

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") was prepared as of May 11, 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 March 31, 2017 and for the three month periods ended March 31, 2017 and 2016 (the "Q1 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; and 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 facility;
- timing of the next review of the Company's credit facility by its lender;
- ability of the Company to meet its foreseeable obligations;
- expectations regarding the Company's liquidity increasing over time;
- capital expenditures and the funding thereof;
- impacts of capital expenditures on the Company's reserves;
- receiving the results of a study on the marketing of finished oil shale products;
- updating the independent resource assessment of the Company's oil shale resources 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;
- 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

	<i>Three months ended March 31,</i>	
<i>(\$ thousands)</i>	2017	2016
Net cash from operating activities	\$ 1,247	\$ 1,699
Interest paid	183	147
Change in non-cash operating working capital	(19)	(106)
Adjusted Funds Flow from Operations	\$ 1,411	\$ 1,740

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

<i>As at/for the three months ended March 31,</i>	2017	2016
Financial (\$ thousands, except as noted)		
Petroleum and Natural Gas Sales	4,429	4,029
Adjusted Funds Flow from Operations	1,411	1,740
Per share - Basic (\$/share)	-	0.01
Per share - Diluted (\$/share)	-	0.01
Net Loss	(523)	(325)
Per share - Basic (\$/share)	-	-
Per share - Diluted (\$/share)	-	-
Capital Expenditures, net of acquisitions and dispositions	5,320	4,158
Working Capital Surplus (Deficit)	3,274	(24,044)
Total Assets	205,640	163,547
Shareholders' Equity	163,888	127,134
Common Shares Outstanding (thousands)	345,118	264,932
Weighted average - basic (thousands)	324,426	264,932
Weighted average - diluted (thousands)	324,426	264,932
Operations (units as noted)		
Average Production		
Crude Oil and Natural Gas Liquids (bbl/d)	673	888
Natural Gas (Mcf/d)	2,701	3,900
Total (boe/d)	1,123	1,538
Average Sales Price		
Crude Oil and Natural Gas Liquids (\$/bbl)	60.26	40.06
Natural Gas (\$/Mcf)	3.22	2.23
Total (\$/boe)	43.82	28.79
Netback (\$/boe)		
Petroleum and Natural Gas Sales	43.82	28.79
Royalties Expense	(2.21)	(1.95)
Percentage	5%	7%
Direct Operating Expense	(21.10)	(13.50)
Operating Netback	20.51	13.34
Wells Drilled		
Gross	3.00	2.00
Net	0.67	0.50

Highlights

- Participated in three (0.67 net) horizontal wells at Kakwa
- Quebec Government ratifies new environmental legislation
- Evaluation of retorting technologies for Jordan oil shale project continues
- Completed equity placements for gross proceeds of \$24.65 million
- Average daily production of 1,123 boe/d with 580 boe/d behind pipe and adjusted funds flow from operations of \$1.41 million for the quarter⁽¹⁾

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

First Quarter 2017 Activities

Western Canada

Kakwa, Alberta

In the first quarter of 2017, the operator spud three wells on the Company's joint venture acreage. Questerre participated in all these wells and holds an average working interest of 22.22% in each well.

These include the 100/15-15-63-6W6M well (the "100/15-15 Well"), 100/16-29-63-5W6M (the "100/16-29 Well") and the 102/16-29-63-5W6M ("102/16-29 Well"). During the quarter, drilling operations were completed on the 100/15-15 Well and the 100/16-29 Well with lateral lengths averaging just over 2300m. Additionally, drilling was also completed on the 102/15-15-63-6W6M ("the 102/15-15 Well") spud in December 2016. Questerre holds a 25% working interest in the 102/15-15 Well and the 100/15-15 Well. The 102/15-15 Well was formerly known as the 100/10-15-63-6W6M Well.

Early in the second quarter, the 102/15-15 Well and the 100/15-15 Well were completed with an average of 75 stages. The wells are currently on flow-back and will be tied-in to the existing infrastructure shortly. Completion operations on the 100/16-29 Well and the 102/16-29 Well are scheduled after spring breakup.

Questerre also participated in the expansion of field infrastructure including the installation of gas lift facilities, a regenerative amine sweetening system and a central water storage facility. It is anticipated the gas lift facilities will assist with lifting produced liquids and increase uptime. The amine sweetening system, expected to be operational by the end of the second quarter, will replace the non-regenerative chemical sweetening and should lower operating costs. The central water facility will temporarily store produced water and be used for future completion operations. It is scheduled to be completed by the third quarter of this year. Investment in facilities and infrastructure represented \$2.5 million or over 55% of the capital investment of \$4.5 million in Kakwa during the quarter.

For the remainder of 2017, the Company expects to participate in the drilling of up to 4 (0.50 net) additional wells, subject to commodity prices and results.

St. Lawrence Lowlands, Quebec

In March 2017, the National Assembly in Quebec passed as law Bill 102, *An Act to amend the Environment Quality Act to modernize the environmental authorization scheme and to amend other legislative provisions, in particular to reform the governance of the Green Fund*.

This follows the enactment of Bill 106, *An Act to implement the 2030 Energy Policy and amend various legislative provisions* in December 2016. These amendments include the enactment of the *Petroleum Resources Act* to govern the future development of petroleum resources in Quebec.

Pursuant to its schedule, the Quebec government plans to introduce the associated hydrocarbon regulations in mid-2017. Along with social acceptability, hydrocarbon and environmental regulations are prerequisites to the resumption of field activities to assess the Company's Utica gas discovery in the province.

Oil Shale Mining

Questerre continued the appraisal of its oil shale project in the Kingdom of Jordan ("Jordan"). The focus is the feasibility of commercial development.

This work includes the assessment of multiple retorting processes. One of these processes is the EcoShale In-Capsule process developed by Red Leaf Resources Inc. ("Red Leaf"). During the quarter, the Company evaluated the mechanical rock properties of the Jordan oil shale for the EcoShale process. The main objectives of the testing were to identify whether the shale could be directly heated without any deterioration in the quality and the specific mechanical properties of the spent shale under stress. The testing was successful on both counts.

The Company also expects to receive the results from the study commissioned on the marketing of finished products later this year. It is anticipated that these results and the work from the feasibility study will be incorporated into a subsequent update to its resource assessment for this project.

Subsequent to the quarter end, Questerre entered into an agreement to acquire oil shale assets including common shares of Red Leaf and the option to acquire oil shale acreage in Jordan for US\$7.52 million. Upon closing, Questerre will hold approximately 30% of the common share capital of Red Leaf.

Corporate

In February 2017, the Company completed two private placements for gross proceeds of \$24.65 million. This consisted of the issuance of 30.8 million Common Shares at \$0.79 per Common Share and the subsequent issuance of 1.41 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 on the issuance of 15.2 million Common Shares at \$0.49 per Common Share.

Following a review conducted in the fourth quarter of 2016, effective February 2017, the Company's credit facilities with a Canadian chartered bank were reduced to \$23 million from \$30 million as established in the third quarter of 2016. The credit facilities consist of a revolving operating demand loan. 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 second quarter of 2017.

In the second quarter of 2017, Questerre disposed of shallow mineral 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

In 2017, Questerre participated in the drilling of three (0.67 net) wells in the Kakwa area.

Production

<i>Three months ended March 31,</i>	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	185	-	185	236	-	236
Alberta	440	2,629	878	598	3,816	1,234
British Columbia	-	72	12	-	84	14
Manitoba	48	-	48	54	-	54
	673	2,701	1,123	888	3,900	1,538

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

Production volumes in the first quarter declined over the prior year primarily due to limited participation in the drilling program at Kakwa, Alberta in 2016.

To preserve financial liquidity during the low commodity price environment, the Company only participated in two of the six wells drilled on the joint venture acreage last year. By comparison in 2015, six (1.5 net) wells were completed and placed on production throughout the year. This contributed to higher production volumes in the first quarter of 2016 relative to the current year. In 2017, based on improved prices and results, the Company intends to participate in all wells drilled on the joint venture acreage. Kakwa continues to represent over 70% of corporate volumes in 2017.

The Company's weighting of oil and liquids increased marginally from 58% to 60%. This largely reflects the approximate equal weighting between liquids, primarily condensate, and natural gas from Kakwa. This weighting also reflects the oil production from Saskatchewan and Manitoba which declined by approximately 20% over the prior year due to natural declines.

Subject to the timing of additional wells on the Kakwa joint venture acreage, Questerre expects its production to increase over the second half of the year.

First Quarter 2017 Financial Results

Petroleum and Natural Gas Sales

Three months ended March 31,		2017			2016		
	Oil and	Natural			Oil and	Natural	
(\$ thousands)	Liquids	Gas	Total		Liquids	Gas	Total
Saskatchewan	\$ 1,060	\$ -	\$ 1,060	\$	857	\$ -	\$ 857
Alberta	2,328	766	3,094		2,211	771	2,982
British Columbia	-	16	16		-	13	13
Manitoba	259	-	259		177	-	177
	\$ 3,647	\$ 782	\$ 4,429	\$	3,245	\$ 784	\$ 4,029

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

Petroleum and natural gas sales in the quarter increased by 10% to \$4.43 million from \$4.03 million in the first quarter of 2016. This represents a 52% increase due to materially higher commodity prices largely offsetting a 42% decline due to lower production volumes.

Pricing

Three months ended March 31,	2017	2016
Benchmark prices		
Natural Gas - AECO, daily spot (\$/Mcf)	2.63	1.83
Crude Oil - Edmonton Light Sweet Blend (\$/bbl)	67.69	41.68
Realized prices		
Natural Gas (\$/Mcf)	3.22	2.23
Crude Oil and Natural Gas Liquids (\$/bbl)	60.26	40.06

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

Crude oil prices improved substantially over the first quarter of 2016 and increased more modestly over the fourth quarter of 2016. The benchmark West Texas Intermediate ("WTI") averaged US\$52/bbl over the quarter compared to US\$33.45/bbl in the first quarter of last year and US\$49/bbl over the fourth quarter of 2016.

Following OPEC's decision to cut oil production in late 2016, prices remained strong for the majority of the first quarter of 2017. They declined in March on concerns of compliance with the production cuts by OPEC members and Russia and growing US rig counts and oil production, particularly from the Permian basin. In Canada, prices were also impacted by the differential between WTI and the Canadian Light Sweet blend ("MSW") which averaged US\$0.77/bbl up marginally from US\$0.86/bbl in 2016.

As the majority of Questerre's production is light oil and condensate, its realized price averaged \$60.26/bbl (2016: \$40.06/bbl) compared to a benchmark price of \$67.69/bbl (2016: \$41.68/bbl). While MSW typically receives a discount to condensate, MSW traded at a premium in the quarter due to a shortage of light and synthetic crude in the province. Additionally, the lower price in the quarter includes a discount received for condensate and materially lower prices for other liquids, particularly propane.

Natural gas prices saw a similar increase with the reference Henry Hub averaging US\$3.06/Mcf compared to US\$1.98/Mcf in the first quarter of 2016 and US\$2.94/Mcf in the fourth quarter of 2016.

Despite reduced heating demand from a warmer winter, prices have been supported by a year over year drop in production in the US and growing demand for exports, particularly to Mexico. Canadian natural gas prices were also impacted by the differential which is estimated to have averaged US\$1.09/Mcf for the quarter compared to US\$0.65/Mcf in 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 \$3.22/Mcf (2016: \$2.23/Mcf) compared to the AECO reference price of \$2.63/Mcf (2016: \$1.83/Mcf).

Royalties

		<i>Three months ended March 31,</i>	
<i>(\$ thousands)</i>		2017	2016
Saskatchewan	\$	75	\$ 55
Alberta		103	200
Manitoba		44	18
	\$	222	\$ 273
% of Revenue			
Saskatchewan		7%	6%
Alberta		3%	7%
Manitoba		17%	12%
Total Company		5%	7%

As a percentage of revenue, royalties in the first quarter of 2017 decreased to 5% from 7% in the prior year. This lower rate and production volumes in the quarter resulted in the decline in gross royalties to \$0.22 million from \$0.27 million in 2016.

The decrease is largely due to the lower overall rate on production from Kakwa which accounts for the majority of production in Alberta. The lower royalties and rate in the first quarter is attributable to credits received from the Crown for wells drilled in 2016 that qualified for existing incentive programs. For the remainder of 2017, the Company estimates royalties on production from Kakwa to average approximately 7%.

Royalties on production in Manitoba increased due to a higher proportion of production from freehold lands which attract a higher rate compared to Crown land as well as a freehold mineral tax payable to the Crown.

Operating Costs

		<i>Three months ended March 31,</i>	
<i>(\$ thousands)</i>		2017	2016
Saskatchewan	\$	322	\$ 305
Alberta		1,703	1,495
British Columbia		21	11
Manitoba		85	77
	\$	2,131	\$ 1,888
\$/boe			
Saskatchewan		19.34	14.19
Alberta		21.56	13.32
British Columbia		19.18	8.28
Manitoba		19.58	15.65
Total Company		21.10	13.50

Despite lower production volumes, gross operating costs for the first quarter of 2017 increased over the prior year.

On a unit of production basis, operating costs increased to \$21.10/boe from \$13.50/boe in the first quarter of 2016.

With fixed costs representing approximately 80% of operating costs at Kakwa, the allocation to lower production volumes resulted in an increase, on a boe basis, over the prior year. Additionally, over 40% of these fixed costs relate to chemical sweetening and firm transportation and processing commitments. The Company anticipates that these costs on a boe basis will decrease in the latter half of this year as additional volumes are brought on production and the regenerative amine system is brought on stream.

Similarly, in Saskatchewan, fixed costs represent the majority of operating costs and with lower volumes, production increased on a boe basis. Costs were also higher due to workovers and one-time costs associated with a lease cleanup.

General and Administrative Expenses

		<i>Three months ended March 31,</i>	
<i>(\$ thousands)</i>		2017	2016
General and administrative expenses, gross	\$	800	\$ 940
Capitalized expenses and overhead recoveries		(180)	(292)
General and administrative expenses, net	\$	620	\$ 648

Gross general and administrative expenses ("G&A") were lower by 15% for the three months ended March 31, 2017 compared to the same period in 2016. The decrease is attributable to the corporate restructuring initiatives implemented in 2015 including reductions in personnel, salaries and directors' fees in light of reduced operating activity.

Capitalized expenses and overhead recoveries decreased in 2017 over 2016. This decrease is attributable to fewer staff employed to develop the Company's Kakwa area.

Depletion, Depreciation, Impairment and Accretion

Questerre recorded \$2.02 million of depletion and depreciation expense for the quarter ended March 31, 2017 compared to \$2.42 million for the same period in 2016. The lower expense is due to lower production volumes. Additionally, on a per unit basis, depletion increased from \$17.26/boe in 2016 to \$19.97/boe in 2017 with higher volumes in the current year from cash generating units with higher finding and development costs.

Other Income and Expenses

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

The Company recorded a gain on risk management contracts of \$0.76 million for the quarter ended March 31, 2017 compared to a gain of \$1.04 million on risk management contracts for the same period in 2016. The changes are due to fluctuations in the underlying market prices of the relevant commodities.

The Company recorded a loss on foreign exchange, net of deferred tax, through other comprehensive income (loss) of \$0.004 million for the three months ended March 31, 2017 (2016: \$0.04 million). The changes are due to fluctuations in the exchange rate relating to the Company's US dollar investment.

For the three months ended March 31, 2017, the Company recorded an expense of \$0.2 million relating to expiring acreage where the Company has no future plans for development (March 31, 2016: Nil).

Total Comprehensive Income (Loss)

Questerre's total comprehensive loss for the first quarter of 2017 was \$0.53 million compared to a loss of \$0.40 million for the same period in 2016. The higher loss is mainly due to higher operating costs and lower gains on risk management contracts partially offset by higher petroleum and natural gas revenue in the current year.

Capital Expenditures

		<i>Three months ended March 31,</i>	
<i>(\$ thousands)</i>		2017	2016
Alberta	\$	4,629	\$ 3,689
Saskatchewan		299	67
Jordan & Other		392	402
Total	\$	5,320	\$ 4,158

For the three months ended March 31, 2017, the Company incurred net capital expenditures of \$5.32 million as follows:

- In Alberta, of the \$4.63 million invested in the quarter, the Company spent \$4.56 million to drill wells targeting the condensate-rich Montney formation and expand existing infrastructure.
- In Antler, the Company spent \$0.3 million on workovers and well optimization.

For the three months ended March 31, 2016, the Company incurred net capital expenditures of \$4.16 million as follows:

- In Alberta, the Company spent \$3.69 million to drill and complete wells targeting the condensate-rich Montney formation.

- In British Columbia, the Company spent \$0.36 million for recompletion costs relating to an oil well.

Liquidity and Capital Resources

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

In February 2017, the Company's credit facilities were renewed at \$23 million from \$30 million at the last scheduled review. At March 31, 2017, \$17.52 million (December 31, 2016: \$22.89 million) was drawn on the credit facility 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 Q1 Statements)) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at March 31, 2017 was 2.74 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 second quarter of 2017.

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

Questerre had a working capital surplus, net of amounts due under its credit facilities, of \$3.27 million at March 31, 2017, as compared to a deficit of \$17.02 million at December 31, 2016. Management believes that with its private placements completed in the first quarter of 2017 for gross proceeds of approximately \$25 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

Net cash from operating activities for the three months ended March 31, 2017 and 2016 was \$1.25 million and \$1.70 million, respectively. The Company's cash flow from operating activities decreased from 2016 due to the higher operating costs and lower realized gains on its risk management contracts in 2017.

Cash Flow used in Investing Activities

Cash flow used in investing activities was \$1.44 million for the quarter ended March 31, 2017 and \$7.31 million for the three months ended March 31, 2016.

For the three months ended March 31, 2017, capital expenditures of \$5.32 million were incurred mainly for infrastructure expansion and the drilling costs associated with three (0.67 net) wells in the Kakwa area. For the three months ended March 31, 2016, capital expenditures of \$4.16 million were incurred in the same area to drill two (0.50 net) wells.

Cash Flow from Financing Activities

Cash flow provided by financing activities was \$19.01 million for the quarter ended March 31, 2017 (2016: \$5.60 million). The amount reflects the private placements completed in the quarter for gross proceeds of \$24.65 million, net of share issue costs of \$1.19 million and the net decrease in the utilization of credit facilities of \$5.37 million. For the first quarter of 2016, a net \$5.6 million was 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 March 31, 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.

<i>(thousands)</i>	May 11, 2017	March 31, 2017	December 31, 2016
Common shares	345,456	345,118	308,274
Stock options	21,492	14,642	14,856
Warrants	8,504	8,504	13,124
Weighted average common shares			
Basic		324,426	278,662
Diluted		324,426	280,410

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

	March 31, 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	-	-	4,100	0.18
Forfeited	(205)	0.44	(4,289)	0.47
Expired	-	-	(3,260)	1.85
Exercised	(9)	0.30	(1,677)	0.60
Outstanding, end of period	14,642	\$0.41	14,856	\$0.41
Exercisable, end of period	6,716	\$0.54	5,939	\$0.55

Commitments

A summary of the Company's net commitments at March 31, 2017 follows:

(\$ thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Transportation, Marketing and Processing	\$ 3,546	\$ 4,728	\$ 3,990	\$ 3,990	\$ 3,990	\$ 19,952	\$ 40,196
Office Leases	91	99	99	90	-	-	379
	\$ 3,637	\$ 4,827	\$ 4,089	\$ 4,080	\$ 3,990	\$ 19,952	\$ 40,575

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. Concurrently, the Company also assigned an 18.75% interest in the Infrastructure Contracts on a temporary basis to a third party until December 2016.

Questerre has no capital commitments in 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 are lower than expected or capital costs for these projects exceed current estimates, or if the Company incurs major unanticipated expense related to development or maintenance of its existing properties, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Company's capital expenditure plans may result in a delay in development or production on the Company's properties.

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

The Company uses the following guidelines to address financial exposure:

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

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises from the Company's receivables from joint venture partners and oil and gas marketers. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. Credit risk also arises from the Company's cash and cash equivalents. In the past, the Company manages credit risk exposure by investing in Canadian banks and credit unions. Management does not expect any counterparty to fail to meet its obligations.

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

Company finds a suitable alternative partner if possible.

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

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

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

The Company has issued, and may continue in the future to issue, flow-through shares to investors. The Company uses its best efforts to ensure that qualifying expenditures 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 March 31, 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	Apr 1, 2017 - Dec. 31, 2017	224
WTI NYMEX - call option sale	200 bbls/d	\$80/bbl	Apr 1, 2017 - Dec. 31, 2017	73

Please see Note 10 of the Q1 Statements for additional information regarding the Company's financial instruments.

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 available for sale financial instrument and carries at fair value. The Company measures the fair market value of Red Leaf by reference to recent corporate transactions of Red Leaf, or in the absence of such transactions, other valuation techniques such as the net asset value approach.

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

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 March 31, 2017.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three months ended March 31, 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 January 1, 2017 and ended on March 31, 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

	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
<i>(\$ thousands, except as noted)</i>				
Production (boe/d)	1,123	1,261	1,275	1,422
Average Realized Price (\$/boe)	43.82	39.43	34.91	34.17
Petroleum and Natural Gas Sales	4,429	4,574	4,095	4,423
Adjusted Funds Flow from Operations	1,411	1,943	1,447	1,916
Basic and Diluted (\$/share)	-	0.01	0.01	0.01
Net Profit (Loss)	(523)	3,674	(1,007)	(2,173)
Basic and Diluted (\$/share)	-	0.01	-	(0.01)
Capital Expenditures, net of acquisitions and dispositions	5,320	5,260	4,060	741
Working Capital Surplus (Deficit)	3,274	(17,019)	(21,250)	(23,075)
Total Assets	205,640	177,761	165,109	161,721
Shareholders' Equity	163,888	139,660	127,895	125,028
Weighted Average Common Shares Outstanding				
Basic (thousands)	324,426	293,470	283,494	264,932
Diluted (thousands)	324,426	308,017	283,494	264,932

	March 31, 2016	December 31, 2015	September 30, 2015 ⁽¹⁾	June 30, 2015 ⁽¹⁾
<i>(\$ thousands, except as noted)</i>				
Production (boe/d)	1,538	1,648	1,934	1,480
Average Realized Price (\$/boe)	28.79	35.03	36.69	44.90
Petroleum and Natural Gas Sales	4,029	5,311	6,528	6,048
Adjusted Funds Flow from Operations ⁽¹⁾	1,740	2,269	3,182	3,067
Basic and Diluted (\$/share)	0.01	0.01	0.01	0.01
Net Profit (Loss)	(325)	(56,044)	(18,169)	1,333
Basic and Diluted (\$/share)	-	(0.21)	(0.07)	0.01
Capital Expenditures, net of acquisitions and dispositions	4,158	1,014	6,213	5,095
Working Capital Surplus (Deficit)	(24,044)	(21,478)	(21,334)	(18,202)
Total Assets	163,547	161,894	217,794	233,627
Shareholders' Equity	127,134	127,453	183,151	202,220
Weighted Average Common Shares Outstanding				
Basic (thousands)	264,932	264,932	264,932	264,932
Diluted (thousands)	264,932	264,932	264,932	264,936

⁽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 and a general decrease in average realized commodity prices.
- Production has decreased to 1,123 boe/d for the three months ended March 31, 2017 as compared with 1,538 boe/d for the same period in the prior year. Production has generally decreased over the last four quarters primarily due to the reduced capital investment in the Kakwa assets as a result of lower commodity prices.
- Excluding the current working capital surplus due to the recently completed private placements in the first quarter of 2017, the working capital deficit has increased as capital expenditures have been higher than adjusted funds flow from operations.
- 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 last two quarters 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 March 31, 2017.

Related Party Transactions

The Company did not engage in any related party transactions during the period ended March 31, 2017.