for over three quarters of production.

Revenue declined by just over 5% to $4.18 million from $4.42 million last year with the decline in production volumes mostly offset by higher commodity prices. Higher operating and G&A costs coupled with lower realized gains on risk management contracts resulted in adjusted funds flow from operations of $0.89 million for the period (2016: $1.92 million) and $2.29 million for the year to date (2016: $3.66 million).

Gross capital investment increased to $12.31 million for the six months ended June 30, 2017 (2016: $4.90 million) and over 90% was spent at Kakwa. This was offset by the sale of shallow exploration rights at Kakwa for net proceeds of $4.45 million. We also invested $8.2 million on the acquisition of Red Leaf shares in the quarter.

Outlook

Despite the volatility in commodity prices, we are sticking with our business plan.

We will continue to develop Kakwa as a base of value and future source of capital for Quebec. Though we restricted investment last year to preserve liquidity, we are participating in all wells going forward based on recent results. We remain flexible and may adjust our plans as circumstances change.

It has been just under seven years since the Government of Quebec began its first environmental assessment on shale gas development. Our step by step approach of working with the government and other stakeholders has been rewarded with the introduction of the new hydrocarbon law last December. We are looking forward to the release of the regulations so we can resume piloting work on our multi-Tcf natural gas discovery.

Michael Binnion
President and Chief Executive Officer

(1) Behind pipe volumes based on production estimated under proved undeveloped reserve category for wells drilled and completed as forecasted by independent reserve evaluator at December 31, 2016.

This Management's Discussion and Analysis ("MD&A") was prepared as of August 10, 2017. 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, 2017 and for the three and six month periods ended June 30, 2017 and 2016 (the "Q2 Statements"), and the audited annual consolidated financial statements of the Company for the year ended December 31, 2016 and the Management's discussion and analysis prepared in connection therewith. Additional information relating to Questerre, including Questerre's Annual Information Form ("AIF") for the year ended December 31, 2016 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, and, 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, representing generally accepted accounting principles ("GAAP"). 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 and completion plans;
- the development and optimization of producing assets;
- future production of oil, natural gas and natural gas liquids;
- the reduction of fixed costs on a boe basis at Kakwa;
- future commodity prices;
- legislative and regulatory developments in the Province of Quebec;

- liquidity and capital resources;
- the Company's compliance with the terms of its credit facilities;
- timing of the next review of the Company's credit facilities 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;
- improved economics resulting from Red Leaf optimization of Ecoshale process for Questerre's project in Jordan;
- usage and expansion of joint venture infrastructure in the Kakwa area;
- average royalty rates;
- commitments and Questerre's participation in future capital programs;
- 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;
- insurance;
- use of financial instruments;
- critical accounting estimates; and
- timing and type of economic feasibility studies.

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 Company's AIF, dated March 24, 2017:

- 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 and resources;
- 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" or "resources" are by their nature deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in the future. The discounted and undiscounted net present values of future net revenue attributable to reserves and resources do not represent the fair market value thereof.

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 laws. Certain information set out herein with respect to forecasted results is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding the Company's reasonable expectations as to the anticipated results of its proposed business activities. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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.

Non-GAAP Measures

This document contains certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. 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 "adjusted funds flow from operations", which is an additional non-GAAP measure. The Company uses this measure to help evaluate its performance.

As an indicator of Questerre's performance, adjusted funds 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 GAAP. Questerre's determination of adjusted funds flow from operations may not be comparable to that reported by other companies. Questerre considers adjusted funds 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.

Adjusted Funds Flow From Operations Reconciliation

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2017**	2016	**2017**	2016
Net cash from operating activities	**$ 674**	$ 730	**$ 1,921**	$ 2,428
Interest paid	**225**	207	**408**	354
Change in non-cash operating working capital	**(19)**	979	**(38)**	873
Adjusted Funds Flow from Operations	**$ 880**	$ 1,916	**$ 2,291**	$ 3,655

This document also contains the terms "operating netbacks" and "working capital surplus (deficit)", which are non-GAAP 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 GAAP 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 GAAP and may not be comparable with the calculation of similar measures for other entities. Working capital surplus (deficit), as used by the Company, is calculated as current assets less current liabilities excluding the current portions of the share based compensation liability and risk management contracts.

Select Information

As at/for the period ended June 30,	Three months ended 2017	Three months ended 2016	Six months ended 2017	Six months ended 2016
Financial ($ thousands, except as noted)				
Petroleum and Natural Gas Sales	**4,184**	4,423	**8,613**	8,452
Adjusted Funds Flow from Operations	**880**	1,916	**2,291**	3,655
Basic and diluted ($/share)	**-**	0.01	**0.01**	0.01
Net Loss	**(3,621)**	(2,173)	**(4,144)**	(2,498)
Basic and diluted ($/share)	**(0.01)**	(0.01)	**(0.01)**	(0.01)
Capital Expenditures, net of acquisitions and dispositions	**2,544**	741	**7,864**	4,899
Working Capital Deficit	**(3,184)**	(23,075)	**(3,184)**	(23,075)
Total Assets	**205,672**	161,721	**205,672**	161,721
Shareholders' Equity	**160,069**	125,028	**160,069**	125,028
Common Shares Outstanding (thousands)	**345,470**	264,932	**345,470**	264,932
Weighted average - basic (thousands)	**345,408**	264,932	**334,975**	264,932
Weighted average - diluted (thousands)	**345,408**	264,932	**334,975**	264,932
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**576**	856	**624**	872
Natural Gas (Mcf/d)	**2,768**	3,397	**2,735**	3,648
Total (boe/d)	**1,037**	1,422	**1,080**	1,480
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	**63.82**	49.81	**61.91**	44.84
Natural Gas ($/Mcf)	**3.35**	1.76	**3.28**	2.01
Total ($/boe)	**44.34**	34.17	**44.06**	31.38
Netback ($/boe)				
Petroleum and Natural Gas Sales	**44.34**	34.17	**44.06**	31.38
Royalties Expense	**(1.10)**	(2.11)	**(1.67)**	(2.03)
Percentage	**2%**	6%	**4%**	6%
Direct Operating Expense	**(23.32)**	(15.65)	**(22.16)**	(14.53)
Operating Netback	**19.91**	16.42	**20.23**	14.82
Wells Drilled				
Gross	**-**	-	**3.00**	2.00
Net	**-**	-	**0.67**	0.50

Highlights

- Development at Kakwa continues with well completions and infrastructure expansion
- Government of Quebec releases Energy Policy's 2017-2020 Action Plan with natural gas key to the province's energy transition
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- Average daily production of 1,037 boe/d and 490 boe/d currently behind pipe with adjusted funds flow from operations of $0.89 million[1]

[1] Behind pipe volumes based on production estimated under proved undeveloped reserve category as forecasted by independent reserve evaluator at December 31, 2016

Second Quarter 2017 Activities

Western Canada

Kakwa, Alberta

During the quarter, activity continued on the Company's joint venture acreage with the completion of three wells. Questerre participated in these operations and holds an average working interest of 23.80% in these wells.

These wells include the 100/15-15-63-6W6M well (the "100/15-15 Well"), the 102/15-15-63-6W6M ("the 102/15-15 Well") and the 102/16-29-63-5W6M ("102/16-29 Well"). The 100/15-15 Well and 102/15-15 Well were completed with an average of 76 frac stages per well. Initial production over thirty days from the Montney formation for each of the wells averaged 3.4 MMcf/d and 657 bbls/d of condensate and other liquids (1,218 boe/d). Although the initial results from these wells are encouraging, they are not necessarily indicative of long term performance of ultimate recovery.

Completion operations on the 102/16-29 Well were finished early in the third quarter with approximately 78 frac stages. It is anticipated this well will be tied-in to the existing infrastructure following the completion of the adjacent well, 100/16-29-63-5W6M (the "100/16-29 Well") which is currently underway. Questerre holds a 21.16% working interest in the 100/16-29 Well. In the third quarter, drilling also commenced on the 100/01-20-63-6W6M Well ("01-20 Well").

Questerre also participated in the ongoing infrastructure expansion, including the installation of gas lift facilities, a regenerative amine sweetening system and a central water storage facility.

The central gas lift facility including associated pipelines was commissioned at the end of the quarter. 11 (2.75 net) wells are presently on gas lift with plans to add further wells by year-end. The Company anticipates this will assist with lifting produced liquids and increase uptime. Commissioning was also completed on the regenerative amine system. This will replace the non-regenerative chemical sweetening and should lower operating costs. The central water facility, designed to temporarily store produced water for future completion operations, is being expanded and scheduled for completion later this year. Year to date, investment in facilities and other associated infrastructure represented $4.51 million or 40% of the capital investment in Kakwa.

For the remainder of 2017, including the 01-20 Well, the Company expects to participate in the drilling of up to 3 (0.75 net) additional wells, subject to commodity prices and results.

St. Lawrence Lowlands, Quebec

In June 2017, the Quebec Ministry of Energy and Natural Resources released the 2017-2020 Action Plan to implement the Government of Quebec's 2030 Energy Policy.

To achieve its objectives of reducing emissions, the Action Plan promotes natural gas as an alternative fuel. The Action Plan also outlines the Government's plans to introduce hydrocarbon regulations and related government orientations by the end of 2017.

Along with social acceptability, hydrocarbon and environmental regulations are prerequisites to the resumption of field activities on the Company's acreage to assess its Utica gas discovery in the province.

Oil Shale Mining

During the quarter, Questerre continued to evaluate the feasibility of commercially developing its oil shale project in the Kingdom of Jordan ("Jordan").

This includes assessing multiple retorting technologies, including the EcoShale process developed by Red Leaf Resources Inc. ("Red Leaf"). Red Leaf has recently been optimizing the EcoShale process for Questerre's project in Jordan by focusing on reusable capsules. By utilizing steel vessels similar to those used in coker facilities in refineries, it is anticipated this change from single use earthen capsules could improve economics.

During the quarter, Questerre entered into agreements to acquire an additional 25% of the common share capital of Red Leaf for US$7.52 million. In addition to its EcoShale process and its oil shale leases in Utah, Red Leaf holds US$100 million in cash and no debt. The acquisition was completed early in the third quarter and Questerre currently holds approximately 30% of the common share capital of Red Leaf. In addition to common shares, Red Leaf's equity capital includes convertible preferred shares with dividends accruing at 8% per annum compounded annually. As at June 30, 2017, the preferred shares are entitled to a priority amount of US$80 million on the occurrence of a defined liquidation event, including certain reorganizations, takeovers, the sale of all or substantially all the assets of the company and shareholder distributions. For more information, see Note 3 to the Q2 Statements.

Corporate

In April 2017, the Company completed the issuance of 0.33 million Common Shares at $0.49 per Common Share. The issuance relates to the private placement completed by the Company in November 2016 which consisted on the issuance of 15.2 million Common Shares at $0.49 per Common Share.

Following a review conducted in the second quarter of 2017, effective August 2017, the Company's credit facilities with a Canadian chartered bank were reduced to $18 million from $23 million as established in the first quarter of 2017. The credit facilities consist of a revolving operating demand loan and corporate credit card. Any borrowings under the facilities, except letters of credit, are subject to interest at the bank's prime interest rate and applicable basis point margins based on the ratio of debt to cash flow, measured quarterly.

The facilities are secured by a revolving credit agreement, a debenture including a first floating charge over all assets of the Company and a general assignment of book debts. The next scheduled review of these credit facilities is in the fourth quarter of 2017.

In the second quarter of 2017, Questerre disposed of shallow exploration rights, excluding rights to the Montney formation, over 960 net acres primarily on its operated acreage in the Kakwa area for gross consideration of $4.45 million in cash and a royalty interest.

Drilling Activities

For the quarter, Questerre participated in the completion of three (0.71 net) wells in the Kakwa area.

Production

Three months ended June 30,	2017			2016		
	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	116	-	116	219	-	219
Alberta	419	2,702	869	590	3,325	1,144
Manitoba	41	-	41	47	-	47
British Columbia	-	66	11	-	72	12
	576	2,768	1,037	856	3,397	1,422

Six months ended June 30,	2017			2016		
	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	150	-	150	227	-	227
Alberta	429	2,663	873	594	3,572	1,189
Manitoba	45	-	45	51	-	51
British Columbia	-	72	12	-	76	13
	624	2,735	1,080	872	3,648	1,480

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

In 2017, production declined over the prior year because of limited participation in the Kakwa joint venture drilling program in 2016.

To preserve financial liquidity in 2016, Questerre only participated in two of six wells drilled on the joint venture acreage. By comparison, in 2015, Questerre participated in all six (1.5 net) wells completed and put on production, contributing to higher volumes in 2016 compared to the current year.

The decline in the second quarter was partially mitigated by production from two (0.5 net) wells that were completed and tied in during the period. With improving commodity prices and results, Questerre intends to participate in all wells drilled on the joint venture acreage in 2017. For the first half of 2017, Kakwa represented over 80% of corporate volumes compared to 75% in 2016.

Crude oil and liquids as a percentage of total production decreased marginally from 60% to 55% over the prior year. This reflects the approximate equal weighting between liquids, primarily condensate, and natural gas from Kakwa. Lower production from Antler due to weather related shut-ins and delayed workovers also contributed to the lower liquids weighting.

With additional drilling expected on the joint venture acreage at Kakwa, Questerre anticipates production will increase over the remainder of this year subject to the timing of well completions and tie-ins.

Second Quarter 2017 Financial Results

Petroleum and Natural Gas Sales

Three months ended June 30,	2017			2016		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 648	$ -	$ 648	$ 1,064	$ -	$ 1,064
Alberta	2,495	806	3,301	2,611	521	3,132
Manitoba	218	-	218	218	-	218
British Columbia	1	16	17	-	9	9
	$ 3,362	$ 822	$ 4,184	$ 3,893	$ 530	$ 4,423

Six months ended June 30,	2017			2016		
($ thousands)	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 1,707	$ -	$ 1,707	$ 1,921	$ -	$ 1,921
Alberta	4,827	1,567	6,394	4,822	1,292	6,114
Manitoba	479	-	479	395	-	395
British Columbia	2	31	33	-	22	22
	$ 7,015	$ 1,598	$ 8,613	$ 7,138	$ 1,314	$ 8,452

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

Petroleum and natural gas revenue for the second quarter of 2017 declined by 5% over the prior year. This reflects a 27% decrease due to lower production volumes largely offset by a 22% increase due to materially higher commodity prices. For the six months ended June 30, 2017, higher revenue in the first quarter contributed to higher revenue for the period, resulting in a marginal 2% increase over the prior year to $8.61 million.

Pricing

	Three months ended June 30,		*Six months ended June 30,*	
	2017	2016	2017	2016
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	2.88	1.40	2.75	1.61
Crude Oil - Mixed Sweet Blend ($/bbl)	66.97	56.45	67.33	49.07
Realized prices:				
Natural Gas ($/Mcf)	3.35	1.76	3.28	2.01
Crude Oil and Natural Gas Liquids ($/bbl)	63.82	49.81	61.91	44.84

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

In the second quarter of 2017, crude oil prices declined over the prior quarter but increased over the same period in 2016. The benchmark West Texas Intermediate ("WTI") averaged US$48.15/bbl in the second quarter compared to US$52/bbl in the first quarter of 2017 and US$45.59/bbl in the second quarter of 2016.

Despite OPEC and Russia's renewal of their production cuts in May, concerns about growing inventories, rig counts in the US and oil production, particularly from the Permian Basin, weighed on oil prices. In Canada, prices in the second quarter were impacted by the strengthening Canadian dollar and a weakening differential between WTI and the Canadian Light Sweet blend ("MSW") which averaged US$0.45/bbl, down from a small premium of US$0.31/bbl in 2016.

Realized prices for Questerre's liquids and oil production track the MSW benchmark with condensate generally receiving a premium to this price and other liquids, particularly propane, receiving a material discount to this price. For the second quarter, the realized price for oil, condensate and other liquids averaged $63.82/bbl (2016: $49.81/bbl) with the average MSW price of $66.97/bbl (2016: $56.45/bbl).

Natural gas prices increased with the reference Henry Hub averaging US$3.14/Mcf compared to US$2.25/Mcf in the second quarter of 2016 and US$3.06/Mcf for the first quarter of 2017.

Despite a cooler start to the summer, natural gas prices have been supported by slow growth in onshore production in the US and growing exports, particularly to Mexico. Canadian natural gas prices were impacted by the differential which averaged US$1.00/Mcf for the quarter virtually unchanged from US$1.01/Mcf in the second quarter of 2016.

Realized natural gas prices reflect the higher heat content of the Company's natural gas production, particularly from the Kakwa area. Natural gas prices were $3.35/Mcf (2016: $1.76/Mcf) compared to the AECO reference price of $2.88/Mcf (2016: $1.40/Mcf).

Royalties

	Three months ended June 30,		*Six months ended June 30,*	
($ thousands)	**2017**	2016	**2017**	2016
Saskatchewan	**$ 22**	$ 60	**$ 97**	$ 115
Alberta	**43**	185	**147**	385
Manitoba	**39**	28	**83**	46
British Columbia	**-**	-	**-**	-
	$ 104	$ 273	**$ 327**	$ 546
% of Revenue:				
Saskatchewan	**3%**	6%	**6%**	6%
Alberta	**1%**	6%	**2%**	6%
Manitoba	**18%**	13%	**18%**	12%
British Columbia	**0%**	0%	**0%**	0%
Total Company	**2%**	6%	**4%**	6%

Royalties as a percentage of revenue in the second quarter declined to 2% from 5% in the prior quarter and 6% in the second quarter of 2016. This equated to a royalty rate of 4% for the first six months of 2017 compared to 6% in 2016. On an aggregate basis, due to the lower rate, royalties decreased year over year to $0.33 million from $0.55 million in 2016.

Consistent with the prior quarter, the decrease is due to the lower overall rate on production from Kakwa which represents the majority of production in Alberta. The lower royalty expense and rate over the prior year is due to the credits received from the Crown for processing its share of production through joint venture facilities and for incentives under the Natural Gas Deep Drilling Program and New Well Royalty Rate for wells drilled in 2016.

Royalties on production in Manitoba increased over the prior year due to a higher proportion of volumes from freehold lands that attract a higher rate compared to Crown lands as well as the freehold mineral tax payable to the Crown.

Operating Costs

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2017**	2016	**2017**	2016
Saskatchewan	**$ 211**	$ 125	**$ 533**	$ 430
Alberta	**1,918**	1,776	**3,622**	3,271
Manitoba	**51**	82	**136**	159
British Columbia	**21**	42	**41**	53
	$ 2,201	$ 2,025	**$ 4,332**	$ 3,913
$/boe:				
Saskatchewan	**20.02**	6.27	**19.64**	10.40
Alberta	**24.26**	17.05	**22.92**	15.12
Manitoba	**13.67**	19.22	**16.64**	17.14
British Columbia	**20.52**	38.82	**18.99**	22.38
Total Company	**23.32**	15.65	**22.16**	14.53

Both on a quarterly and year to date basis, gross operating costs increased over the prior year despite lower production volumes.

With fixed costs accounting for over 75% of the operating costs at Kakwa, the allocation over lower production volumes resulted in an increase, on a boe basis, over the prior year. For the six months ended June 30, 2017, more than 50% of these fixed costs relate to chemical sweetening and firm transportation and processing commitments. The Company expects these costs to decrease on a boe basis in the second half of this year with the commissioning of the regenerative amine system and incremental production volumes from the continued drilling activity.

Similarly in Saskatchewan, fixed costs represent the majority of operating costs. With lower production volumes, operating costs on a boe basis increased over the prior year but remained consistent with operating costs for this area in the first quarter of 2017. Further, in the second quarter of 2016 costs were materially lower due to lower field activity, particularly workovers.

General and Administrative Expenses

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2017**	2016	**2017**	2016
General and administrative expenses, gross	**$ 1,109**	$ 921	**$ 1,909**	$ 1,861
Capitalized expenses and overhead recoveries	**(178)**	(270)	**(358)**	(562)
General and administrative expenses, net	**$ 931**	$ 651	**$ 1,551**	$ 1,299

For the quarter ended June 30, 2017, gross general and administrative expenses ("G&A") were higher by 20% over the prior year. For the first six months of the year, G&A was marginally higher than the same period last year. The increase over the prior year relates primarily to higher legal expenses in the current quarter.

Capitalized expenses and overhead recoveries as a percentage of gross G&A decreased in 2016 due to fewer staff employed to develop the Company's Kakwa area.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded $1.88 million in depletion and depreciation expense for the quarter ended June 30, 2017 compared to $2.31 million for the same period last year. This translated into a depletion rate, on a unit of production basis, of $19.99/boe for the quarter compared to $17.81/boe for the same quarter last year. For the six months ended June 30, 2017, this expense totalled $3.90 million compared to $4.73 million for the same period last year.

The decrease is due to the lower production volumes in the current quarter offset by the higher production weighting from cash generating units with higher finding and development costs.

Other Income and Expenses

The Company recorded a gain on risk management contracts of $0.22 million (2016: $1.0 million loss) for the quarter ended June 30, 2017 and a gain of $0.98 million (2016: $0.05 million) for the six months ended June 30, 2017. The gains reflect changes to the fair value of the Company's risk management contracts.

For the three months ended June 30, 2017, the Company recorded an expense of $7.67 million (2016: $0.08 million) for expiring acreage in the Wapiti area where the Company has no future plans for development. The Company recorded a gain of $3.66 million (2016: Nil) on the disposition of shallow exploration rights in the Kakwa area.

In connection with its investment in Red Leaf, the Company reversed a previously recorded impairment charge of $2.34 million (2016: Nil). The reversal relates to the increase in fair value of the Red Leaf common shares held by Questerre prior to the acquisition. The Company also recorded an expense of $0.78 million representing its proportionate share of the net loss realized by Red Leaf during the quarter.

The Company recorded a loss on foreign exchange, net of deferred tax, through other comprehensive income (loss) of $0.47 million (2016: $0.07 million gain). The change is due to fluctuations in the exchange rate related to the Company's US dollar investment.

Total Comprehensive Loss

Questerre's total comprehensive loss for the second quarter of 2017 was $4.14 million (2016: $2.17 million) and for the first half of 2017 was $4.67 million (2016: $2.58 million). The increase in the loss for both periods was due to the higher lease expiry expense in the current year offset by the gain on sale of exploration and evaluation assets and the reversal of the impairment charge associated with its investment in Red Leaf.

Capital Expenditures

($ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Alberta	**$ 6,659**	$ 380	**$ 11,287**	$ 4,069
Saskatchewan	**100**	56	**400**	123
Jordan	**143**	289	**278**	566
Other	**92**	16	**349**	141
Total	**$ 6,994**	$ 741	**$ 12,314**	$ 4,899
Dispositions (Alberta)	(4,450)	-	(4,450)	-
Net Capital Expenditures	**$ 2,544**	$ 741	**$ 7,864**	$ 4,899

For the six months ended June 30, 2017, the Company incurred capital expenditures of $12.32 million as follows:

- In Alberta, $11.29 million was invested to drill, complete and equip wells and expand infrastructure at its joint venture acreage at Kakwa;
- In Saskatchewan, $0.4 million was invested to workover wells at Antler; and
- In Jordan, $0.28 million to evaluate its oil shale assets.

During the period, the Company disposed of exploration and evaluation assets in the Kakwa area for gross proceeds of 4.45 million.

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

- In Alberta, $4.07 million was invested to drill, complete and equip wells targeting the Montney formation at Kakwa; and
- In Jordan, $0.6 million was invested in the evaluation of the Company's oil shale assets.

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.

Effective August 2017, the Company's credit facilities were renewed at $18 million from $23 million at the last scheduled review. At June 30, 2017, $16.40 million (December 31, 2016: $22.89 million) was drawn on the credit facilities and the Company is in compliance with all its covenants under the credit facilities. As a consequence of the foregoing, Management does not believe there is a reasonably foreseeable risk of non-compliance with its credit facilities. Under the terms of the credit facilities, 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 Q2 Statements)) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at June 30, 2017 was 2.18 and the covenant was met.

The size of the credit facilities 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 fourth quarter of 2017.

The credit facilities are a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities 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, including amounts due under its credit facilities, of $3.18 million at June 30, 2017, as compared to a deficit of $17.02 million at December 31, 2016. Management believes that with its equity issuances completed in the first half of 2017 for gross proceeds of $25.6 million, expected positive operating cash flows from operations and current credit facilities, the Company should generate sufficient cash flows and have access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations.

Questerre anticipates an increase in production, based on additional drilling at Kakwa, which is expected to improve cash flow and increase the contribution to finance planned capital expenditures. On an ongoing basis, the Company will manage where possible future capital expenditures to maintain liquidity (See "Commitments"). However, it cannot provide any assurance that sufficient cash flows will be generated from operating activities alone to independently finance planned capital expenditure program. The Company intends to invest up to 90% of the 2017 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2016. It anticipates that, as a result, reserves associated with wells not drilled in 2017 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 2016 Annual MD&A and the AIF.

Cash Flow from Operating Activities

Adjusted funds flow from operations for the second quarter of 2017 was $0.88 million and $1.92 million for the same period in 2016. Net cash from operating activities for the three months ended June 30, 2017 and 2016 was $0.67 million and $0.73 million, respectively. The Company's net cash from operating activities decreased from 2016 due to the higher operating costs and lower realized gains on its risk management contracts in 2017.

Adjusted funds flow from operations was $2.29 million for the six months ended June 30, 2017 and $3.66 million for the same period in 2016. Net cash from operating activities for the six months ended June 30, 2017 and 2016 was $1.92 million and $2.43 million. The Company's net cash from operating activities largely decreased due to higher expenses in 2017.

Cash Flow used in Investing Activities

Cash flow used in investing activities was $5.15 million for the quarter ended June 30, 2017 and $1.70 million for the three months ended June 30, 2016. During the quarter, the Company invested $8.15 million in acquiring common shares of Red Leaf. The Company also realized $4.45 million through the sale of exploration acreage in the Kakwa area during the period.

For the six months ended June 30, 2017, capital expenditures of $12.31 million were incurred mainly for drilling, completion and infrastructure expansion in the Kakwa area. By comparison in the prior year, $4.9 million was invested in the same period in 2016 at Kakwa when the Company restricted its capital spending to preserve financial liquidity. The change in non-cash working capital in 2017 reflects the increase in accounts payable for capital investment while the decrease in 2016 reflects a reduction in working capital for investing activities.

Cash Flow from Financing Activities

Cash flow provided by financing activities was $2.41 million for the quarter ended June 30, 2017 (2016: $1.04 million). The amount primarily reflects the net reduction the credit facilities during the quarter offset by the increase in cash of $3.49 million for the successful appeal of a summary judgement motion.

For the six months ended June 30, the net cash from financing activities for 2017 was $21.43 million and for 2016 was $6.64 million. In addition to the amounts detailed above for the second quarter of the year, the amounts in 2017 reflect the equity issuances for gross proceeds of $25.58 million, net of share issue costs of $1.32 million and the net decrease in the utilization of credit facilities. For the first half of 2016, the cash reflects the net drawn down under the credit facilities.

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, 2017, there were no Class "B" common voting shares or preferred shares outstanding. The following table provides a summary of the outstanding Common Shares, options and warrants as at the date of the MD&A, the current quarter-end and the preceding year-end.

(thousands)	August 10, 2017	June 30, 2017	December 31, 2016
Common Shares	345,595	345,470	308,274
Stock Options	21,465	21,465	14,856
Warrants	8,365	8,490	13,124
Weighted average common shares			
Basic		334,975	278,662
Diluted		334,975	280,410

A summary of the Company's stock option activity during the six months ended June 30, 2017 and the year ended December 31, 2016 follows:

	June 30, 2017		December 31, 2016	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	14,856	$0.41	19,982	$0.72
Granted	6,850	0.69	4,100	0.18
Forfeited	(232)	0.52	(4,289)	0.47
Expired	-	-	(3,260)	1.85
Exercised	(9)	0.30	(1,677)	0.60
Outstanding, end of period	21,465	$0.50	14,856	$0.41
Exercisable, end of period	7,472	$0.54	5,939	$0.55

Commitments

A summary of the Company's net commitments at June 30, 2017 follows:

($ thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Transportation, Marketing and Processing	$ 2,364	$ 4,728	$ 3,990	$ 3,990	$ 3,990	$ 19,952	$ 39,014
Office Leases	61	99	99	90	-	-	349
	$ 2,425	$ 4,827	$ 4,089	$ 4,080	$ 3,990	$ 19,952	$ 39,363

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 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.

Questerre has no capital commitments in 2017. 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 adjusted funds 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, 2016.

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 adjusted funds 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 adjusted funds flow from operations, the Company believes it has sufficient funds available to fund its projected capital expenditures. However, if adjusted funds flow from operations is 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. The Company anticipates that future development of its Quebec assets will require significant additional capital to be financed through among other sources, future equity issuances or asset dispositions.

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 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 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, 2017, Questerre had the following commodity risk management contracts in place:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Liability *($ thousands)*
AECO - call option sale	3,000 GJ/d	$2.70/GJ	Jul 1, 2017 - Dec. 31, 2017	64
WTI NYMEX - call option sale	200 bbls/d	$80/bbl	Jul 1, 2017 - Dec. 31, 2017	8

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 and resources 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 and resources will change to reflect updated information. Reserve and resource 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 and resource estimates impact a number of the areas, in particular, the valuation of property, plant and equipment, exploration and evaluation assets 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, 2016, the recoverability of deferred tax assets was assessed using proved reserves including an estimate of G&A associated with these assets.

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 equity investment and assesses for indicators of impairment at each period end. For the purpose of impairment testing, 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.

Accounting Policy Changes

Changes in Accounting Policies for 2017

There were no new or amended accounting standards or interpretations adopted during the three months ended June 30, 2017.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three months ended June 30, 2017 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 audited annual consolidated financial statements for the year ended December 31, 2016.

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, 2017 and ended on June 30, 2017 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, 2017**	March 31, 2017	December 31, 2016	September 30, 2016
Production (boe/d)	**1,037**	1,123	1,261	1,275
Average Realized Price ($/boe)	**44.34**	43.82	39.43	34.91
Petroleum and Natural Gas Sales	**4,184**	4,429	4,574	4,095
Adjusted Funds Flow from Operations	**880**	1,411	1,943	1,447
Basic and Diluted ($/share)	**-**	-	0.01	0.01
Net Profit (Loss)	**(3,621)**	(523)	3,674	(1,007)
Basic and Diluted ($/share)	**(0.01)**	(0.01)	(0.01)	(0.01)
Capital Expenditures, net of				
acquisitions and dispositions	**2,544**	5,320	5,260	4,060
Working Capital Surplus (Deficit)	**(3,184)**	3,274	(17,019)	(21,250)
Total Assets	**205,672**	205,640	177,761	165,109
Shareholders' Equity	**160,069**	163,888	139,660	127,895
Weighted Average Common				
Shares Outstanding				
Basic (thousands)	**345,408**	324,426	293,470	283,494
Diluted (thousands)	**345,408**	324,426	308,017	283,494

($ 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 ($/boe)	34.17	28.79	35.03	36.69
Petroleum and Natural Gas Sales	4,423	4,029	5,311	6,528
Adjusted Funds Flow from Operations [1]	1,916	1,740	2,269	3,182
Basic and Diluted ($/share)	0.01	0.01	0.01	0.01
Net Profit (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

[1] Certain figures have been revised. Refer to note 2 of the December 31, 2015 financial statements.

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

- Adjusted funds flow from operations has generally declined due to lower production levels. This has also been due to a general decrease in average realized commodity prices, with exception of the last three quarters.
- Production has decreased primarily due to the reduced capital investment in the Kakwa assets as a result of lower commodity prices. The Company anticipates this production will increase over the remainder of this year with a increase in capital investment at Kakwa.
- Excluding the working capital surplus in the first quarter of 2017 due to the recently completed private placements, the working capital deficit has generally increased as capital expenditures and other investments have been higher than adjusted funds flow from operations and cash from financing activities.
- The level of capital expenditures over the quarters has varied largely due to the timing and number of wells drilled and completed for the Kakwa asset as well as the timing of infrastructure investment.
- Shareholders' equity increased in the quarters ended March 31, 2017 and December 31, 2016 as a result of equity issuances completed by the Company. Shareholders' equity has decreased in prior periods due to impairment charges recorded in the fourth quarter of 2015 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, 2017.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended June 30, 2017.

Condensed Consolidated interim Balance Sheets *(unaudited)*

($ thousands)	Note	June 30, 2017	December 31, 2016
Assets			
Current Assets			
Cash and cash equivalents		$ 25,037	$ 8,275
Accounts receivable		2,101	2,339
Deposits and prepaid expenses		2,720	626
		29,858	11,240
Investments	3	9,642	490
Property, plant and equipment	4	91,502	87,125
Exploration and evaluation assets	5	54,679	58,915
Goodwill		2,346	2,346
Deferred tax assets		17,645	17,645
		$ 205,672	$ 177,761
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 16,639	$ 5,370
Current portion of risk management contracts	10	72	1,117
Credit facilities	11	16,402	22,888
		33,113	29,375
Other liability	12	3,487	-
Asset retirement obligation	6	9,003	8,726
		45,603	38,101
Shareholders' Equity			
Share capital	7	383,935	359,151
Contributed surplus		17,550	17,254
Accumulated other comprehensive income (loss)		(389)	138
Deficit		(241,027)	(236,883)
		160,069	139,660
		$ 205,672	$ 177,761

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

		Three months ended June 30,		Six months ended June 30,	
($ thousands, except per share amounts)	Note	**2017**	2016	**2017**	2016
Revenue					
Petroleum and natural gas sales		**$ 4,184**	$ 4,423	**$ 8,613**	$ 8,452
Royalties		**(104)**	(273)	**(327)**	(546)
Petroleum and natural gas revenue, net of royalties		**4,080**	4,150	**8,286**	7,906
Expenses					
Direct operating		**2,201**	2,025	**4,332**	3,913
General and administrative		**931**	651	**1,551**	1,299
Depletion and depreciation	4	**1,882**	2,305	**3,899**	4,729
Gain on sale of exploration and evaluation assets	5	**(3,657)**	-	**(3,657)**	-
Recovery on impairment of investment	3	**(2,336)**	-	**(2,336)**	-
Impairment of assets & lease expiries	3,5	**7,671**	86	**7,859**	86
Loss (gain) on risk management contracts	10	**(216)**	997	**(977)**	(47)
Loss on equity investment	3	**786**	-	**786**	-
Share based compensation		**110**	28	**129**	54
Accretion of asset retirement obligation	6	**36**	22	**70**	52
Interest expense		**174**	205	**356**	352
Other (income) expense		**4**	4	**(19)**	(34)
Net loss before taxes		**(3,506)**	(2,173)	**(3,707)**	(2,498)
Deferred tax expense		**115**	-	**437**	-
Net Loss		**(3,621)**	(2,173)	**(4,144)**	(2,498)
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income (loss):					
Foreign currency translation adjustment		**(53)**	(7)	**(58)**	(51)
(Loss) gain on foreign exchange on investments	3	**(466)**	7	**(469)**	(28)
		(519)	-	**(527)**	(79)
Total comprehensive loss		**$ (4,140)**	$ (2,173)	**$ (4,671)**	$ (2,577)
Net loss per share					
Basic and diluted	7	**$ (0.01)**	$ (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		*Six months ended June 30,* 2017		2016
Share Capital					
Balance, beginning of period	7	$	359,151	$	347,345
Private placements			24,818		-
Warrants exercised			927		-
Options exercised			3		-
Share issue costs (net of tax effect)			(964)		-
Balance, end of period			383,935		347,345
Contributed Surplus					
Balance, beginning of period			17,254		16,951
Share based compensation			296		152
Balance, end of period			17,550		17,103
Accumulated Other Comprehensive Income					
Balance, beginning of period			138		209
Other comprehensive gain			(527)		(79)
Balance, end of period			(389)		130
Deficit					
Balance, beginning of period			(236,883)		(237,052)
Net loss			(4,144)		(2,498)
Balance, end of period			(241,027)		(239,550)
Total Shareholders' Equity		$	160,069	$	125,028

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,* 2017	2016	*Six months ended June 30,* 2017	2016
Operating Activities					
Net Loss		**$ (3,621)**	$ (2,173)	**$ (4,144)**	$ (2,498)
Adjustments for:					
Depletion and depreciation	4	**1,882**	2,305	**3,899**	4,729
Gain on investment		**(2,336)**		**(2,336)**	
Impairment of assets & lease expiries	3,4,5	**7,671**	86	**7,859**	86
Gain on sale of exploration and evalutation assets	4	**(3,657)**	-	**(3,657)**	-
Unrealized (gain) loss on risk management contracts	10	**(225)**	1,450	**(1,045)**	942
Loss on equity investment	3	**786**		**786**	
Share based compensation		**110**	28	**129**	54
Accretion of asset retirement obligation	6	**36**	22	**70**	52
Deferred tax expense		**115**	-	**437**	-
Interest expense		**174**	205	**356**	352
Other items not involving cash		**(54)**	(7)	**(58)**	(51)
Abandonment expenditures	6	**(1)**	-	**(5)**	(11)
Adjusted Funds Flow from Operations		**880**	1,916	**2,291**	3,655
Interest paid		**(225)**	(207)	**(408)**	(354)
Change in non-cash working capital		**19**	(979)	**38**	(873)
Net cash from operating activities		**674**	730	**1,921**	2,428
Investing Activities					
Property, plant and equipment expenditures	4	**(1,668)**	(233)	**(4,243)**	(232)
Exploration and evaluation expenditures	5	**(5,326)**	(509)	**(8,071)**	(4,668)
Purchase of investment	3	**(8,150)**	-	**(8,150)**	-
Sale of exploration and evaluation assets		**4,450**	-	**4,450**	-
Change in non-cash working capital		**5,544**	(957)	**9,430**	(4,104)
Net cash used in investing activities		**(5,150)**	(1,699)	**(6,584)**	(9,004)
Financing Activities					
Proceeds from issue of share capital	7	**168**	-	**25,747**	-
Share issue costs	7	**(129)**	-	**(1,323)**	-
Other liability	12	**3,487**	-	**3,487**	-
Increase in credit facilities		**6,686**	5,337	**12,014**	15,540
Repayment of credit facilities		**(7,800)**	(4,300)	**(18,500)**	(8,900)
Net cash from financing activities		**2,412**	1,037	**21,425**	6,640
Change in cash and cash equivalents		**(2,064)**	68	**16,762**	64
Cash and cash equivalents, beginning of period		**27,101**	339	**8,275**	343
Cash and cash equivalents, end of period		**$ 25,037**	$ 407	**$ 25,037**	$ 407

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 and six months ended June 30, 2017 and 2016 comprise the Company and its wholly-owned subsidiaries.

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 audited annual consolidated financial statements for the year ended December 31, 2016 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 audited annual consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

In May 2017, the Company entered into agreements to increase its common share ownership interest in Red Leaf Resources Inc. ("Red Leaf") from 6% to approximately 30%. See Note 3 Investment in Red Leaf.

These condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on August 10, 2017.

2. Accounting Policy Changes

Changes in Accounting Policies for 2017

There were no new or amended accounting standards or interpretations adopted during the six months ended June 30, 2017.

Investment in Red Leaf Resources Inc. ("Red Leaf")

Questerre holds investments in certain private companies including its investment in Red Leaf which it 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 net asset value analysis. 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.

The Company uses the equity method of accounting to reflect its ownership in Red Leaf. Under the equity method, the Company's initial and subsequent investments are recognized at cost and subsequently adjusted for the Company's share of Red Leaf's income or loss, less distributions received. The Company is deemed to have significant influence in Red Leaf on the basis that it holds more than 20% of the voting power and the ability to participate in the decision making process of Red Leaf through its current Board representation.

Refer to Note 3 for the carrying amounts related to the Company's investment in Red Leaf.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the six months ended June 30, 2017 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, 2016.

3. Investment in Red Leaf

In May 2017, the Company entered into agreements to increase its common share ownership in Red Leaf from approximately 6% to 30% for gross consideration of US$7.52 million. Red Leaf is a private Utah based oil shale and technology company whose principal assets are its proprietary EcoShale technology to recover oil from shale and its oil shale leases in the state of Utah.

The first tranche of the acquisition closed in May 2017 for 82,015 Red Leaf common shares. A cash payment of US$4.92 million was made to the vendors with a further US$1.03 million payment contingent on the satisfaction of certain conditions. The second tranche closed in July 2017 for 21,736 Red Leaf common shares with a cash payment of US$1.3 million to the vendors and a subsequent payment of US$0.27 million contingent on the satisfaction of certain conditions. Upon closing of both tranches, Questerre holds 132,292 common shares, representing approximately 30% of the common share capital of Red Leaf.

As a result of the acquisition, Questerre evaluated the fair value of the Red Leaf common shares held as of March 31, 2017. This resulted in the current quarter reversal of $2.34 million of a previously recorded impairment in the year ended December 31, 2014. The Company measured the fair market value of its investment using a net asset valuation approach. The net assets are estimated as the net current assets of Red Leaf less US$80 million representing the original issue price plus accrued but unpaid dividends of the issued and outstanding Series A Preferred Shares of Red Leaf as of June 30, 2017. No value was assigned to the non-current assets of Red Leaf for the purposes of determining the fair value of the Company's investment.

The Company's investment is accounted for using the equity method.

($ thousands)	**June 30, 2017**	December 31, 2016
Investment	**10,401**	490
Equity loss on investment	**(759)**	-
	$ 9,642	$ 490

The assets, liabilities and net loss of Red Leaf as of June 30, 2017 were comprised as follows:

($ thousands) [1]		
Current Assets	$	140,065
Non-current assets		16,406
Current Liabilities		1,625
Non-current liabilities		1,082
Net Loss[2]		(2,948)

[1] Converted at an exchange rate of US$1=C$1.2977

[2] For the period from May 11, 2017 to June 30, 2017

The issued and outstanding share capital of Red Leaf as of June 30, 2017 is comprised of the following:

	Issued and Outstanding	Questerre Ownership
Common Shares	415,639	110,557
Preferred Shares	63,427	-

The Series A Preferred Shares carry voting rights and dividends accrue on a cumulative basis, whether or not declared, at a rate of 8% per annum compounding annually. On the occurrence of a defined liquidation event, including certain reorganizations, takeovers, the sale of all or substantially all the assets of the company, and shareholder distributions, the Series A Preferred shareholders are entitled to an amount representing the original issue price plus any accrued dividends. As of June 30, 2017, this priority amount is approximately US$80 million.

The following table sets out the changes in investment over the respective periods:

($ thousands)		June 30, 2017		December 31, 2016
Balance, beginning of year	$	490	$	632
Purchase of investment		8,150		-
Reversal of impairment		2,336		-
Equity loss on investment		(784)		-
Loss on foreign exchange		(550)		(10)
Impairment		-		(132)
Balance, end of period	$	9,642	$	490

For the six months ended June 30, 2017, the loss on foreign exchange relating to investments was $0.59 million (June 30, 2016: $0.03 million), which was recorded in other comprehensive income (loss) net of deferred tax of $0.08 million (June 30, 2016: $0.004 million). See Note 13 Subsequent Events.

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, 2015	$ 204,101	$ 1,334	$ 205,435
Additions	3,171	-	3,171
Transfer from exploration and evaluation assets	5,740	-	5,740
Balance, December 31, 2016	213,012	1,334	214,346
Additions	4,293	-	4,293
Transfer from exploration and evaluation assets	3,958	-	3,958
Balance, June 30, 2017	**$ 221,263**	**$ 1,334**	**$ 222,597**
Accumulated depletion, depreciation and impairment losses:			
Balance, December 31, 2015	$ 116,642	$ 1,246	$ 117,888
Depletion and depreciation	8,823	38	8,861
Impairment	472	-	472
Balance, December 31, 2016	125,937	1,284	127,221
Depletion and depreciation	3,893	6	3,899
Other	(25)	-	(25)
Balance, June 30, 2017	**$ 129,805**	**$ 1,290**	**$ 131,095**

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Net book value:			
At December 31, 2016	$ 87,075	$ 50	$ 87,125
At June 30, 2017	**$ 91,458**	**$ 44**	**$ 91,502**

During the period ended June 30, 2017, the Company did not capitalize any administrative overhead charges related to development activities. For the year ended December 31, 2016, the Company capitalized administrative overhead charges relating to development activities of $0.06 million. Included in the June 30, 2017 depletion calculation are future development costs of $174.94 million (December 31, 2016: $177.86 million). As at June 30, 2017, $2.64 million of assets under construction were included within property, plant and equipment (December 31, 2016: $2.50 million) and are not subject to depletion and depreciation.

5. Exploration and Evaluation Assets

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

($ thousands)		June 30, 2017		December 31, 2016
Balance, beginning of year	$	58,915	$	47,917
Additions		8,399		11,078
Transfers to property, plant and equipment		(3,958)		(5,740)
Undeveloped lease expiries		(7,884)		(17,838)
Disposition		(793)		-
Recovery of impairment		-		23,498
Balance, end of period	$	54,679	$	58,915

During the period ended June 30, 2017, the Company capitalized administrative overhead charges of $0.52 million (December 31, 2016: $1.09 million) including $0.17 million of stock based compensation expense (December 31, 2016: $0.18 million) directly related to exploration and evaluation activities. During the period the Company disposed of certain exploration assets in the Kakwa area for net proceeds of $4.45 million and recorded a gain on disposition of $3.66 million.

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 million as at June 30, 2017 (December 31, 2016: $8.73 million) based on an undiscounted total future liability of $11.43 million (December 31, 2016: $11.37 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 1.58% (December 31, 2016: 1.56%). An inflation rate of 2.2% (December 31, 2016: 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, 2017		December 31, 2016
Balance, beginning of year	$	8,726	$	8,752
Liabilities incurred		148		161
Liabilities settled		(5)		(18)
Revisions due to change in discount rates		64		(311)
Accretion		70		142
Balance, end of period	$	9,003	$	8,726

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, 2017, 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, 2016	308,274	359,151
Private placements	32,553	24,818
Options exercised	9	3
Warrants exercised	4,634	927
Share issue costs (net of tax effect)	-	(964)
Balance June 30, 2017	**345,470**	**$ 383,935**

For the six months ended June 30, 2017, the Company completed private placements for gross proceeds of $24.82 million. This consisted of the issuance of 30.8 million Common Shares at $0.79 per Common Share and the subsequent issuance of 1.75 million Common Shares at $0.49 per Common Share. The second issuance relates to the private placement completed by the Company in November 2016 which consisted of the issuance of 15.2 million Common Shares at $0.49 per Common Share.

b) Per share amounts

Basic net loss per share is calculated as follows:

	Three months ended June 30,		*Six months ended June 30,*	
(thousands, except as noted)	**2017**	2016	**2017**	2016
Net loss ($ thousands)	**$ (3,621)**	$ (2,173)	**$ (4,144)**	$ (2,498)
Issued Common Shares at beginning of period	**345,118**	264,932	**308,274**	264,932
Effect of shares issued:				
pursuant to private placements	**289**	-	**23,778**	-
on exercise of options and warrants	**1**	-	**2,923**	-
Weighted average number of Common Shares outstanding (basic)	**345,408**	264,932	**334,975**	264,932
Basic net loss per share	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.01)

Diluted net loss per share is calculated as follows:

(thousands, except as noted)		Three months ended June 30, 2017		2016		Six months ended June 30, 2017		2016
Net loss ($ thousands)	$	**(3,621)**	$	(2,173)	$	**(4,144)**	$	(2,498)
Weighted average number of Common Shares outstanding (diluted)		**345,408**		264,932		**334,975**		264,932
Diluted net loss per share	$	**(0.01)**	$	(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. Given the loss incurred by the Company for the three months ended June 30, 2017, they are not included in the calculation of diluted income (loss) per share for the period as their effect would be anti-dilutive. 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.

In connection with a private placement completed in July 2016, the Company issued warrants to purchase Common Shares at a price of $0.20 per Common Share until January 28, 2018. At June 30, 2017, there were 8.49 million warrants outstanding.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date or one year from the grant date. The grants generally expire five years from the grant date or five years from the commencement of vesting. The Black-Scholes option pricing model assumptions used for the grant made during the second quarter of 2017 were as follows:

Risk free rate:	0.98%
Expected life:	5 years
Expected volatility:	78%
Expected forfeiture rate:	14.5%

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, 2017		December 31, 2016	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	14,856	$0.41	19,982	$0.72
Granted	6,850	0.69	4,100	0.18
Forfeited	(232)	0.52	(4,289)	0.47
Expired	-	-	(3,260)	1.85
Exercised	(9)	0.30	(1,677)	0.60
Outstanding, end of period	21,465	$0.50	14,856	$0.41
Exercisable, end of period	7,472	$0.54	5,939	$0.55

9. Capital Management

The Company believes with its recently completed equity issuances for gross proceeds of $25.75 million and positive expected funds flow from operations (an additional non-GAAP 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 adjusted funds 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 adjusted funds flow from operations. Questerre attempts to mitigate the effect of lower prices by entering into risk management contracts, shutting in production in unusually low pricing environments, reallocating capital to more profitable areas and reducing capital spending based on results and other market considerations.

The Company considers its capital structure to include shareholders' equity and any outstanding 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 adjusted funds flow from operations. See Note 13.

($ thousands)	June 30, 2017	December 31, 2016
Credit facilities	$ 16,402	$ 22,888
Shareholders' equity	160,069	139,660
	$ 176,471	$ 162,548

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 June 30, 2017 included cash and cash equivalents, accounts receivable, risk management contracts, deposits, credit facilities and accounts payable and accrued liabilities. As at June 30, 2017, 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.

Prior to the Company's investments being classified as an equity investment they were considered a Level 3 instrument. Equity investments are not financial instruments and therefore no longer fall under this category.

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, 2017, the Company had the following outstanding commodity risk management contracts:

Risk Management Contract	Volumes	Average Price	Term	Fair Value Liability *($ thousands)*
AECO - call option sale	3,000 GJ/d	$2.70/GJ	Jul 1, 2017 - Dec. 31, 2017	64
WTI NYMEX - call option sale	200 bbls/d	$80/bbl	Jul 1, 2017 - Dec. 31, 2017	8

The Company's risk management position is as follows:

($ thousands)		**June 30, 2017**		December 31, 2016
Risk Management Liabilities				
Current portion	**$**	**72**	$	1,117

The Company recorded an unrealized gain of $1.04 million for the six month period ended June 30, 2017 and an unrealized loss of $0.94 million for the same period in 2016. The Company also recorded a realized loss of $0.07 million for the six month period ended June 30, 2017 and a realized gain of $1.0 million for the same period in 2016.

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
WTI NYMEX futures sale	$1/bbl increase or decrease to WTI price over $80/bbl	37	(37)
AECO futures sale	$0.50/GJ increase or decrease to AECO price over $2.7/GJ	276	(276)

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

At June 30, 2017, the credit facilities include a revolving operating demand facility of $22.9 million ("Credit Facility A") and a corporate credit card of $0.1 million ("Credit Facility B"). 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.

Any borrowing under the credit facilities, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The bank's prime rate currently is 2.70% per annum. The credit facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the 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, 2017 was 2.18 and the covenant was met. At June 30, 2017, $16.40 million (December 31, 2016: $22.89 million) was drawn on Credit Facility A.

The current commodity price environment has resulted in tighter capital markets. The credit facilities are demand facilities and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, 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.

In August 2017, Credit Facility A was renewed at $17.9 million and Credit Facility B renewed at $0.1 million. The next scheduled review of the credit facilities is scheduled for the fourth quarter of 2017.

12. Summary Judgement

In November 2016, the Company received a favorable ruling with respect to its appeal of a summary judgement issued in December 2015. In March 2017, Questerre was refunded $5.9 million as a result of this appeal. The joint venture partner appealed this ruling and the matter was heard in June 2017. The Company received a favorable ruling with respect to this appeal.

As of June 30, 2017, $2.4 million of this amount is classified as a current payable on the basis that the Company expects that a portion of the disputed amount may be settled within the next year prior to the scheduled trial. $3.5 million, representing the remainder of the refund has been recorded as contingent liability in respect of the potential exposure for these costs primarily relating to drilling two wells in Quebec in 2010. A trial is currently scheduled for late 2018.

13. Subsequent Events

Subsequent to the quarter end, Questerre concluded the second tranche of its acquisition of Red Leaf common shares. It consisted of the payment of US$1.3 million with a subsequent US$0.27 million contingent on the satisfaction of certain conditions. Upon closing of the entire transaction, Questerre will hold approximately 30% of the common shares of Red Leaf.

In August 2017, the Company's credit facilities were renewed at $18 million. The credit facilities consisted of Credit Facility A at $17.9 million and Credit Facility B at $0.1 million. The next review is scheduled for the fourth quarter of 2017.

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