

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of Questerre Energy Corporation for the three months ended March 31, 2008 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
Vice President, Finance

Calgary, Alberta, Canada
May 9, 2008

CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31 2008	December 31 2007
Assets		
Current assets		
Cash	\$ 3,755,444	\$ 13,091,476
Short term investments	–	807,800
Marketable securities (note 5)	–	1,979,250
Accounts receivable	10,823,910	8,028,997
Inventory	478,838	204,462
Deposits and prepaids	5,547,669	2,764,647
	20,605,861	26,876,632
Goodwill	2,467,816	2,467,816
Future income tax	3,379,481	1,124,731
Petroleum and natural gas properties (note 3)	137,521,950	119,657,700
Less: accumulated depletion and depreciation	(60,548,352)	(57,052,112)
	76,973,598	62,605,588
	\$ 103,426,756	\$ 93,074,767
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 21,194,745	\$ 16,868,786
Risk management (note 9)	227,257	–
Bank debt (note 6)	3,690,000	–
	25,112,002	16,868,786
Asset retirement obligation (note 4)	4,711,458	4,578,140
	\$ 29,823,460	\$ 21,446,926
Shareholders' Equity		
Common shares (note 7)	\$ 97,694,697	\$ 97,341,561
Contributed surplus (note 7 (f))	3,655,206	3,505,088
Deficit and accumulated other comprehensive income	(27,746,607)	(29,218,808)
	73,603,296	71,627,841
	\$ 103,426,756	\$ 93,074,767

Contractual Commitments and Obligations (note 8)

See accompanying notes to consolidated financial statements.

STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT

(unaudited)

For the three months ended March 31	2008	2007
Revenue		
Petroleum and natural gas	\$ 7,231,829	\$ 7,502,436
Royalties	(1,274,673)	(2,051,916)
Unrealized loss on risk management activities (note 9)	(227,257)	-
	\$ 5,729,899	\$ 5,450,520
Expenses		
Operating	\$ 1,429,710	\$ 1,687,063
General and administrative	535,399	821,212
Interest expense	39,381	3,589
Interest income	(78,769)	(108,073)
Realized (gain) loss on sale of marketable securities	704,699	(338,709)
Unrealized (gain) loss on marketable securities	-	(794,170)
Stock-based compensation (note 7 (e))	329,556	330,050
Depletion, depreciation and accretion	3,552,472	3,369,192
	\$ 6,512,448	\$ 4,970,154
Net earnings (loss) before income taxes	\$ (782,549)	\$ 480,366
Income taxes		
Future tax recovery	(2,254,750)	-
	\$ (2,254,750)	\$ -
Net earnings and comprehensive income	\$ 1,472,201	\$ 480,366
Deficit, beginning of period	\$ (29,218,808)	\$ (28,715,095)
Restatement for changes in accounting policies		
Financial Instruments	-	702,000
Deficit, end of period	\$ (27,746,607)	\$ (27,532,729)
Net earnings (loss) per share		
Basic and diluted	\$ 0.01	\$ 0.00

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For the three months ended March 31	2008	2007
Cash provided by (used in):		
Operating Activities		
Net earnings	\$ 1,472,201	\$ 480,366
Items not affecting cash		
Unrealized loss on risk management activities	227,257	–
Depletion and depreciation and accretion	3,552,472	3,369,192
Stock-based compensation expense	329,556	330,050
Realized loss (gain) on sale of marketable securities	704,699	(338,709)
Unrealized (gain) on marketable securities	–	(794,170)
Future tax recovery	(2,254,750)	–
Abandonment expenditures	(92,310)	–
	3,939,125	3,046,729
Net change in non-cash working capital	(2,379,138)	501,717
	\$ 1,559,987	\$ 3,548,446
Financing Activities		
Issue of common shares	\$ 207,696	\$ 11,400
Share issue costs	(33,998)	997
Bank loan (repayment)	–	(73,700)
Bank debt	3,690,000	–
Release of restricted cash (note 6)	–	100,000
	\$ 3,863,698	\$ 38,697
Investing Activities		
Expenditures on petroleum and natural gas properties	\$ (17,694,854)	\$ (7,163,179)
Purchase of short term investments	807,800	–
Sale (acquisition) of marketable securities, net of dispositions	1,274,551	(1,454,621)
Net change in non-cash working capital	852,786	1,597,878
	\$ (14,759,717)	\$ (7,019,922)
Increase (decrease) in cash	(9,336,032)	(3,432,779)
Cash, beginning of period	13,091,476	26,616,233
Cash, end of period	\$ 3,755,444	\$ 23,183,454

See accompanying notes to consolidated financial statements.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 (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, 2007. 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, 2007. Preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is a full cycle exploration and production company. The Company targets scalable high-impact projects. The Company is also developing a portfolio of conventional exploration and production assets primarily in Alberta and Saskatchewan.

2. Changes in Accounting Policies

On January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's objectives, policies and processes for how it manages its capital. A company must also disclose qualitative data about what the entity regards as capital; and whether the company has complied with any capital requirements and if not, the consequences of such non-compliance. The Company adopted this standard effective January 1, 2008 (see Note 10).

Section 3862, "Financial Instruments - Disclosures". This section describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from both recognized and unrecognized financial instruments to which the entity is exposed and how the entity manages those risks. The Company adopted this standard effective January 1, 2008 (see Note 9).

Section 3863, "Financial Instruments - Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of the standards described in Section 3861, "Financial Instruments - Disclosure and Presentation". The Company adopted this standard effective January 1, 2008 (see Note 9).

Section 3031, "Inventories". This section establishes standards for presentation of inventories. The new standard replaces the previous inventories standard and requires inventory to be valued on a first-in, first-out or weighted average basis, which is consistent with Questerre's former accounting policy. The new standard allows the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The adoption of this standard has had no material impact on the Company's financial statements.

Future Accounting Pronouncements

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. Questerre is currently evaluating the impact this section will have on its results of operations and financial position.

3. Petroleum and Natural Gas Properties

	March 31 2008	December 31 2007
Petroleum and natural gas properties	\$ 137,521,950	\$ 119,657,700
Accumulated depletion and depreciation	(60,548,352)	(57,052,112)
	\$ 76,973,598	\$ 62,605,588

During the three months ended March 31, 2008, the Company capitalized administrative overhead charges of \$535,399 (December 31, 2007: \$1,474,269) relating to exploration and development activities.

During the three months ended March 31, 2008, petroleum and natural gas properties included \$17,762,251 (December 31, 2007: \$11,895,668) relating to seismic expenditures and unproved properties which have been excluded from the depletion calculation. Included in the depletion calculation are future development costs of \$6,702,000.

4. Asset Retirement Obligations

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 \$6,282,338 at March 31, 2008. 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 2008	December 31 2007
Balance, beginning of period	\$ 4,578,140	\$ 3,377,847
Liabilities assumed on corporate acquisition	-	512,078
Increase due to drilling activity	169,396	545,658
Accretion expense	56,232	142,557
Liabilities settled during the period	(92,310)	-
Balance, end of period	\$ 4,711,458	\$ 4,578,140

5. Marketable Securities

As at March 31, 2008, the Company held marketable securities with a market value of \$nil (December 31, 2007: \$1,979,250). For the three months ended March 31, 2008, the Company realized a loss of \$704,699 (2007: gain of \$338,709) on the disposition of marketable securities.

6. Bank Indebtedness

In July 2002, the Company obtained a five-year, \$400,000 term loan with a Canadian chartered 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 include 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.

The Company has a \$7.5 million revolving credit facility with a Canadian chartered bank. The advances bear interest at bank prime plus 0.5%. The authorized limit is subject to a quarterly review and potential revision of the borrowing base by the bank. The most recent borrowing base review was completed in May 2008. The facility is secured with a \$20 million fixed and floating charge debenture over the assets of the Company.

7. 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, 2008, 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, 2007	168,930,470	\$ 97,341,561
Issued for cash on exercise of options	1,960,000	207,696
Stock based compensation		179,438
Share issue costs		(33,998)
Balance, March 31, 2008	170,890,470	\$ 97,694,697

c) Per share amounts

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

Three Months Ended March 31,	2008	2007
Basic	169,733,932	155,190,861
Diluted	172,902,492	162,242,898

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, 2008:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2007	13,064,170	\$0.59
Granted	5,745,000	\$0.45
Forfeited	80,000	\$0.79
Exercised	(1,960,000)	\$0.11
Outstanding, March 31, 2008	16,769,170	\$0.61
Exercisable, March 31, 2008	8,052,225	\$0.62

Details of the exercise prices and expiry dates of options outstanding at March 31, 2008 are as follows:

Range of exercise price	Options Outstanding			Options Exercisable	
	Common shares issuable	Weighted average years to expiry	Weighted average exercise price	Common shares issuable	Weighted average exercise price
\$0.10 - \$0.30	1,053,334	1.74	0.29	1,053,334	0.29
\$0.39 - \$0.65	10,235,836	3.81	0.46	3,770,974	0.46
\$0.72 - \$1.00	4,030,000	2.94	0.81	2,638,333	0.82
\$1.23 - \$1.34	1,450,000	3.76	1.33	589,583	1.33
	16,769,170	3.47	\$ 0.61	8,052,225	\$ 0.62

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 vesting period with a corresponding increase to contributed surplus.

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

Three Months Ended March 31,	2008	2007
Weighted average fair value per option (\$)	0.24	0.64
Risk free interest rate (%)	2.95	4.00
Expected life (years)	3.0	3.0
Expected volatility (%)	79	65

f) Contributed surplus

The following table sets forth a reconciliation of contributed surplus for the three months ended March 31, 2008:

Balance, December 31, 2007	\$	3,505,088
Stock-based compensation expense		329,556
Option Exercise		(179,438)
Balance, March 31, 2008	\$	3,655,206

8. Contractual Commitments and Obligations

Pursuant to a flow-through share private placement entered into on December 13, 2007, the Company was obligated to incur \$1.0 million in qualifying Canadian Exploration Expenses by December 31, 2008. As at March 31, 2008, the Company has a remaining commitment of \$0.5 million.

The Company is obligated to make total payments under an operating lease of \$86,859 in 2008, \$115,812 in 2009 and 2010. Questerre has commitments under a lease for office space of \$241,889 in 2009 and \$322,519 in 2009 and 2010.

9. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

Commodity price risk

Due to the volatility of commodity prices the Company is potentially exposed to adverse consequences in the event of declining prices. The Company may enter into oil and natural gas contracts in order to protect its cash flow on future sales. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. As at March 31, 2008, the Company had the following contracts outstanding:

Type	Amount	Term	Price (\$/gj)	Type
Swap	2,000 gj/day	April 1 - October 31, 2008	\$8.45	Financial

Foreign currency exchange risk

Even though all of Questerre's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. In addition, the fair value of its risk management contracts will fluctuate as a result of changes in foreign exchange rates as most derivative contracts are denominated in US dollars. As at March 31, 2008 the Company had no forward foreign exchange contracts in place.

Interest rate risk

The Company's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rate of interest. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company had no interest rate swaps or financial contracts in place at or during the three months ended March 31, 2008.

Credit risk

Substantially all of the accounts receivable are with customers 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. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25th day of the month following delivery. The Company has not experienced any credit loss in the collection of its accounts receivable.

Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough available resources to withstand any downturn in the industry. As the industry is very capital intensive, the majority of the Company's spending is related to its capital programs. See Note 10 for disclosure related to the management of the Company's capital program. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers.

Fair values of financial instruments

The carrying value of financial instruments, which include cash, short term investments, accounts receivable, deposits, derivative financial instruments, accounts payable and accrued liabilities approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. The fair value of cash, short term investments, accounts receivable, deposits, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of derivative financial instruments is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, and then multiplying this price differential by the contracted commodity volumes.

Questerre's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The carrying and fair values of the Company's financial instruments as at March 31, 2008 are as follows:

	Carrying Value	Fair Value
Financial Assets		
Held-for-trading:		
Cash	\$ 3,755,444	\$ 3,755,444
Deposits and prepaids	\$ 5,547,669	\$ 5,547,669
Receivables:		
Accounts receivable	\$ 10,823,910	\$ 10,823,910
Financial Liabilities:		
Accounts payable and accrued liabilities	\$ 21,129,800	\$ 21,129,800
Bank debt	\$ 3,690,000	\$ 3,690,000

As at each reporting period, the Company will assess whether a financial asset, other than those classified as held-for-trading is impaired. Any impairment loss will be included in the earnings for the period.

10. Capital Disclosures

The Company's capital structure includes shareholders' equity, bank debt and working capital.

Questerre's objectives in managing its capital structure are to:

- 1) create and maintain flexibility so that Questerre can continue to meet its financial obligations; and
- 2) finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

The Company monitors its capital structure using primarily the non-GAAP financial metric of net debt to annualized, most recent quarters' cash flow from operations ratio. Questerre's objective is to maintain a net debt to cash flow from operations ratio of one and one half times or less.

	March 31 2008	December 31 2007
Current assets	\$ 20,605,861	\$ 26,876,632
Accounts payable and accrued liabilities	(21,194,745)	(16,868,786)
Risk management	(227,257)	–
Bank debt	(3,690,000)	–
Net (deficiency) surplus	\$ (4,506,141)	\$ 10,007,846
Net earnings (loss)	\$ 1,472,201	\$ (1,281,674)
Items not affecting cash		
Unrealized loss on risk management activities	227,257	–
Depletion and depreciation	3,496,240	13,546,694
Accretion on asset retirement obligation	56,232	142,557
Stock-based compensation expense	329,556	1,465,498
Realized loss (gain) on sale of marketable securities	704,699	(903,721)
Future tax recovery	(2,254,750)	–
Abandonment expenditures	(92,310)	–
Unrealized gain on marketable securities	–	785,441
Cash flow from operations	\$ 3,939,125	\$ 10,229,020
Annualized cash flow	\$ 15,765,500	\$ 10,229,020
Net debt to annualized cash flow	0.28X	N/A

The Company's capital is not subject to any external restrictions as to how is deployed nor does it have any financial covenants in respect of its bank credit facility.

11. Related Part Transactions

On February 22, 2008, the Company entered into an agreement to acquire Terrenex Ltd. ("Terrenex"), a related party. The consideration for the acquisition was 15,892,785 common shares and a cash payment of \$0.5 million. On April 27, 2008, the agreement was amended and the consideration increased to 18,910,403 common shares. On April 28, 2008, the transaction received the requisite Terrenex shareholder and regulatory approval. Net of the cancellation of 10,698,785 common shares held by Terrenex, a total of 8,211,618 common shares were issued for the acquisition.