

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of Questerre Energy Corporation for the three months ended March 31, 2007 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Corporation. These statements have not been reviewed by the Corporation's external auditors.



Michael Binnion
President and Chief Executive Officer



Jason D'Silva
VP Finance

Calgary, Alberta, Canada
May 9, 2007

CONSOLIDATED BALANCE SHEETS

	March 31, 2007	December 31, 2006
	(unaudited)	
Assets		
Current assets		
Cash	\$ 23,183,454	\$ 26,616,233
Marketable securities (note 6)	3,435,750	146,250
Accounts receivable	3,727,997	3,589,316
Inventory	338,400	321,437
Deposits and prepaids	2,645,033	421,308
	33,330,634	31,094,544
Restricted cash (note 7)	—	100,000
Goodwill (note 4)	2,467,816	2,467,816
Petroleum and natural gas properties (note 3)	88,325,337	80,882,499
Less: accumulated depletion and depreciation	(46,844,613)	(43,505,419)
	41,480,724	37,377,080
	\$ 77,279,174	\$ 71,039,440
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,820,918	\$ 8,341,968
Bank loan (note 7)	—	73,700
Current income taxes	82,455	82,455
	12,903,373	8,498,123
Asset retirement obligation (note 5)	3,687,518	3,377,847
	\$ 16,590,891	\$ 11,875,970
Shareholders' Equity		
Common shares (note 8)	\$ 85,824,932	\$ 85,809,663
Contributed surplus (note 8 (f))	2,396,080	2,068,902
Deficit	(27,532,729)	(28,715,095)
	60,688,283	59,163,470
	\$ 77,279,174	\$ 71,039,440

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors




CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT

(unaudited)

For the three months ended March 31,	2007	2006
Revenue		
Petroleum and natural gas	\$ 7,502,436	\$ 1,160,597
Royalties	(2,051,916)	(406,393)
	\$ 5,450,520	\$ 754,204
Expenses		
Operating	\$ 1,687,063	\$ 462,444
General and administrative	821,212	212,708
Interest expense	3,589	3,709
Interest income	(108,073)	(176,610)
Foreign exchange gain	—	(45,894)
Realized (gain) loss on sale of marketable securities	(338,709)	10,480
Unrealized (gain) loss on marketable securities	(794,170)	—
Stock-based compensation (note 8 (e))	330,050	297,286
Depletion and depreciation	3,339,180	581,258
Accretion on asset retirement obligation (note 5)	30,012	8,805
	\$ 4,970,154	\$ 1,354,186
Net earnings (loss) and comprehensive income	\$ 480,366	\$ (599,982)
Deficit, beginning of period	\$ (28,715,095)	\$ (27,838,260)
Restatement for changes in accounting policies		
Financial Instruments (note 2)	\$ 702,000	\$ —
Deficit, end of period	\$ (27,532,729)	\$ (28,438,242)
Net earnings (loss) per share		
Basic and diluted	\$ 0.00	\$ (0.01)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For three months ended March 31,	2007	2006
Cash provided by (used in):		
Operating Activities		
Net earnings (loss)	\$ 480,366	\$ (599,982)
Items not affecting cash		
Depletion and depreciation	3,339,180	581,258
Accretion on asset retirement obligation	30,012	8,805
Stock-based compensation expense	330,050	297,286
Realized gain on sale of marketable securities	(338,709)	—
Unrealized gain on marketable securities	(794,170)	—
	3,046,729	287,367
Net change in non-cash working capital	501,717	1,141,740
	\$ 3,548,446	\$ 1,429,107
Financing Activities		
Issue of common shares	\$ 11,400	\$ 7,150,000
Share issue costs	997	(335,496)
Repayment of bank loan	(73,700)	(20,100)
Release of restricted cash (note 7)	100,000	—
	\$ 38,697	\$ 6,794,404
Investing Activities		
Expenditures on petroleum and natural gas properties	\$ (7,163,179)	\$ (6,601,918)
Acquisition of marketable securities, net of dispositions	(1,454,621)	—
Net change in non-cash working capital	1,597,878	404,910
	\$ (7,019,922)	\$ (6,197,008)
Increase (decrease) in cash	(3,432,779)	\$ 2,026,503
Cash, beginning of period	26,616,233	9,296,160
Cash, end of period	\$ 23,183,454	\$ 11,322,663

See accompanying notes to consolidated financial statements.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2007 (unaudited)

The interim consolidated financial statements include the accounts of Questerre Energy Corporation and its subsidiaries (“Questerre” or “the Company”) and have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. The interim consolidated financial statements are unaudited and have not been subject to review by the Company’s external auditors. The interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2006. Certain comparative figures have been reclassified to conform with the presentation adopted in the current year. The disclosure which follows is incremental to the disclosure included with the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s annual report for the year ended December 31, 2006.

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Questerre Energy Corporation (“Questerre” or the “Company”) is involved in the exploration and development of high-impact scalable natural gas projects. The Company has two main projects – the Beaver River Field in British Columbia (the “Field”) and the St. Lawrence Lowlands in Quebec. To mitigate the risks associated with these projects, the Company has secured partners to assist in the development of these projects. The Company has also developed a portfolio of conventional exploration and production assets primarily in Central and Southern Alberta.

2. CHANGES IN ACCOUNTING POLICIES

a) Financial Instruments

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) section 3855, “Financial Instruments – Recognition and Measurement,” section 3865, “Hedges,” section 1530, “Comprehensive Income”. These standards have been adopted prospectively.

i) Financial Instruments

Section 3855 establishes a framework for classifying and measuring financial instruments. Under this section all financial instruments must be initially recognized at their fair value on the balance sheet. In accordance with section 3855, the Company has classified each financial instrument into the five categories set out in the standard: Financial assets and liabilities held for trading, financial assets held to maturity, loans and receivables, financial assets available for sale and other liabilities. Measurement of each of these items is contingent upon initial classification. Unrealized gains and losses on financial instruments classified as held for trading are recognized in earnings in the period incurred. Gains and losses on assets available for sale are recognized in other comprehensive income, and are charged to earnings when the asset is derecognized. The effective interest rate method using amortized cost is applied to the remaining categories of financial instruments.

As a result of adopting this change in accounting policy, the consolidated financial statements at January 1, 2007 were changed as follows: Marketable securities increased by \$702,000, and the deficit decreased by the same amount. The Company’s marketable securities are classified as held for trading. Any changes in the fair value of the marketable securities at the end of the fiscal period are classified as unrealized gains or losses on the income statement.

The classification of financial instruments occurred upon adoption of the standard, and is irrevocable.

ii) Derivative Instruments and Hedging

The Company currently does not use derivative instruments to manage its exposure to the volatility in commodity prices.

iii) Embedded Derivatives

An embedded derivative is a component of a financial instrument or other contract that has a feature similar to a derivative. New accounting section 3855 requires these instruments to be identified and recorded separately from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to that of the host contract, the terms of the embedded derivatives are the same as the terms of a freestanding derivative, and the hybrid instrument is not re-measured at fair value.

iv) Comprehensive income

Comprehensive income is the change in equity of the Company from net earnings and other comprehensive income (“OCI”).

OCI consists of the change in the fair value of any financial instruments classified as available for sale. Amounts recognized in OCI must eventually be reclassified to income when the related gains or losses are realized.

b) Accounting Changes

Effective January 1, 2007, the Company adopted the revised CICA section 1506, “Accounting Changes.” Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements that provide more reliable and relevant information to the reader. Changes in accounting policy must be applied retrospectively, while changes in accounting estimates are to be applied prospectively. The revised section also outlines additional disclosure required when accounting changes are applied, including the justification for the change, a complete description of the policy, the primary source of GAAP and the detailed effect on financial statement line items.

3. CAPITAL ASSETS

	March 31, 2007	December 31, 2006
Petroleum and natural gas properties	\$ 88,325,337	\$ 80,882,499
Accumulated depletion and depreciation	(46,844,613)	(43,505,419)
	\$ 41,480,724	\$ 37,377,080

During the three months ended March 31, 2007, the Company capitalized administrative overhead charges of \$328,247 (December 31, 2006 – \$1,117,037) relating to exploration and development activities.

During the three months ended March 31, 2007, petroleum and natural gas properties included \$14,648,636 (December 31, 2006 – \$9,457,946) relating to seismic expenditures and unproved properties which have been excluded from the depletion calculation.

4. ACQUISITION OF STRIDE ENERGY LTD.

Effective April 24, 2006, Questerre acquired all of the outstanding common shares of Stride Energy Ltd. (“Stride”), a private exploration and development company. Total consideration of \$12,310,076 was paid through the issuance of 7,262,742 Common Shares and a cash payment of \$6,282,000.

The purchase price was allocated based on the fair value of the assets and liabilities as follows:

Consideration Paid:	
Cash	\$ 6,282,000
Common Shares	6,028,076
	12,310,076
Allocation of Purchase Price:	
Current assets	4,837,086
Current liabilities	(1,378,564)
	3,458,522
Petroleum and natural gas properties	6,743,152
Goodwill	2,467,816
Asset retirement obligations	(359,414)
	\$ 12,310,076

5. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on Questerre's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company estimates its total undiscounted asset retirement obligations to be \$4,367,273 at March 31, 2007. Questerre uses a credit adjusted risk free rate of seven percent and an inflation rate of three percent over the varying lives of the assets to calculate the present value of the asset retirement obligation.

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

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 3,377,847	\$ 2,271,192
Liabilities assumed on corporate acquisition	–	359,414
Increase due to drilling activity	279,659	709,172
Accretion expense	30,012	88,929
Liabilities settled during the period	–	(50,860)
Balance, end of period	\$ 3,687,518	\$ 3,377,847

6. MARKETABLE SECURITIES

As at March 31, 2007, the Company holds marketable securities with a market value of \$3,435,750 (December 31, 2006: \$511,875).

The Company realized a gain of \$338,709 on the disposition of a portion of these securities during the first quarter of 2007 (2006: (\$10,480)).

In March 2007, Questerre participated in a share placement of its partner, at the Field, Transeuro Energy Corp. ("Transeuro"). The Company subscribed for three million units at \$0.61 per unit for gross subscription of \$1.84 million. Each unit consists of one common share of Transeuro and one common share purchase warrant entitling the holder to acquire one Transeuro share at \$0.61 per share until December 31, 2007.

7. BANK INDEBTEDNESS

In July 2002, the Company obtained a five-year, \$400,000 term loan with a Canadian bank. Under the terms of the loan, the Company was required make monthly payments of \$6,700 principal plus interest until the loan is paid out. The interest rate under the loan was the bank's floating base rate plus 2.0% and the Company had the right to lock in the rate at any time. The loan was secured by the first assignment to the bank of a \$100,000 Guaranteed Investment Certificate and by a General Security Agreement over the assets of the Company and its wholly owned subsidiary, Questerre Beaver River Inc. Financial covenants included maintaining a minimum long-term debt to tangible equity ratio of 0.8 to 1.0 and maintaining a working capital ratio of at least 1.0 to 1.0.

In January 2007, the term loan was paid out.

8. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of Class A common voting 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, 2007, there were no Class B common voting shares or preferred shares outstanding.

b) Issued and outstanding - Class A common shares

	Number	Amount
Common Shares		
Balance, December 31, 2006	155,171,750	\$ 85,809,663
Issued for cash on exercise of options	20,000	11,400
Stock based compensation	–	2,872
Reclassification of share issue costs	–	997
Balance, March 31, 2007	155,191,750	\$ 85,824,932

c) Per Share Amounts

The following table summarizes the weighted average common shares used in calculating net loss per common share:

Three Months Ended March 31,	2007	2006
Basic	155,190,861	117,536,816
Diluted	162,242,898	121,338,700

The reconciling item between the basic and diluted average common shares is stock options.

d) Stock Options

The Company has a stock option plan that provides for the issuance of options to its directors, officers and employees at or above market prices. The stock options granted under the plan vest evenly over a three-year period and expire five years from the date of grant.

The following table sets forth a reconciliation of the stock option plan activity for the three months ended March 31, 2007:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2006	12,869,586	\$0.59
Granted	175,000	\$1.26
Forfeited	(72,500)	\$0.58
Exercised	(20,000)	\$0.57
Outstanding, March 31, 2007	12,952,086	\$0.60
Exercisable, March 31, 2007	6,304,654	\$0.43

The outstanding options have a range of exercise prices from \$0.10 to \$1.34, and a weighted average number of years to expiry of 3.5 years (2006 – 4.1 years). The exercisable options have a range of exercise prices from \$0.10 to \$1.34 and 3.1 years to expiry (2006 – 3.9 years). For options with an exercise price ranging between \$0.10 to \$0.65, there are 7,677,086 options outstanding, 4,822,571 options exercisable, a weighted average exercise price of \$0.35 and a weighted average contractual life of 3.1 years. For options with an exercise price ranging between \$0.72 and \$1.34, there are 5,275,000 options outstanding, 1,482,083 options exercisable, a weighted average exercise price of \$0.96 and a weighted average contractual life of 4.1 years.

e) Stock-based compensation costs

The Company accounts for its stock based compensation plan using the fair value method. Under this method, compensation cost attributable to share options granted to employees or directors is measured at fair value at the grant date and expensed over the expected exercise time frame with a corresponding increase to contributed surplus.

The fair value of each option granted is estimated in the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

For the three months ended March 31,	2007	2006
Weighed average fair value per option	0.64	0.30
Risk free interest rate (%)	4%	4%
Expected life (years)	3.0	3.0
Expected volatility (%)	65%	81%

f) Contributed surplus

The following table sets forth a reconciliation of contributed surplus for the three months ended March 31, 2007:

Balance, December 31, 2006	\$	2,068,902
Stock-based compensation expense		330,050
Option Exercise		(2,872)
Balance, March 31, 2007		2,396,080

9. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Questerre is party to an Office Rental Agreement (the “Agreement”) with a related party for the provision of offices, office equipment and support personnel. Either party may terminate the Agreement with six months’ written notice. Questerre’s annual commitment under the Agreement is \$126,000 for 2007.

In June 2006, the Company completed a private placement of 9,709,000 common shares issued on a flow-through basis at \$1.03 per share for gross proceeds of \$10 million. The flow-through shares require the Company to incur qualifying Canadian Exploration Expenses (“CEE”) by December 31, 2007. As at March 31, 2007, the Company had spent approximately \$7.45 million on CEE and had a remaining commitment of \$2.55 million.

In June 2006, the Company entered into a farm-in agreement with a major independent oil and gas company (the “Farmor”) in Central Alberta. The Company has an obligation to drill five wells and will pay the Farmor \$0.1 million for each well it does not drill. As at March 31, 2007 the Company has drilled four wells under the agreement.

10. RELATED PARTY TRANSACTIONS

At March 31, 2007, Questerre had amounts owing to Terrenex totalling \$9,321 (2006 – \$771). All of the directors of Terrenex serve as directors or officers of Questerre.

Questerre incurred fees of \$31,500 for the three months ended March 31, 2007 (2006 – \$31,500) to a company with common directors and officers. The transactions were in the normal course of business paid pursuant to the Agreement.

11. SUBSEQUENT EVENTS

In April 2007, the Company amended its farm-in and operating agreement with Transeuro. Transeuro will no longer be committed to drill a well to the deepest horizon at its sole risk and cost to complete its obligations and earn a 50% interest in the Field. In consideration of a payment of \$10 million to Questerre, Transeuro is deemed to have earned a 50% interest in the entire Field and all infrastructure. In April 2007, Questerre received the \$10 million from Transeuro.