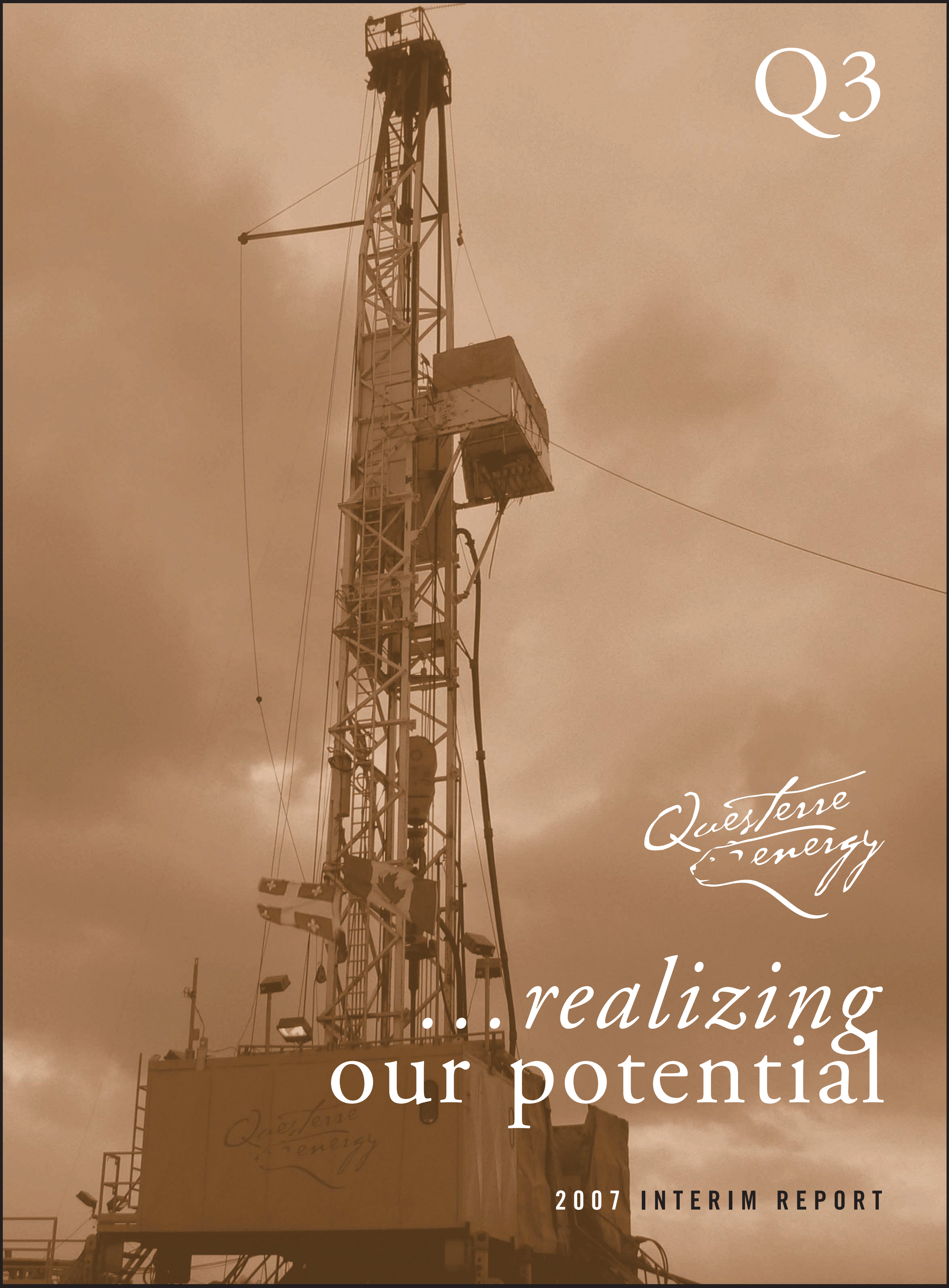

Q3

Questerre energy

...realizing our potential

2007 INTERIM REPORT

Questerre Energy Corporation is a Calgary-based petroleum and natural gas exploration and production company. The Company aims to create shareholder value through the development of scalable, high-impact projects.

Questerre's common shares are listed on the Toronto Stock Exchange and Oslo Stock Exchange under the symbol QEC.

PRESIDENT'S MESSAGE

We had two primary objectives for the third quarter of 2007 – conclude the acquisition of Magnus Energy Inc. and commence the summer work program at the Beaver River Field.

I am pleased to report that we successfully finalized the Magnus transaction at the beginning of November. Despite one of the wettest summers on record at Beaver River, we were able to complete equipment mobilization on schedule and began the work program. We subsequently evaluated two wells for production from the Mattson and also spud the A-8 Nahanni well.

Both these projects have excellent potential to create shareholder value. Success of the A-8 well will validate our theory of compartments and set up at least ten follow-on locations. The development of Magnus' extensive acreage for the Bakken/Torquay play is anticipated to add long-life, high value light oil reserves. Coupled with the results from the Yamaska shale gas wells and Talisman's seismic program in Quebec, I look forward to reporting on the early results from all these projects in 2008.

Highlights

- Concluded agreement to acquire a light oil resource-style play through the purchase of Magnus Energy Inc.
- Spud A-8 Nahanni well at Beaver River Field
- Completed and tested the A-7 and B-3 wells for the Mattson horizon
- Quarterly cash flow from operations increased to $2.41 million from $1.68 million in 2006
- Average daily production for the quarter increased 16% to 1,206 boe/d from 1,037 boe/d in 2006

Acquisition of Magnus Energy Inc.

We accomplished one of our year-end objectives of developing a new core area through the acquisition of Magnus.

Magnus built an attractive land base in the Antler area of southeast Saskatchewan for the emerging Bakken/Torquay light oil play. The contiguous acreage of over eighty square miles lies to the west of the Sinclair field in Manitoba where cumulative production from this horizon exceeds one million barrels. Magnus' capital constraints unfortunately did not allow it to fully capitalize on this opportunity.

The opportunity lies in maximizing the recovery factor of the oil in place. Based on the success of other operators in the area, we believe that horizontal wells and selective fracture stimulation could play a vital role in developing this acreage. Magnus' independent reserve engineers have estimated between 78,000 barrels in proved reserves and 111,000 barrels in proved and probable reserves per horizontal well. The combination of optimal spacing of five wells per square mile, thirty development locations and significant exploration upside, made this project an ideal addition to Questerre's portfolio.

With ancillary assets that included tax pools of over $25 million and production of just over 120 boe/d, Questerre entered into an arrangement agreement with Magnus on August 20, 2007 and concluded the acquisition on November 1, 2007. Total consideration for the acquisition was $6.7 million in net cash, the assumption of a $1.6 million working capital deficit and 10.09 million shares of Questerre.

We have participated for a 50% interest in two initial horizontal wells with another two wells scheduled before year-end. Our exploration plans for this acreage this year also include a proposed 25 square mile 3-D seismic survey in advance of an active exploration program in 2008.

Beaver River Field

By far the most important project for Questerre in 2007 is the drilling of the A-8 Nahanni well at the Beaver River Field.

We originally acquired our interest in Beaver River in 2001 for the Nahanni horizon, albeit for a proposed secondary recovery scheme. Extensive technical work and a 3-D seismic survey supported our hypothesis that the remaining recoverable gas of between 120 Bcf and 540 Bcf lies in undrilled compartments and unswept areas. Unfortunately, an improperly processed seismic survey resulted in an unsuccessful Nahanni well and set the project back three years. The A-8 well thus represents our first attempt at testing this new compartment theory and validating the potential of the Nahanni.

The heavy rainfall this summer at Beaver River resulted in a very challenging mobilization. At times this involved towing equipment through two feet of mud over thirty kilometers from the barge landing to the drilling location. This mobilization would not have been successful without our seasoned field operators and support staff that ensured it was completed with minimal delay and fully supplied to ensure no interruption while drilling.

Drilling operations are currently proceeding on schedule and as of the date of this report, we are preparing to set our second intermediate casing string at the base of the Mississippian fractured carbonate at a depth of just over 2900m. The extensive fracturing and faulting encountered to date bodes well for improved reservoir and we are pleased with the indications thus far in the shallow Mattson and Prophet. The corollary is that the challenges of drilling in this highly fractured area have resulted in approximately ten days of additional drilling time. We expect to have finalized drilling operations prior to year-end.

Prior to the spud of the A-8 Nahanni well, we evaluated the shallower Mattson with the stimulation and testing of the B-3 and A-7 wells.

The scale of the Mattson was corroborated this quarter by a preliminary report by Netherland Sewell and Associates, independent reservoir consultants. Their report indicates the discovered resource in the shale section of the Mattson could range between 495-750 Bcf per square mile. To maximize recovery, we assessed three different fracture stimulation techniques on the two wells.

The results were mixed. We had no commercial rates from multiple intervals in the B-3 well; however, a single interval in the A-7 well is currently on production at just under 0.8 mmcf/d. By focusing on areas with open fracture systems and sand intervals, we expect to be able to emulate the results from the A-2 well that is currently producing just over 2.6 mmcf/d. To further mitigate risk, we are evaluating new Mattson locations that can be stacked with a deeper Nahanni target.

St. Lawrence Lowlands

Exploration work for our acreage in the Lowlands involved processing and interpreting seismic and aeromagnetic data.

We worked with our partner Talisman to firm up their 2-D seismic acquisition program over two of our prospects. The field work should be completed by the end of November and processing and interpretation by early 2008. Subject to the results, we plan to participate with Talisman in at least two additional wells in the Lowlands in 2008.

In the fourth quarter, we were pleased to learn that Forest Oil has elected to stimulate and test the two wells drilled on the Yamaska permits this summer. We should have early results in the winter of 2008.

Financial

The disappointing results from the B-3 and A-7 wells and the delays in development drilling at Vulcan had an impact on our production and cash flow. Our average daily production of 1,206 boe/d for the quarter is less than we originally forecasted. We also did not spend approximately $10 million in capital of which close to $7 million has since been used to fund the Magnus acquisition. The impact on our cash flow was less substantial and benefited from lower expenses. We generated $2.4 million for the quarter as compared to $3.18 million for the prior quarter.

Outlook

Our capital program for the last quarter of this year is expected to be $17 million of which nearly $7 million represents costs for the Magnus acquisition that was completed in early November. The balance will be incurred completing the A-8 drilling operation, 3-D seismic and horizontal wells in Antler and other drilling in Alberta. We anticipate this will be funded through our existing working capital and a proposed private placement of $2 million.

With the recent progress we are expecting important results from all our major projects in the near term. This is a very exciting time for our Company, something we have worked very hard to achieve. We hope our efforts will well rewarded and lead to significant growth in 2008.

Michael Binnion
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared at, and is dated, November 7, 2007. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review third quarter 2007 activities and results as compared to the same period in the prior year. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the nine months ended September 30, 2007 and the audited consolidated financial statements for the year ended December 31, 2006.

This MD&A contains forward-looking statements. Management's assessment of future plans and operations, production estimates, drilling inventory and wells to be drilled, timing of drilling and tie in of wells, productive capacity of new wells, capital expenditures and the timing thereof, may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, the timing and length of plant turnarounds and the impact of such turnarounds and the timing thereof, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, the Company's actual results could differ materially from those expressed in, or implied by, the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this MD&A are made as at the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

This document contains the terms "funds generated from operations" and "netbacks" which are non-GAAP terms. The Company uses these measures to help evaluate its performance. The Company considers netbacks a key measure as it demonstrates its profitability relative to current commodity prices. The Company considers funds generated from operations a key measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds generated from operations should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Questerre's performance. Questerre's determination of funds generated from operations may not be comparable to that reported by other companies. The reconciliation between net income and funds generated from operations can be found in the consolidated statements of cash flows in the consolidated financial statements.

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 to one barrel of oil and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead.

Item	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	**2007**	2006
Financial ($)				
Petroleum and natural gas sales	**4,339,265**	3,974,412	**18,397,561**	7,293,405
Funds generated from operations	**2,414,613**	1,676,537	**8,644,430**	3,006,601
Per Share – Basic	**0.016**	0.012	**0.056**	0.023
Per Share – Diluted	**0.015**	0.012	**0.053**	0.022
Net Earnings (loss)	**(676,499)**	(1,954,289)	**1,097,946**	288,456
Per Share – Basic	**(0.004)**	(0.014)	**0.007**	0.002
Per Share – Diluted	**(0.004)**	(0.014)	**0.007**	0.002
Capital Expenditures (including acquisitions)	**5,646,625**	6,073,406	**16,106,871**	22,969,970
Working Capital	**26,476,203**	8,740,261	**26,476,203**	8,740,261
Total Assets	**77,241,283**	50,327,193	**77,241,283**	59,327,193
Shareholders' Equity	**62,100,834**	42,418,992	**62,100,834**	42,418,992
Weighted Average Common Shares Outstanding				
Basic	**155,211,741**	141,116,660	**155,200,456**	129,531,520
Diluted	**160,919,586**	145,333,504	**161,983,726**	133,654,510
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**145**	190	**174**	102
Natural Gas (mcf/d)	**6,369**	5,085	**7,647**	3,321
Total (boe/d)	**1,206**	1,037	**1,449**	655
Average Sales Price				
Crude Oil and Natural Gas Liquids (C$/bbl)	**71.93**	73.28	**66.93**	66.83
Natural Gas (C$/mcf)	**5.70**	6.24	**7.25**	5.97
Total ($/boe)	**38.74**	41.66	**46.33**	40.79
Netback ($/boe)				
Total Revenue	**39.11**	41.66	**46.52**	40.79
Royalties	**9.51**	12.52	**11.38**	11.30
Percent	**24.31**	30.04	**24.46**	27.71
Field Operating Expense	**12.21**	8.52	**11.41**	10.05
Operating Netback	**17.39**	20.62	**23.73**	19.44
Net Cash G&A	**2.46**	3.08	**4.27**	4.20
Cash Netback	**14.93**	17.54	**19.46**	15.24
Wells Drilled				
Gross	**1.0**	5.0	**11.0**	18.0
Net	**0.33**	2.7	**6.82**	9.41

HIGHLIGHTS

- Concluded agreement to acquire a light oil resource-style play through the purchase of Magnus Energy Inc.
- Spud A-8 Nahanni well at Beaver River Field
- Completed and tested the A-7 and B-3 wells for the Mattson horizon
- Quarterly cash flow from operations increased to $2.41 million from $1.68 million in 2006
- Average daily production for the quarter increased 16% to 1,206 boe/d from 1,037 boe/d in 2006

THIRD QUARTER 2007 ACTIVITIES

Acquisition of Magnus Energy Inc.

During the third quarter, Questerre concluded an agreement to acquire Magnus Energy Inc. ("Magnus"), a junior exploration and production company. The acquisition closed on November 1, 2007.

Magnus' principal asset is a 50% interest in over 80 square miles of land in the Antler area of southeast Saskatchewan. The acreage is prospective for light oil in the Bakken/Torquay formation at a depth of 1100m. It is proximate to the productive Sinclair and Daly fields in Manitoba where production from the Bakken is significant. Magnus' other assets include current production of just over 120 boe/d, proved and probable reserves of 0.8 mmboe and tax pools over $25 million.

Questerre expects to participate in four wells in the Antler area prior to year-end with an active development and exploration program planned for 2008. The Company is evaluating the benefits of long-reach horizontal wells and selective fracture stimulation techniques to improve recoveries.

At the end of October, the transaction received the approval of over 90% of the voting Magnus shareholders and the Court of Queen's Bench of Alberta. Magnus shareholders received 7,840,804 Shares representing 0.015316 of a Questerre share for each Magnus Class A share. Each Magnus Class B share was exchanged for 10 Magnus Class A shares prior to the exchange of Magnus Class A shares for Questerre shares. Upon closing, Magnus became a wholly owned subsidiary of Questerre.

Total consideration was $6.7 million in net cash, the assumption of a working capital deficit of $1.6 million and the issuance of 10.09 million shares at a deemed price of $1.02 per Questerre share. Included in the consideration is the satisfaction of Magnus' secured debt of $17.4 million through a cash payment of $15.4 million and the issuance of 2.25 million Questerre shares.

Questerre has also acquired Magnus' obligation to incur flow-through expenditures of $6.2 million by December 31, 2007 and $3 million by December 31, 2008. Pursuant to a farm-in agreement between Magnus and Questerre's wholly owned subsidiary, Questerre expects to satisfy the majority of the 2007 flow-through commitments through the A-8 drilling operation.

Beaver River Field, British Columbia

Questerre commenced a comprehensive work program at the Beaver River Field ("Beaver River") in the third quarter of 2007.

The first phase involved the completion and testing of several intervals in the B-3 and A-7 wells for potential production from the Mattson horizon. The two wells were drilled in late 2006 and early 2007 to appraise the A-2 Mattson discovery well. Production from A-2 averaged 2.44 mmcf/d during the third quarter of 2007.

The Mattson is a 600-800m thick horizon of interbedded sandstone, siltstone and shale at a depth of approximately 1300 m. A preliminary assessment by Netherland Sewell & Associates Inc., an independent reservoir consultancy, indicates that the discovered resource for the Mattson shale interval is estimated at 495 Bcf – 750 Bcf per square mile. The assessment also indicates that development should initially focus on areas where pervasive natural fracturing and sand intervals are likely to enhance deliverability.

Questerre and its partner Transeuro evaluated three different fracture stimulation techniques to maximize recovery from the Mattson – nitrogen-based, CO_2-based and slick-water. The slick-water stimulation was most successful on the lower of two Mattson intervals in the A-7 well with initial flow rates of over 1.8 mmcf/d. The two nitrogen-based stimulations were least effective with no commercial flows of natural gas. The initial flow rates on the three CO_2 based stimulations ranged from 100 mcf/d to 1.8 mmcf/d. Further work is required to determine to what extent the stimulation design versus the nature of the interval stimulated influences the ultimate flow rates.

The A-7 well was drilled into a naturally fractured section of the Mattson. While the well was only cased to the upper Mattson, Management believes the open fracture system encountered by the well contributed to commercial flow rates in this upper interval. Based on the completion results, the tie-in to the gathering system was finalized in early October. The well is currently producing nearly 0.8 mmcf/d.

The B-3 well was not drilled in a fault block with an open fracture system. Despite several gas shows during drilling, the test results of 300 mcf/d were less than Management's expectations. Subject to further analysis and the results from the A-8 well, Questerre proposes to re-enter the B-3 well and target an adjacent fractured fault block where there was a 12 mmcf/d drill stem test by Amoco in the 1960s.

The second phase involves the drilling of the A-8 well to further assess the deeper Nahanni formation.

The Nahanni is a hydrothermally dolomitized sequence at a depth of approximately 3200m and gross pay thickness of 1,000m. Cumulative production is over 180 Bcf with an estimated 120 Bcf in possible reserves and a contingent resource of 540 Bcf. Improved recovery from the Nahanni is contingent upon identifying and proving new compartments.

Notwithstanding inclement weather, rig mobilization was completed on schedule in early August and the well spud on August 8, 2007. The primary target for the well is a structurally high undrilled Nahanni fault block. The well will also assess three shallower horizons including the Mattson, Mississippian Prophet and Besa River shales.

As of early November, the well is drilling at a depth of 2,900m and is on target to be completed prior to year-end.

St. Lawrence Lowlands, Quebec

Questerre's exploration activities in the Lowlands involved processing and interpreting seismic and aeromagnetic data.

In conjunction with its partner, Talisman Energy Inc. ("Talisman") the reprocessing of seismic data over two Questerre prospects assisted in outlining a 2-D seismic survey. Field work for this survey commenced early in the fourth quarter. Subject to weather and surface access, Talisman expects the data acquisition to be completed by the end of November.

The early interpretation of the high resolution aeromagnetic acquired over the St. Jean permits to the south supports Questerre's grassroots exploration concepts about this acreage. The acreage appears prospective for the Trenton-Black River at much shallower depths. Additional technical work is underway, including further processing and interpretation of seismic in this area to firm up a potential drilling location.

Southern and Central Alberta

In Vulcan, Southern Alberta, the Company was unable to commence the tie-in of two recently drilled wells due to capacity constraints in the gathering system. Current plans are to tie-in the wells to an alternate gathering system about six miles away. This work will commence in the fourth quarter and the wells are scheduled to be on production early in 2008. Questerre has identified at least three follow-on locations and expects to commence drilling early in the first quarter of next year.

Questerre participated in the drilling of the third well (0.33 net) under a recent participation and farm-in agreement with two industry partners. The well did not encounter commercial hydrocarbons and was plugged and abandoned. The partners have an option to drill one additional well under this agreement.

DRILLING ACTIVITIES

For the third quarter of 2007, the Company participated in the drilling and testing of one gross well (0.33 net) which was dry and abandoned.

PRODUCTION

Production for the third quarter of 2007 averaged 1,206 boe/d and for the nine months ended September 30, it averaged 1,449 boe/d. This equates to an increase of 16% over production of 1,037 boe/d for the third quarter of 2006 and a 121% increase over production of 655 boe/d for the first three quarters of 2006. By comparison, production in the second quarter was 1,443 boe/d or 16% higher.

The decrease in the Company's production of around 240 boe/d from the second quarter can be attributed to 200 boe/d in Alberta and 40 boe/d at Beaver River. Alberta production decreases of 200 boe/d were due to natural declines and fluctuating production from the Vulcan oil and gas pools. Vulcan production was negatively impacted by processing plant shutdowns and transient pressure studies.

The Company is in discussions with the operator at Vulcan to optimize and stabilize production. Production from the A-2 well at Beaver River declined due to higher than expected line pressure. Questerre is assessing wellhead compression to improve productivity.

Consistent with the prior quarters, Vulcan accounted for the majority of the Company's production in the third quarter. Vulcan represented 724 boe/d or around 60% of average daily production. For the same period in 2006, Vulcan accounted for 457 boe/d or 44% of Questerre's daily production. Production from the Company's other assets in Alberta accounted for 278 boe/d in the quarter as compared to 300 boe/d for the same period in 2006. The 7% decrease reflects natural declines and unsuccessful drilling results from the Westlock area in 2007.

For the first nine months of 2007, A-2 was the sole producing well at Beaver River. Production for the three months ended September 30, 2007 averaged 204 boe/d net to Questerre down 27% from 280 boe/d during the same period in 2006. While a portion of this decrease is attributable to the expected production profile of the well, Questerre anticipates production will improve with the installation of wellhead compression in early 2008.

Year to date, Questerre's production mix was 88% natural gas with 12% oil and natural gas liquids. The gas weighting increased marginally from 84% in 2006. Subject to the results of drilling in the Antler area during the fourth quarter, Questerre expects its oil weighting to increase to just under 20% by year-end.

The Company's production for the third quarter is close to 600 boe/d less than originally expected. Unsuccessful results from the B-3 well and the delays in drilling development wells in the Vulcan oil pool each account for roughly half this difference. Additionally, the Company did not spend $10 million in capital and consequently did not add an estimated 500 boe/d in production. The Company has since used these funds to finance the acquisition of Magnus.

Due to delays in closing the Magnus acquisition, Questerre expects the development of the Antler assets will contribute to increased production in 2008 instead of 2007. For the remainder of this year, Questerre plans to drill the first horizontal well into the Vulcan oil pool this November. It also plans to participate in drilling four horizontal wells at Antler.

THIRD QUARTER 2007 FINANCIAL RESULTS

Revenue

For the three months ended September 30, 2007, Questerre reported petroleum and natural gas revenue of $4.34 million. This compares to petroleum and natural gas revenue of $3.97 million for the same period in 2006 and $6.56 million for the preceding period in 2007.

Marginally higher natural gas volumes offset the lower realized prices in the third quarter of 2007 and resulted in a 9% increase in gross revenue compared to 2006. By comparison to the second quarter of 2007, the 16% decrease in production in the third quarter was compounded by a 21% decline in prices resulting in a 33% decrease in gross revenue.

Index natural gas prices over the third quarter of 2007 averaged $5.16/mcf and declined nearly 23% during the quarter. The decline reflects the lower than expected hurricane activity, and decreased demand for Canadian production resulting in higher storage levels. Questerre does not expect natural gas prices to improve for the remainder of the year unless storage levels decrease significantly. Questerre realized natural gas prices of $5.70/mcf during the quarter (2006: $6.24/mcf), primarily reflecting the higher heat content of its gas production from Vulcan.

Oil prices were relatively stable during the quarter and the reference Edmonton Light price averaged $79.84/barrel, increasing by 11% over the preceding quarter. Despite an increase in the benchmark WTI price, the strengthening Canadian dollar offset much of this increase. Questerre realized $71.93/barrel during the quarter (2006: $73.28) and $66.93/barrel for the year to date (2006: $66.83). The realized price in third quarter of 2007 was lower than 2006 reflecting lower Vulcan oil production in 2007.

Questerre's production will continue to be exposed to the spot market for all commodities.

Royalties

Questerre recorded royalty expense of $1.05 million for the third quarter (2006: $1.19 million) and $4.50 million for the nine months ended September 30, 2007 (2006: $2.02 million).

This resulted in an effective royalty rate as a percentage of revenue of 24.31% (2006: 30.04%) and 24.46% for the year to date (2006: 27.71%). The lower royalty rate in the third quarter of 2007 mainly reflects the lower natural gas prices and lower production, particularly from the Vulcan wells. Royalties as a percentage of revenue in Vulcan for the third quarter decreased from 45% in 2006 to 29% in 2007.

The New Royalty Framework ("NRF") for Alberta was announced in the fourth quarter and is expected to become effective in 2009. The NRF is highly geared towards production rates and gas prices. Questerre anticipates that four high productivity wells in Vulcan could be affected by these new rates. However the amount of this impact will ultimately be determined by the actual regulations implemented, actual production rates and prices. Furthermore, the majority of the Company's high impact projects are situated outside Alberta and will not be affected by the NRF.

Operating Costs

For the quarter ended September 30, 2007 operating expenses increased to $1.35 million from $0.81 million for the same period in 2006. By comparison, operating expenses for the quarter ended June 30, 2007 were $1.47 million.

Operating expenses for the Company's Alberta production totaled $0.85 million in the third quarter of 2007 (2006: $0.58 million). On a boe basis, this equates to $9.27, an increase from $8.27 in 2006 and marginally lower than $9.61 per boe in the second quarter of 2007.

Consistent with the level of activity at Beaver River throughout 2007, operating expenses for the third quarter of 2007 were $0.46 million, unchanged from $0.45 million in the second quarter. By comparison, the lower level of activity during the third quarter of 2006 resulted in lower operating costs of $0.24 million. Excluding transportation and processing charges of close to $6.35/boe, Questerre expects net fixed operating expenses for Beaver River to average $0.1 million per month for the remainder of the year.

General & Administrative Expenses

For the third quarter of 2007, Questerre recorded general and administrative expenses ("G&A") of $0.27 million, net of capitalized overhead and bad debt expense (2006: $0.29 million) and $1.69 million for the year to date (2006: $0.75 million). The comparatively lower G&A for the third quarter reflects the increased overhead recovery of $0.27 million (2006: $0.1 million) for the Beaver River summer work program. On a boe basis, this equates to $2.46 per boe as compared to $4.52 in the preceding quarter and $3.08 in the third quarter of 2006.

Questerre continues to capitalize overhead expenses equal to 5% of its capital expenditures for the year, up to a maximum of 50% of gross general and administrative expenses. These expenses represent amounts directly related to exploration and development activities.

($ thousands)	**2007**	2006
General & administrative expenses	**2,360**	1,534
Bad debt expense	**200**	–
Overhead capitalization	**(871)**	(781)
General & administrative expenses, net	**1,689**	753

Stock Based Compensation

Questerre recorded stock based compensation expense of $0.36 million for the quarter ended September 30, 2007 (2006: $0.33 million), unchanged from the prior quarter. The expense reflects the amortization of the costs associated with the fair value of the options granted to date. The Company did not grant any options during the third quarter of 2007. As at September 30, 2007, Questerre had 12.90 million options outstanding at a weighted average exercise price of $0.60 per option.

Other Income and Expenses

Questerre realized a gain on the disposition of marketable securities of $0.17 million during the quarter (2006: $0.002 million) and $0.72 million for the first nine months of 2007 (2006: ($0.02 million)). The Company's marketable securities portfolio represents investments in junior exploration and production companies.

In accordance with the new accounting guidelines, the Company has classified these securities as held for trading and marks these securities to market value every quarter. This 'mark to market' adjustment is recorded as an unrealized gain or loss on the income statement. At September 30, 2007, the Company held marketable securities with a market value of $2.38 million (2006: $0.37 million).

Questerre recorded interest income of $0.89 million for the nine months ended September 30, 2007 (2006: $0.3 million) reflecting the increased cash balances held by the Company during the year.

Depletion, Depreciation and Accretion

Questerre recognized $2.49 million in depletion and depreciation for the three months ended September 30, 2007 (2006: $3.29 million)and $8.36 million for the first nine months of 2007 (2006: $4.69 million). On a boe basis, year to date depletion decreased by 19% to $21.12 from $26.20 in 2006. The decrease reflects the higher reserve base of the Company and the credit for the cost of the Beaver River assets sold to Transeuro during the second quarter. Quarter over quarter, the depletion rate in the third quarter of 2007 of $22.46/boe was 17% higher than the rate in the second quarter of $19.23/boe. Questerre does not include costs of $14.46 million (2006: $4.78 million) relating to unproved properties in the calculation of depletion or in costs subject to the ceiling test calculation. During the quarter, the Company incurred expenditures of $1.78 million on drilling, land acquisition and seismic relating to unproved properties.

The Company estimates its total undiscounted future liability for asset retirement obligations to be $4.50 million, with a present value of $3.85 million at September 30, 2007. Accretion of asset retirement obligations in the third quarter was unchanged from the second at $0.03 million.

Taxes

Consistent with the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the third quarter of 2007 resulting in no current income taxes payable for the quarter. In addition, the Company's tax assets exceed tax liabilities. No tax asset is recognized at September 30, 2007 as there is a low probability that the Company will be able to realize the value of the tax assets in the future.

Net Earnings and Cash Flow

Questerre recorded net earnings of $1.10 million ($0.01/share) for the first nine months of 2007 compared to $0.29 million ($0.00/share) in 2006. The net gain in 2007 represents the gain on the sale of a portion of its working interest to Transeuro. In 2006, the earnings represents a future tax recovery to offset the deferred tax liability associated with a flow-through share issuance renounced that year offset by the depletion expense.

Excluding these non-recurring amounts, Questerre had a net loss of $0.68 million for the nine months ended September 30, 2007 (2006: ($2.62 million)).

Funds generated from operations for the three months ended September 30, 2007 were $2.41 million, a decrease of 24% from the preceding quarter of $3.18 million and an improvement of 44% or over $0.7 million for the third quarter of 2006. The increased cash flow in 2007 is attributable to higher production and resulting operating revenue coupled with lower net expenses.

CAPITAL EXPENDITURES

Questerre incurred capital expenditures of $16.11 million in the first nine months of 2007 compared to $22.97 million in 2006. $8.15 million was incurred in British Columbia primarily for the drilling and testing of the B-3 well with $6.01 million incurred in Central and Southern Alberta and $0.71 million in Quebec.

($ thousands)	**2007**	2006
Capital Expenditures		
Alberta Properties (including acquisitions)	**6,010**	22,699
Beaver River Field, British Columbia	**8,151**	247
St. Lawrence Lowlands, Quebec	**707**	23
Other	**1,239**	–
Total	**16,107**	22,969

Capital expenditures of $22.97 million in 2006 related mainly to the active drilling programs in Vulcan and Westlock and the acquisition of Stride.

CAPITALIZATION AND FINANCIAL RESOURCES

Questerre reported a working capital surplus of $26.48 million at September 30, 2007 as compared to $22.70 million at December 31, 2006. Current assets at September 30, 2007 consisted primarily of $21.87 million in cash and $9.65 million in receivables. Included in the receivables is $2.6 million representing amounts due from Magnus under the farm-in agreement for the A-8 well. Questerre's current liabilities consisted mainly of trade payables and cash calls payable of $11.29 million.

Questerre believes that its capital expenditure program for the remainder of this year of close to $17 million will continue to be financed by existing working capital and cash flow.

In August 2007, the Company entered into an agreement with a Canadian chartered bank for a $7.50 million credit facility. The credit facility bears interest at the bank's prime rate plus 0.50% and is payable on demand. The assets of the Company are pledged as security for the facility under a general security agreement. To date, the Company has not drawn down this facility.

SHARE CAPITAL

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 September 30, 2007 and November 7, 2007, there were no Class B common voting shares or preferred shares outstanding. As at September 30, 2007 there were a total of 155,250,083 Common Shares outstanding and 12,903,753 stock options outstanding. In connection with the acquisition of Magnus, the Company issued 10,090,804 Common Shares subsequent to the end of the quarter resulting in 165,340,887 Common Shares outstanding at November 7, 2007.

The Company issued 42,500 Common Shares during the quarter on the exercise of stock options by an employee at an average exercise price of $0.19 per share.

CONTRACTUAL OBLIGATIONS

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 commitment under this agreement for the remainder of 2007 is $31,500. A total of $94,500 was paid in 2007 and 2006 under this agreement.

The Company is obligated to make total payments under another operating lease of $28,953 for the remainder of 2007 and $115,812 in each of the following years: 2008, 2009 and 2010.

Subsequent to the end of the quarter, in connection with the acquisition of Magnus, the Company has acquired an obligation to incur qualifying Canadian Exploration Expenses ("CEE") of $7.34 million by December 31, 2007 and $3.0 million by December 31, 2008. Additionally, the Company has acquired a rental lease obligation of $28,964 in 2007 and $178,104 in each of 2008, 2009 and 2010.

OFF-BALANCE SHEET ARRANGEMENTS

Questerre has no off-balance sheet arrangements.

BUSINESS ENVIRONMENT AND RISK

The business risks Questerre is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Questerre's operations. Geological and engineering risks, the uncertainty of discovering commercial quantities of reserves, commodity prices, access to capital, availability of equipment and personnel, competition and government regulations - all of these govern the business and influence the controls and management of the Company. These risks are managed by:

- Securing farm-in partners to mitigate the risks associated with developing its key properties;
- Attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company;
- Operating properties in order to identify and capitalize on opportunities;
- Maintaining a strong financial position; and
- Maintaining strict environmental, safety and health practices.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. A comprehensive discussion of the Company's significant accounting policies is contained in the notes to the audited consolidated financial statements at December 31, 2006.

CHANGES IN ACCOUNTING POLICIES

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" and section 3861, "Financial Instruments – Disclosure and Presentation." These standards have been adopted retroactively without restatement. For a discussion of the change in accounting policies, refer to Note 2 to the Consolidated Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as at September 30, 2007 that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company is made known. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated can provide only reasonable, not absolute, assurance that objectives of the control system are met.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are able to certify the design of the Corporation's internal controls over financial reporting, but have identified the following deficiencies in the design of these internal controls.

As a small company, there is a potential for a lack of segregation of duties that may lead to inaccuracies in financial reporting. The Company has engaged knowledgeable and competent accounting staff to ensure quality financial reporting.

The Company endeavors to have written contracts in place with all its major vendors. Due to the nature of the oil and gas industry it may not be possible to do so in most cases. This increases the potential for a misunderstanding between the Company and these vendors with regards to their respective responsibilities, the goods and services to be provided, and the terms and conditions of the agreement. As a result, the cost estimates and accruals may potentially be misstated.

The Company is in the process of documenting its business processes and procedures. In 2007, Questerre expects to begin implementing policies and procedures that Management believes will provide additional comfort regarding the reliability of the Company's financial reporting for both internal and external purposes.

Notwithstanding these deficiencies, based on the Company's mitigating procedures, the Chief Executive Officer and Chief Financial Officer have satisfied themselves that these deficiencies have not resulted in material errors on the financial statements. Furthermore, the Company has implemented compensating controls to address these deficiencies.

ADDITIONAL INFORMATION

Additional information relating to Questerre, including the Company's Annual Information Form can be obtained on SEDAR at www.sedar.com or on the Company's website at www.questerre.com.

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of Questerre Energy Corporation for the nine months ended September 30, 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
Chief Financial Officer

Calgary, Alberta, Canada
November 7, 2007

CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current assets		
Cash	**$ 21,866,777**	$ 26,616,233
Marketable securities (note 6)	**2,378,953**	146,250
Accounts receivable	**9,654,144**	3,589,316
Inventory	**152,208**	321,437
Deposits and prepaid expenses	**3,717,520**	421,308
	37,769,602	31,094,544
Restricted cash (note 7)	**–**	100,000
	37,769,602	31,194,544
Goodwill (note 4)	**2,467,816**	2,467,816
Petroleum and natural gas properties – net of accumulated depletion and depreciation (note 3)	**37,003,865**	37,377,080
	$ 77,241,283	$ 71,039,440
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 11,293,399**	$ 8,341,968
Bank loan (note 7)	**–**	73,700
Current income taxes	**–**	82,455
	11,293,399	8,498,123
Asset retirement obligation (note 5)	**3,847,050**	3,377,847
	15,140,449	11,875,970
Shareholders' Equity		
Common shares (note 8)	**85,832,598**	85,809,663
Contributed surplus (note 8 (f))	**3,107,424**	2,068,902
Deficit	**(26,839,188)**	(28,715,095)
	62,100,834	59,163,470
	$ 77,241,283	$ 71,039,440

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

Director   Director

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT

(unaudited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
		2007		2006		**2007**		2006
Revenue								
Petroleum and natural gas revenue	**$**	**4,339,265**	$	3,974,412	**$**	**18,397,561**	$	7,293,405
Royalties		**(1,054,812)**		(1,194,243)		**(4,500,726)**		(2,021,144)
	$	**3,284,453**	$	2,780,169	**$**	**13,896,835**	$	5,272,261
Expenses								
Operating	**$**	**1,354,531**	$	813,402	**$**	**4,511,121**	$	1,798,850
General and administrative		**272,597**		293,570		**1,687,770**		752,566
Stock-based compensation (note 8 (e))		**359,775**		330,586		**1,049,600**		925,157
Interest expense		**15,214**		5,172		**20,464**		12,206
Interest income		**(698,087)**		(63,586)		**(892,535)**		(302,927)
(Gain) loss on sale of marketable securities		**(171,146)**		(2,120)		**(724,643)**		22,806
Unrealized (gain) loss on marketable securities		**378,900**		–		**272,238**		–
Foreign exchange (gain) loss		**–**		55,073		**–**		(45,895)
Depletion and depreciation		**2,491,973**		3,288,488		**8,357,102**		4,685,543
Accretion on asset retirement obligation (note 5)		**31,610**		13,873		**93,231**		41,629
	$	**4,035,367**	$	4,734,458	**$**	**14,374,348**	$	7,889,935
Net earnings (loss) before the following		**(750,914)**		(1,954,289)		**(477,513)**		(2,617,674)
Gain on sale of petroleum and natural gas properties (note 3)	**$**	**–**	$	–	**$**	**1,501,044**	$	–
Net earnings (loss) before income taxes	**$**	**(750,914)**	$	(1,954,289)	**$**	**1,023,531**	$	(2,617,674)
Income Taxes								
Current Taxes		**(74,415)**		–		**(74,415)**		–
Future Tax Recovery		**–**		–		**–**		(2,906,130)
	$	**(74,415)**	$	–	**$**	**(74,415)**	$	(2,906,130)
Net earnings (loss) and comprehensive income	**$**	**(676,499)**	$	(1,954,289)	**$**	**1,097,946**	$	288,456
Deficit, beginning of period	**$**	**(26,162,689)**	$	(25,595,515)	**$**	**(28,715,095)**	$	(27,838,260)
Opening deficit adjustment for changes in accounting policies Financial Instruments (note 2)		**–**		–		**777,961**		-
Deficit, end of period	**$**	**(26,839,188)**	$	(27,549,804)	**$**	**(26,839,188)**	$	(27,549,804)
Net earnings (loss) per share								
Basic	**$**	**(0.004)**	$	(0.01)	**$**	**0.007**	$	0.00
Diluted	**$**	**(0.004)**	$	(0.01)	**$**	**0.007**	$	0.00

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2007	2006	**2007**	2006
Cash provided by (used in):				
Operating Activities				
Net earnings (loss)	**$ (676,499)**	$ (1,954,290)	**$ 1,097,946**	$ 288,456
Items not affecting cash				
Depletion and depreciation	**2,491,973**	3,288,488	**8,357,102**	4,685,543
Stock-based compensation expense	**359,775**	330,586	**1,049,600**	925,157
Accretion on asset retirement obligation	**31,610**	13,873	**93,231**	41,629
(Gain) loss on marketable securities	**(171,146)**	(2,120)	**(724,643)**	22,806
Unrealized loss on marketable securities	**378,900**	–	**272,238**	–
Gain on sale of petroleum and natural gas properties	**–**	–	**(1,501,044)**	–
Future tax expense (recovery)	**–**	–	**–**	(2,906,130)
Abandonment expenditures	**–**	–	**–**	(50,860)
	2,414,613	1,676,537	**8,644,430**	3,006,601
Net change in non-cash working capital	**(173,085)**	(979,437)	**(3,058,757)**	(701,664)
	$ 2,241,527	$ 697,100	**$ 5,585,673**	$ 2,304,937
Financing Activities				
Issue of common shares	**$ 8,250**	$ 29,916	**$ 23,567**	$ 10,196,726
Issue of flow-through shares	**–**	–	**–**	10,000,270
Share issue costs	**(3,626)**	(64,634)	**(11,710)**	(1,172,688)
Repayment of bank loan	**–**	(20,100)	**(73,700)**	(60,300)
	$ 4,624	$ (54,818)	**$ (61,843)**	$ 18,964,008
Investing Activities				
Expenditures on petroleum and natural gas properties	**$ (5,646,625)**	$ (6,073,406)	**$ (16,106,871)**	$ (20,400,511)
Acquisition of Stride (note 4)	**–**	–	**–**	(6,282,000)
Cash acquired on acquisition of Stride (note 4)	**–**	–	**–**	3,712,541
Sale of petroleum and natural gas properties (note 3)	**–**	–	**10,000,000**	–
Sale of marketable securities	**199,896**	83,113	**837,893**	330,255
Purchase of marketable securities	**–**	–	**(1,840,230)**	–
Release of restricted cash	**–**	–	**100,000**	–
Net change in non-cash working capital	**(10,474,413)**	314,663	**(3,264,078)**	594,700
	$ (15,921,142)	$ (5,675,630)	**$ (10,273,286)**	$ (22,045,015)
(Decrease) increase in cash	**$ (13,674,991)**	$ (5,033,348)	**$ (4,749,456)**	$ (776,070)
Cash, beginning of period	**35,541,768**	13,553,438	**26,616,233**	9,296,160
Cash, end of period	**$ 21,866,777**	$ 8,520,090	**$ 21,866,777**	$ 8,520,090

See accompanying notes to consolidated financial statements.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 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 except for changes in accounting policies described in Note 2. 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 is involved in the exploration and development of high-impact scalable projects. The Company has two main projects – the Beaver River Field in British Columbia ("Beaver River") and the St. Lawrence Lowlands in Quebec. To mitigate the risks associated with these projects, the Company has secured farm-in 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 retroactively without restatement.

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 or impaired. 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 $777,961, 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 certain embedded derivatives 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 retroactively, 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. PETROLEUM AND NATURAL GAS PROPERTIES

	September 30, 2007	December 31, 2006
Petroleum and natural gas properties	**$ 88,866,386**	$ 80,882,499
Accumulated depletion and depreciation	**(51,862,521)**	(43,505,419)
	$ 37,003,865	$ 37,377,080

During the nine months ended September 30, 2007, the Company capitalized administrative overhead charges of $871,131 (December 31, 2006 – $1,117,037) relating to exploration and development activities.

During the nine months ended September 30, 2007, petroleum and natural gas properties included $14,462,246 (December 31, 2006: $9,457,946), net of any dispositions, relating to seismic expenditures and unproved properties which have been excluded from the depletion calculation.

Pursuant to an amendment to its farm-in and operating agreement for Beaver River with its partner, the partner will no longer be obligated to drill additional wells at its sole cost to complete its earning obligations. In consideration of a payment of $10 million to Questerre, the partner is deemed to have earned a 50% interest in Beaver River and all infrastructure.

The Company received this payment during the second quarter of 2007. The amount has been treated as a disposal of a portion of its interest in petroleum and natural gas properties at Beaver River. Based on a cost of $8,498,956, Questerre realized a gain of $1,501,044 on this disposition.

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 $4,495,974 at September 30, 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:

		September 30, 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		**375,972**		709,172
Accretion expense		**93,231**		88,929
Liabilities settled during the period		**–**		(50,860)
Balance, end of period	**$**	**3,847,050**	$	3,377,847

6. MARKETABLE SECURITIES

As at September 30, 2007, the Company held marketable securities with a market value of $2,378,953 (December 31, 2006: $511,875).

The Company realized a gain of $724,643 (2006: ($22,806)) on the disposition of a portion of the marketable securities and recorded an unrealized loss of $272,238 during the nine months ended September 30, 2007.

The nine month results include an adjustment to the valuation of share purchase warrants that relates to the opening transition reflecting new accounting policies adopted in 2007 (see Note 2) and the results of the first quarter of 2007. Based on the difference between a Black-Scholes pricing model being used and a valuation used by the Company in the first quarter, the Company increased its unrealized gains on marketable securities for the three months ended March 31, 2007 by $313,936 and the opening deficit for the change in accounting policies by $75,961.

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 to make monthly payments of $6,700 principal plus interest until the loan was 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.

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 September 30, 2007, there were no Class B common voting shares or preferred shares outstanding.

b) Issued and Outstanding – Class A common shares and common share warrants

	Number		Amount
Common Shares			
Balance, December 31, 2006	155,171,750	$	85,809,663
Issued for cash on exercise of options	78,333		23,567
Transfer from contributed surplus	–		11,078
Share issue costs	–		(11,710)
Balance, September 30, 2007	**155,250,083**	**$**	**85,832,598**

c) Per Share Amounts

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	**2007**	2006
Basic	**155,211,741**	141,116,660	**155,200,456**	129,531,520
Diluted	**160,919,586**	145,333,504	**161,983,726**	133,654,510

The reconciling items between the basic and diluted average common shares are stock options and warrants.

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 nine months ended September 30, 2007:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2006	12,869,586	$0.59
Granted	185,000	$1.26
Forfeited	(72,500)	$0.58
Exercised	(78,333)	$0.30
Outstanding, September 30, 2007	12,903,753	$0.60
Exercisable, September 30, 2007	8,378,474	$0.47

The outstanding options have a range of exercise prices from $0.10 to $1.35, and a weighted average number of years to expiry of 3.0 years (2006 – 3.9 years). The exercisable options have a range of exercise prices from $0.10 to $1.34 and 2.7 years to expiry (2006 – 3.7 years). For options with an exercise price ranging between $0.10 to $0.65, there are 7,618,753 options outstanding, 6,046,391 options exercisable, a weighted average exercise price of $0.35 and a weighted average contractual life of 2.6 years. For options with an exercise price ranging between $0.72 and $1.35, there are 5,285,000 options outstanding, 2,332,083 options exercisable, a weighted average exercise price of $0.96 and a weighted average contractual life of 3.6 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, directors and consultants 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 nine months ended September 30,	**2007**	2006
Weighed average fair value per option	**0.63**	0.34
Risk free interest rate (%)	**4%**	4%
Expected life (years)	**3.0**	3.0
Expected volatility (%)	**65%**	76%

f) Contributed Surplus

The following table sets forth a reconciliation of contributed surplus:

	September 30, 2007	December 31, 2006
Balance, beginning of period	**$ 2,068,902**	$ 739,640
Stock-based compensation expense	**1,049,600**	1,349,989
Option exercise	**(11,078)**	(20,727)
Balance, end of period	**$ 3,107,424**	$ 2,068,902

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. The Company is obligated to make total payments under an operating lease of $28,953 for the remainder of 2007 and $115,812 in each of the following years: 2008, 2009 and 2010.

10. RELATED PARTY TRANSACTIONS

At September 30, 2007, Questerre had no amounts owing to Terrenex Acquisition Corporation ("Terrenex") (2006: $766). All of the Directors of Terrenex serve as directors or officers of Questerre.

Questerre incurred fees of $94,500 for the nine months ended September 30, 2007 (2006 – $94,500) 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

The Company entered into an Arrangement Agreement (the "Agreement") on August 20, 2007 and amended on October 3, 2007, to acquire Magnus Energy Inc. ("Magnus") a junior exploration and production company. Prior to the acquisition, Questerre Beaver River Inc. entered into a farm-in agreement with Magnus whereby Magnus agreed to farm-in on an ongoing 2007 drilling operation at Beaver River.

The acquisition was completed on November 1, 2007 and Magnus became a wholly owned subsidiary of Questerre. The consideration paid was net cash of $6.7 million, the assumption of a $1.6 million working capital deficit and 10.09 million shares of Questerre at a deemed price of $1.02 per Common Share. Through the acquisition, the Company has an obligation to incur qualifying Canadian Exploration Expenses ("CEE") of $6.2 million by December 31, 2007 and $3.0 million by December 31, 2008. Additionally, the Company has acquired a rental lease obligation of $28,964 in 2007 and $178,104 in 2008, 2009 and 2010.

On November 2, 2007, the Company announced it intends to complete a private placement of 2.5 million Common Shares issued on a flow-through basis for gross proceeds of $2 million.

CORPORATE INFORMATION

Directors

Les Beddoes, Jr.
Michael Binnion
Russ Hammond
Tom Landry, Jr.
David Mallory
Peder Paus
Jed Wood

Officers

Michael Binnion
President and Chief Executive Officer

John Brodylo
VP Exploration

Peter Coldham
VP Engineering and Operations

Jason D'Silva
Chief Financial Officer

Maria Rees
Corporate Secretary

Rick Tityk
VP Land

Bankers

Royal Bank of Canada
335 Eighth Avenue SW
Calgary, Alberta
T2P 1C9

Legal Counsel

Borden Ladner Gervais LLP
1000, 400 Third Avenue SW
Calgary, Alberta
T2P 4H2

Transfer Agent

Computershare Trust
Company of Canada
600, 530 Eighth Avenue SW
Calgary, Alberta
T2P 3S8

DnB NOR Bank ASA
Stranden 1, Aker Brygge
N0021 Oslo, Norway

Auditors

PricewaterhouseCoopers LLP
3100, 111 Fifth Avenue SW
Calgary, Alberta
T2P 5L3

Independent Reservoir Engineers

McDaniel & Associates
Consultants Ltd.
2200, 255 Fifth Avenue SW
Calgary, Alberta
T2P 3G6

Head Office

1580 Guinness House
727 Seventh Avenue SW
Calgary, Alberta T2P 0Z5
Telephone: (403) 777-1185
Facsimile: (403) 777-1578
Web: www.questerre.com
Email: info@questerre.com

Stock Information

Toronto Stock Exchange
Oslo Stock Exchange
Symbol: QEC