

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF QUESTERRE ENERGY CORPORATION

The accompanying consolidated financial statements of Questerre Energy Corporation and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management has established systems of internal controls, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, which is comprised of non-management directors. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has reported to the Board of Directors which have approved the consolidated financial statements.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.



Michael Binnion
President and Chief Executive Officer



Jason D'Silva
Vice President, Finance

Calgary, Alberta, Canada
March 28, 2007

AUDITORS' REPORT

TO THE SHAREHOLDERS OF QUESTERRE ENERGY CORPORATION

We have audited the consolidated balance sheets of Questerre Energy Corporation as at December 31, 2006 and 2005 and the consolidated statements of income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Micewater Howe Coopers LLP

Chartered Accountants

Calgary, Alberta, Canada
March 26, 2007

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005
Assets		
Current assets		
Cash	\$ 26,616,233	\$ 9,296,160
Marketable securities (Note 7)	146,250	499,311
Accounts receivable	3,589,316	1,533,354
Inventory	321,437	92,925
Deposits and cash calls paid	421,308	32,064
	31,094,544	11,453,814
Restricted cash (note 5)	100,000	100,000
Goodwill (note 3)	2,467,816	—
Petroleum and natural gas properties (note 4)	80,882,499	50,383,321
Less: accumulated depletion and depreciation	(43,505,419)	(35,744,372)
	37,377,080	14,638,949
	\$ 71,039,440	\$ 26,192,763
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,341,968	\$ 1,597,584
Bank loan (note 5)	73,700	154,100
Current income taxes	82,455	—
	8,498,123	1,751,684
Asset retirement obligation (note 6)	3,377,847	2,271,170
	\$ 11,875,970	\$ 4,022,876
Shareholders' Equity		
Common shares (note 8)	\$ 85,809,663	\$ 49,268,507
Contributed surplus (note 8 (f))	2,068,902	739,640
Deficit	(28,715,095)	(27,838,260)
	59,163,470	22,169,887
	\$ 71,039,440	\$ 26,192,763

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors



Director



Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND DEFICIT

For the years ended December 31,	2006	2005
Revenue		
Petroleum and natural gas revenue	\$ 12,030,736	\$ 2,097,422
Royalties	(2,817,253)	(362,945)
	\$ 9,213,483	\$ 1,734,477
Expenses		
Operating	\$ 2,799,396	\$ 714,783
General and administrative	1,602,067	1,034,429
Restructuring costs	—	80,500
Stock-based compensation (note 8 (e))	1,349,989	697,688
Interest expense	23,030	67,832
Interest income	(356,716)	(40,194)
Foreign exchange (gain) loss	(66,597)	(46,603)
Loss on sale of marketable securities	22,806	—
Depletion and depreciation	7,761,047	2,074,544
Accretion on asset retirement obligation (note 6)	88,929	157,060
	\$ 13,223,951	\$ 4,740,039
Net loss before income taxes	\$ (4,010,468)	\$ (3,005,562)
Taxes		
Current taxes	85,024	—
Future tax recovery	(3,218,657)	—
	\$ (3,133,633)	\$ —
Net loss	\$ (876,835)	\$ (3,005,562)
Deficit, beginning of year	\$ (27,838,260)	\$ (24,832,698)
Deficit, end of year	\$ (28,715,095)	\$ (27,838,260)
Net loss per share		
Basic and diluted (note 8 (c))	(0.01)	(0.03)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	2006	2005
Cash provided by (used in):		
Operating Activities		
Net loss	\$ (876,835)	\$ (3,005,562)
Items not affecting cash		
Depletion and depreciation	7,761,047	2,074,544
Accretion on asset retirement obligation	88,929	157,060
Loss on marketable securities	22,806	–
Non cash corporate restructuring costs	–	80,500
Stock-based compensation expense	1,349,989	697,688
Future tax recovery	(3,218,657)	–
Abandonment expenditures	(50,860)	–
	5,076,419	4,230
Net change in non-cash working capital	1,991,338	(779,302)
	\$ 7,067,757	\$ (775,072)
Financing Activities		
Issue of common shares	\$ 35,957,852	\$ 19,189,908
Share issue costs	(2,253,499)	(1,941,290)
Repayment of bank loan	(80,400)	(80,400)
	\$ 33,623,953	\$ 17,168,218
Investing Activities		
Expenditures on petroleum and natural gas properties	\$ (23,046,854)	\$ (10,307,805)
Acquisition of Stride (note 3)	(6,282,000)	–
Cash acquired on acquisition of Stride (note 3)	3,712,541	–
Sale (purchase) of marketable securities	330,255	(499,311)
Net change in non-cash working capital	1,914,421	1,008,653
	\$ (23,371,637)	\$ (9,798,463)
Increase in cash	\$ 17,320,073	\$ 6,594,683
Cash, beginning of year	9,296,160	2,701,477
Cash, end of year	\$ 26,616,233	\$ 9,296,160

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Questerre Energy Corporation (“Questerre” or the “Company”) is involved in the exploration and development of large-scale 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. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from estimated amounts.

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Questerre Beaver River Inc. (“QBR”) and 6058931 Canada Inc.

b) Cash

Cash consists of cash in the bank, less outstanding cheques and short-term deposits with a maturity of less than three months.

c) Marketable Securities

Marketable securities are carried at the lower of weighted average cost and market value.

d) Measurement Uncertainty

Depletion and depreciation, amounts used for ceiling test calculations, stock based compensation, future tax and asset retirement obligations are estimates. The ceiling test is based on estimates of oil and natural gas reserves and commodity prices, production expenses and capital costs required to develop and produce those reserves. By their nature, these estimates are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

e) Inventory

Inventory is recorded at the lower of weighted average cost and market, measured by replacement cost.

f) Revenue Recognition

Revenue from the sale of petroleum and natural gas are recorded when the title passes to a third party.

g) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, petroleum and natural gas production equipment and overhead charges related to exploration and development activities. Proceeds received from the disposition of petroleum and natural gas properties and equipment are credited against the capitalized costs unless the disposition would significantly alter the rate of depletion and depreciation, in which case a gain or loss on disposal would be recorded.

All costs of acquisition, exploration and development of petroleum and natural gas reserves, associated tangible plant and equipment costs, and estimated costs of future development of proven undeveloped reserves are depleted and depreciated using the unit of

production method based on estimated proven reserves before royalties as determined by independent reservoir engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content.

Depreciation of capital assets not related to petroleum and natural gas properties is provided using the straight line method over periods ranging from five to ten years. Costs of unproved properties are initially excluded from petroleum and natural gas properties for the purpose of calculating depletion. These properties are assessed periodically to determine whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Company reviews the carrying amount of its petroleum and natural gas properties (“the properties”) relative to their recoverable amount (“the ceiling test”) at each annual balance sheet date, or earlier if circumstances or events indicate impairment may have occurred. The recoverable amount is calculated as the undiscounted cash flow from the properties using proved reserves and expected future prices and costs. If the carrying amount of the properties exceeds their recoverable amount, then an impairment loss, equal to the amount by which the carrying amount of the properties exceeds the discounted cash flow from those properties using proved and probable reserves and expected future prices and costs, is recognized in depletion.

h) Asset Retirement Obligation

The fair value of asset retirement obligations related to long-term assets is recognized as a liability in the period in which they are incurred. The fair value of the asset retirement obligation is estimated by discounting the expected future cash flows to settle the asset retirement obligation at the Company’s credit adjusted risk free rate. Asset retirement costs equal to the discounted asset retirement obligation are capitalized as part of the cost of the associated capital asset and amortized to expense through depletion over the life of the asset. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and for any changes in the amount or timing of the underlying future cash flows.

i) Joint Operations

Significant portions of the Company’s exploration and production activities are conducted jointly with others and accordingly, the financial statements reflect only the Company’s proportionate interest in such activities.

j) Foreign Currency Translation

Monetary assets and liabilities, denominated in foreign currencies, are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and revenue and expense items are translated at rates prevailing when they were acquired or incurred. Foreign exchange gains and losses are included in income.

k) Flow-Through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the renounced tax deductions at the date of renouncement.

l) Stock-Based Compensation Plan

The company has a stock option plan for directors and employees. The stock option plan is described in note 8(d). The compensation cost attributable to share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase in contributed surplus.

m) Per Share Information

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

n) Goodwill

Goodwill is the excess purchase price over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized. However, goodwill impairment will be assessed annually, or as economic events dictate, by comparing the fair value of the net assets to its carrying value, including goodwill. If the fair value of the net assets is less than its carrying value, the fair value of the goodwill is compared with its carrying value to measure the amount of goodwill impairment loss.

3. 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

4. PETROLEUM AND NATURAL GAS PROPERTIES

	December 31, 2006	December 31, 2005
Petroleum and natural gas properties	80,882,499	50,383,321
Accumulated depletion and depreciation	(43,505,419)	(35,744,372)
	37,377,080	14,638,949

During the year ended December 31, 2006, the Company capitalized administrative overhead charges of \$ 1,117,037 (2005 – \$415,957) relating to exploration and development activities.

During the year ended December 31, 2006, petroleum and natural gas properties included \$9,457,946 (December 31, 2005: \$6,104,911) 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 \$248,200.

The Company has performed an impairment test as of December 31, 2006, using the estimated average sales price for each of the next five years as follows:

Year	2007	2008	2009	2010	2011
Gas (C\$/GJ)	6.85	7.05	7.40	7.50	7.70
Oil (C\$/bbl)	70.80	69.30	67.70	66.10	64.20

The benchmark gas price is projected to increase by an average of 2% after 2011. The benchmark oil price is projected to increase by an average of 2% after 2011. There was no impairment as at December 31, 2006 (December 31, 2005: \$1.31 million). The impairment in 2005 relates to the Company’s share of costs of an unsuccessful exploration well in the Simonette area of Alberta.

5. BANK LOAN

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 must make monthly payments of \$6,700 principal plus interest until the loan is paid out. The interest rate under the loan is the bank's floating base rate plus 2.0% and the Company may fix the rate at any time. The loan is secured by the first assignment to the bank of a \$100,000 Guaranteed Investment Certificate ("GIC") and by a General Security Agreement over the assets of the Company and its subsidiary, QBR. 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.

While Questerre currently meets this financial covenant, the Company has not been in compliance with this covenant in the past and, therefore, the bank loan has been classified as a current liability.

In January 2007, the term loan was paid out.

6. 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 the 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 \$3,985,296 at December 31, 2006. Questerre used a credit adjusted risk free rate of seven per cent and an inflation rate of three per cent 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:

	December 31, 2006	December 31, 2005
Balance, beginning of period	\$ 2,271,192	\$ 1,848,503
Liabilities assumed on corporate acquisition	359,414	–
Increase due to drilling activity	709,172	265,629
Accretion expense	88,929	157,060
Liabilities settled during the period	(50,860)	–
Balance, end of period	\$ 3,377,847	\$ 2,271,192

7. MARKETABLE SECURITIES

As at December 31, 2006, the Company holds marketable securities with a market value of \$511,875 (December 31, 2005: \$546,120). For the year ended December 31, 2006, the Company realized a loss of \$22,806 on the disposition of marketable securities.

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 December 31, 2006, 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, 2004	66,751,904	\$	31,339,389
Issued for cash	43,112,690		19,189,908
Issued on conversion of promissory note	2,000,000		600,000
Issued for corporate restructuring	1,150,000		80,500
Share issue costs	—		(1,941,290)
Balance, December 31, 2005	113,014,594	\$	49,268,507
Issued for cash	34,709,000		35,910,270
Issued for cash on exercise of options	185,414		47,582
Issued on acquisition of Stride Energy Ltd. (note 3)	7,262,742		6,028,076
Tax effect of flow-through share issuance	—		(3,212,000)
Stock-based compensation	—		20,727
Share issue costs	—		(2,253,499)
Balance, December 31, 2006	155,171,750	\$	85,809,663

Common Shares

In February 2006, the Company completed a private placement of 11,000,000 Common Shares at \$0.65 per Common Share for gross proceeds of \$7.15 million. 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 Common Share for gross proceeds of \$10.0 million. In connection with this placement, the Company issued warrants to acquire 291,270 common shares at \$1.03 per common share exercisable until December 28, 2007. In December 2006, the Company completed a private placement of 14,000,000 Common Shares at \$1.34 per Common Share for gross proceeds of \$18.76 million.

c) Per Share Amounts

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

	2006	2005
Basic	132,918,644	91,308,441
Diluted	137,493,898	93,742,194

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 year ended December 31, 2006:

	Number of Options	Weighted Avg Exercise Price
Outstanding, December 31, 2004	3,365,000	\$ 0.16
Granted	6,020,000	\$ 0.59
Cancelled	(180,000)	\$ (0.14)
Outstanding, December 31, 2005	9,205,000	\$ 0.44
Granted	3,920,000	\$ 0.93
Exercised	(185,414)	\$ 0.26
Forfeited	(70,000)	\$ 0.82
Outstanding, December 31, 2006	12,869,586	\$ 0.59
Exercisable, December 31, 2006	5,255,314	\$ 0.40

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 3.6 (2005 – 4.2 years). The exercisable options have a range of exercise prices from \$0.10 to \$1.00 and 3.3 years to expiry (2005 – 4.0 years). For options with an exercise price ranging between \$0.10 to \$0.65, there are 7,752,086 options outstanding, 4,190,939 options exercisable, a weighted average exercise price of \$0.35 and a weighted average contractual life of 3.31 years. For options with an exercise price ranging between \$0.72 and \$1.34, there are 5,117,500 options outstanding, 1,064,375 options exercisable, a weighted average exercise price of \$0.95 and a weighted average contractual life of 4.31 years.

e) Stock-Based Compensation Costs

The Company accounts for its stock based compensation plan using the fair value method. Under this method, compensation costs 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 at the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2006	2005
Weighted average fair value per option	\$ 0.45	\$ 0.26
Risk free interest rate (%)	4.0%	3.0%
Expected life (years)	3.0	3.0
Expected volatility (%)	72%	105%

f) Contributed Surplus

The following table sets forth a reconciliation of contributed surplus for the year ended December 31, 2006:

Balance, December 31, 2004	\$	41,952
Stock-based compensation expense		697,688
Balance, December 31, 2005	\$	739,640
Stock-based compensation expense		1,349,989
Option exercise		(20,727)
Balance, December 31, 2006	\$	2,068,902

9. FUTURE INCOME TAX

The provision for income taxes in the financial statements differs from the result which would have been obtained in applying the combined federal and provincial tax rate to the Company's earnings before income taxes. The difference results from the following items:

Year ended December 31,	2006	2005
Net loss	(876,835)	\$ (3,005,562)
Combined federal and provincial tax rate	33.15%	33.69%
Computed "expected" income tax recovery	(290,710)	(1,009,869)
Increase in income taxes resulting from:		
Non-deductible crown charges and recoveries	262,573	404,371
Resource allowance	(201,922)	
Tax rate reduction	-	-
Unrecognized tax benefit of accounting losses	230,059	605,498
Recognition of future income tax in recognition of tax on flow-through shares	(3,218,657)	
Future income tax recovery	\$ (3,218,657)	\$ -

The components of the Company's future income tax liability are as follows:

	December 31, 2006	December 31, 2005
Future income tax assets:		
Petroleum and natural gas properties	\$ 1,769,235	\$ 3,061,927
Asset retirement obligation	1,131,851	712,721
Share issue expenses	1,601,819	652,273
Non-capital loss carryforwards	1,033,963	771,526
Valuation adjustment	(2,318,211)	(5,198,447)
	(3,218,657)	-
Future income tax liabilities:		
Flow through share renouncements to be incurred	(3,218,657)	-
Net future income tax liability	\$ -	\$ -

Non-capital loss carryforwards at December 31, 2006 represent non-capital losses and expire in 2010.

10. FINANCIAL INSTRUMENTS

The company's financial instruments included in the balance sheet are comprised of accounts receivable, accounts payable, accrued liabilities, marketable securities and the bank loan. The fair value of financial instruments classified as current assets approximate their carrying amounts due to the short-term maturity of these instruments. The fair value of the bank loan approximates its carrying amount as the interest rate approximates market.

Virtually all of the Company's accounts receivable are for revenue on its operated and non-operated properties in Alberta and British Columbia. The Company is exposed to credit risks normal for the oil and gas industry.

11. RELATED PARTY TRANSACTIONS

At December 31, 2006, Questerre had amounts owing to Terrenex totaling \$715 (December 31, 2005 : \$754). All of the directors of Terrenex serve as directors or officers of Questerre.

Questerre incurred fees of \$126,000 for the year ended December 31, 2006 (2005: \$126,000) to a company with common directors and officers. The transactions were in the normal course of business and payments were made pursuant to an Office Rental Agreement for the provision of office space, office equipment and support personnel. The agreement may be terminated by either party with six months' written notice.

12. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Questerre is party to an Office Rental 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 this 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 December 31, 2006, the Company had spent approximately \$2.95 million on CEE and had a remaining commitment of \$7.05 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 of December 31, 2006 the Company drilled one well under this agreement and, during the first quarter of 2007, the Company drilled three additional wells under the agreement.

13. SUBSEQUENT EVENTS

In January 2007, the Company paid out the balance of the bank loan through the redemption of the GIC.

In March 2007, Questerre participated in a private 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 proceeds of \$1.83 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 until December 31, 2007.