


2008 QUARTERLY REPORT
QUESTERRE ENERGY CORPORATION


BUILDING our PORTFOLIO



*Questerre
Energy*

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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.



*Questerre
energy*

PRESIDENT'S MESSAGE

The first quarter was eventful to say the least.

It underscored our business plan of developing high impact projects with partner capital while building a portfolio of conventional assets.

A significant shale gas discovery on our Quebec acreage was financed by our partners Forest Oil and Gastem. Likewise, the disappointing results from the A-8 well at Beaver River were mitigated by our farm-in agreement with our partner on the project. We had excellent drilling results with our newer projects in Antler and Greater Sierra. The higher quality reserves and improved netbacks coupled with higher prices translated into record cash flow for the quarter.

Highlights

- Significant Utica shale gas discovery in the St. Lawrence Lowlands, Quebec
- Excellent results from horizontal wells in Antler, Saskatchewan
- Successfully drilled two Jean Marie wells and acquired a 46 sq mile 3-D seismic survey in Greater Sierra, northeast British Columbia
- Tested non-commercial well at Beaver River Field
- Cash flow from operations increased to \$3.94 million from \$3.05 million in 2007

St. Lawrence Lowlands, Quebec

The recent Utica shale discovery in Quebec substantiates our belief about the significant potential of the Lowlands and bears out our strategy to acquire large land positions early and partner with independents.

The test results from the St. Francois du Lac well announced at the beginning of April proved to be the tipping point for shale gas development in Quebec. It confirmed the key technical characteristics of the Utica shale as a potential resource play and, more importantly, the ability to be successfully fractured. We believe this recent work and data has essentially eliminated the geological risk of this play. The next stage will involve two horizontal wells with four-stage fracture stimulations to validate the engineering and economic parameters.

We are confident that our landholdings in the Lowlands will prove to be prime acreage for the Utica shale as well as the other prospective horizons – the Trenton Black-River and the Lorraine, a shallower shale sequence. Using newly acquired and reprocessed seismic, Talisman and Questerre have identified five initial prospects with potential in all these prospective zones. Subject to Talisman's commitment, we expect to participate in at least three vertical wells to test these prospects. In conjunction with the two horizontal wells to be drilled by Forest, we expect the majority of exploration work in the Lowlands in 2008 to be conducted on our acreage.

Antler, Saskatchewan

During the quarter, we began a pilot program to evaluate selective fracture stimulation on the horizontal oil wells at Antler.

Two wells were selectively fractured, one with an 8-stage and another with a 12-stage stimulation. Preliminary results indicate that horizontal wells with selective fracture stimulations will produce at approximately ten times the stabilized rate of stimulated vertical wells. With our partners we have committed to fracture stimulate four existing wells and drill and stimulate four new wells during this summer.

Greater Sierra, British Columbia

We fulfilled our commitments with EnCana this winter by drilling two horizontal Jean Marie wells and acquiring a 46 square mile 3-D seismic survey in the Greater Sierra region of northeast British Columbia. We now own a 50% interest in 52 sections including six sections with Horn River shale rights.

The initial results from the first two wells were above our expectations and they are currently producing at a combined rate of approximately 2 mmcf/d gross. Together with EnCana we are evaluating gas-fracturing techniques for future wells. With the potential to have a similar impact as the selective stimulation technology applied in Antler, we are looking forward to the 2009 winter drilling season.

Beaver River Field, British Columbia

The excitement surrounding the Utica shale discovery was preceded by the disappointment surrounding the results from the A-8 well at Beaver River.

A-8 was an exploration well that targeted an undrilled fault block identified on 3-D seismic. The drilling operation was executed according to plan with minor challenges drilling through heavily faulted sections. The well was a technical success discovering a new fault block that is not in communication with the adjacent A-5 well. Nevertheless, the sealing mechanism expected was not present and the well is currently suspended.

In light of the developments in our other projects, we have no current plans for further testing of this well.

Corporate

Cash flow for the quarter was \$3.94 million approximately \$2.20 million more than our forecast. While higher commodity prices contributed, the increase is primarily due to higher oil production in Antler and the resulting improvement in our operating netback to \$37.08 per boe from \$24.57 per boe last year.

Our credit facility is currently \$11.25 million. The Board has approved an increase to \$15 million which will be applied for in the third quarter.

In April we closed the acquisition of our founding shareholder, Terrenex Ltd., through the issuance of a net 8.2 million common shares. We now have a seismic database of over 5,300 km of 2-D seismic and an additional 27,000 net acres in the Lowlands.

I am particularly grateful to the shareholders who supported our focused business plan over the years. You have been a part of discovering what may yet prove to be the most valuable natural gas field in Canada.



Michael Binnion
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared at, and is dated, May 9, 2008. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review first quarter 2008 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 three months ended March 31, 2008 and the audited consolidated financial statements for the year ended December 31, 2007.

Questerre is a junior oil and gas company involved in the exploration and development of scalable high-impact projects. To mitigate the risks associated with these projects, the Company has secured partners to assist in their development. To further diversify risk, the Company continues to develop a portfolio of conventional exploration and production assets.

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

Forward Looking Statements

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.

Non-GAAP Terms

This document contains the terms "funds generated from operations", "netbacks", "working capital" and "average sales price" 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 and the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. As an indicator of Questerre's performance, 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. 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.

BOE Conversions

Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas 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.

SELECT INFORMATION

Item	Three Months Ended March 31,	
	2008	2007
Financial (\$)		
Petroleum and natural gas sales	7,231,829	7,502,436
Funds generated from operations	3,939,125	3,046,729
Per share – Basic	0.02	0.02
Per share – Fully diluted	0.02	0.02
Net earnings (loss)	1,472,201	480,366
Per share – Basic	0.01	0.00
Per share – Fully diluted	0.01	0.00
Capital expenditures	17,694,854	7,163,179
Working capital surplus (deficiency)	(4,506,140)	20,427,261
Total assets	103,426,756	77,279,174
Shareholders' equity	73,603,296	60,688,283
Common shares outstanding		
Basic	170,890,470	155,191,750
Fully diluted	187,659,640	168,143,836
Operations (units as noted)		
Average production		
Crude oil and natural gas liquids (bbls/d)	304	210
Natural gas (mcf/d)	5,820	8,951
Total (boe/d)	1,274	1,702
Average sales price		
Crude oil and Natural Gas Liquids (C\$/bbl)	95.50	64.42
Natural gas (C\$/mcf)	8.64	7.77
Total (\$/boe)	62.36	48.98
Netback (\$/boe)		
Total revenue	62.36	48.98
Royalties	10.99	13.40
Percent	17.62	27.36
Field operating expense	12.33	11.01
Operating netback	37.08	24.57
Net cash G&A	4.62	5.36
Cash netback	32.46	19.21
Wells drilled		
Gross	5.0	8.0
Net	3.0	5.5

HIGHLIGHTS

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FIRST QUARTER 2008 ACTIVITIES

St. Lawrence Lowlands, Quebec

Questerre's partner, Forest Oil Corporation ("Forest"), a major US independent, announced a significant Utica shale gas discovery on the Company's Yamaska licenses in the St. Lawrence Lowlands, Quebec. Questerre holds a 7.5% gross overriding royalty convertible into a 20% working interest on the Yamaska licenses.

The announcement follows the completion and stimulation of the St. Francois du Lac well early in the quarter. The well was one of two wells operated by Gastem Inc. ("Gastem") targeting the Utica shale in mid-2007. Based on the results of its technical work and the stimulation, Forest has elected to proceed with the drilling of two additional horizontal wells each with a four-stage fracture stimulation in 2008.

Northeast British Columbia

Greater Sierra

During the quarter, Questerre fulfilled its obligations under the seismic and farm-in agreement with EnCana Corporation ("EnCana") covering 54 square miles in the Greater Sierra region of northeast British Columbia.

These commitments included the drilling and completion of two wells for the Jean Marie formation and acquiring a 46 square mile 3-D seismic survey. Questerre successfully drilled and completed the two wells in early February 2008 at a cost of approximately \$5.50 million. EnCana subsequently tied-in these wells to the local gathering system and production commenced in mid-March 2008 at an initial rate of 4.0 mmcf/d. Current production from these well is approximately 2.0 mmcf/d. Questerre holds a 50% interest in these wells.

The 3-D seismic survey was operated by EnCana and acquisition completed in early March 2008, ahead of schedule. Based on preliminary estimates, the project was completed under a budgeted cost of \$6.15 million. Processing and interpretation of the survey is underway. Subject to the final results, Questerre expects to participate with EnCana in the drilling of 6-8 wells next winter.

Beaver River Field

The completion and testing of the A-8 well was the focus of activity at the Beaver River Field in the first quarter of the year.

The primary target for this well was a potentially undrained Nahanni fault block identified on a reprocessed 3-D seismic survey. Additional targets included the Mattson, Mississippian fractured carbonate and Devonian shale.

The well was tested in early January 2008 and the results from the Nahanni were substantially less than expected. On initial cleanup the well flowed at rates in excess of 5 mmcf/d with final test rates of 400 mcf/d of gas and 900 bbls/d of formation water. Though the pressure data suggests the well is not in communication with the adjacent A-5 well and in a partially sealed block, the presence of formation water suggests a different sealing mechanism than originally expected.

Further testing for the Nahanni and the other prospective zones will be contingent upon capital, equipment availability and weather.

Antler, Saskatchewan

During the quarter, Questerre participated in the drilling and completion of three (2.0 net) horizontal wells in the Antler area of southeast Saskatchewan.

To maximize recovery of the oil in place, Questerre and its partners evaluated the effectiveness of selective fracture stimulation on two horizontal wells. The initial results are consistent with the experience of other operators in the area. Results indicate initial stabilized production of 2 to 4 times the unstimulated rates. Plans are underway to stimulate additional wells and further validate the benefits of this stimulation technique within the Company's acreage.

Based on these preliminary results, Questerre plans to drill and fracture stimulate four new wells and further stimulate four existing wells this summer.

Southern and Central Alberta

Questerre drilled its first horizontal well into the Mannville I Pool in Vulcan, southern Alberta this winter.

The initial completion operation was suspended due to poor hole conditions and a six week delay in securing a suitable rig. In late February, the well was re-entered and a 500m horizontal section drilled and production liner set. Questerre and its partner plan to selectively fracture stimulate the well this spring after breakup.

Questerre also completed the tie-in of two (0.66 net) wells drilled last year in the Vulcan area. The wells commenced production in mid-March at an average rate of 300 boe/d. In the middle of the second quarter, production from one of these wells unexpectedly declined with an increase in formation water. Questerre is evaluating remediation options for this well.

Drilling Activities

In the first quarter of 2008, Questerre participated in the drilling of five (3.0 net) wells resulting in three (2.0 net) oil wells and two (1.0 net) gas wells for a 100% success rate.

Corporate

On February 22, 2008, Questerre entered into an agreement to acquire Terrenex Ltd. ("Terrenex") a related party with common directors and officers. Terrenex's principal assets were a working interest in sixteen exploration licenses covering 719,000 acres in the Lowlands, a seismic database of over 5,300 km of 2-D data in the Lowlands and 10,698,785 Questerre Common Shares. Total consideration for the transaction was 15,892,785 Questerre Common Shares and the assumption of \$0.5 million in debt. The net debt component was paid through a non-refundable deposit on the transaction.

On April 27, 2008, Questerre and Terrenex amended their agreement to increase the share consideration to 18,910,403 Questerre Common Shares. The amendment reflects the announcement of the significant discovery in the Lowlands in April and the related concerns expressed by minority shareholders of Terrenex. The transaction received Terrenex shareholder and regulatory approval on April 28, 2008. On closing, Terrenex became a wholly owned subsidiary of Questerre.

PRODUCTION

Average daily production for the first quarter of 2008 was 1,274 boe/d. By comparison, production in the preceding quarter was 1,216 boe/d and 1,702 boe/d in the first quarter of 2007.

With increased light oil production from the newly acquired Antler area, natural gas represented only 76% of Questerre's production during the quarter, down from 88% in 2007. Over 90% of Questerre's oil production is light oil and natural gas liquids from Antler and Vulcan. For the remainder of this year, the Company anticipates that oil will account for approximately 30% of Questerre's product mix with increased production from both these areas.

Production from the Company's 50% interest in the Mannville G Pool in Vulcan remained the largest single contributor and accounted for 593 boe/d or 46% of daily production during the reporting period. Ancillary assets in Alberta added an additional 218 boe/d to bring total production from Alberta to 811 boe/d or just under 2/3 of daily production. Subject to the test results from its first horizontal well into the Mannville I Pool at Vulcan, Questerre expects production from this well to mitigate the natural declines in its Alberta production in 2008.

Approximately 22% of Questerre production, or 287 boe/d was attributable to assets in British Columbia. Two Jean Marie wells were brought on-stream in mid-March with production averaging 65 boe/d in the quarter and current production of close to 150 boe/d. The two producing wells at the Beaver River Field, A-2 and A-7, averaged daily production of 222 boe/d during the quarter. Boost compression at the Field in early March had a marked improvement with production increasing by over 50%. Questerre plans to install wellhead compression on the A-2 well to further enhance productivity.

The remainder of Questerre's production of 176 boe/d per day was from its newly acquired assets in the Antler area of southeast Saskatchewan. An active drilling program in the last two quarters resulted in seven (4.5 net) horizontal oil wells on production in addition to the one horizontal well and 18 vertical wells acquired. Two horizontal wells were successfully fracture stimulated in the quarter with initial stabilized rates 2-4 times the unstimulated rate. Based on these results, Questerre plans to drill and stimulate four additional horizontal wells while also fracture stimulating four existing horizontals.

FIRST QUARTER 2008 FINANCIAL RESULTS

Revenue

Petroleum and natural gas revenue for the first quarter of 2008 was \$7.23 million, decreased marginally from \$7.50 million for the same period in 2007. Strong commodity prices compensated for the 25% decline in average daily production to 1,274 boe/d.

Questerre's higher quality gas production from Vulcan was responsible for realized natural gas prices that were above the Canadian industry average. During the quarter, Questerre sold its natural gas at an average price of \$8.64/mcf (2007: \$7.77/mcf) in comparison to an AECO daily index price of \$7.97/mcf (2007: \$7.41/mcf).

Higher oil and natural gas liquids also benefited from substantially improved prices. With less than 10% of oil production consisting of 25 API oil, Questerre's realized prices increased to \$95.50/bbl (2007:\$64.42/bbl). This parallels the Edmonton Light reference price of \$97.50/bbl during the quarter in 2008 and \$67.09/bbl in 2007.

To capitalize on the higher pricing environment and mitigate the historically lower gas prices during the summer, Questerre entered into a hedge for 2,000 GJ of production at \$8.49/GJ from April to October 2008.

Royalties

Questerre recorded royalty expense of \$1.27 million for the first three months of 2008 (2007: \$2.05 million). This translates into an effective royalty rate of 17.62% (2007: 27.36%) with Crown royalties accounting for 12.63% (2007: 20.73%) and freehold and overriding royalties 4.99% (2007: 6.63%).

Higher than expected deductions for gas cost allowance in Vulcan coupled with an overall rate of just under 10% on other Alberta production continued to reduce royalties as a percentage of revenue. Over the quarter, royalties on Alberta production decreased by over 27% to 21.16% from 29.01% in 2007.

In British Columbia, Crown and overriding royalties increased from a combined rate of 17.66% in 2007 to 20.35% in 2008. The rate increase primarily reflects the higher prices realized in the quarter and base royalty rate of 27% on the A-7 well at the Beaver River Field that was placed on production in October 2007.

Questerre's production in Antler benefited from the significantly lower royalty rates in Saskatchewan. Royalties as a percentage of revenue were just under 6%. Questerre expects this rate to decrease marginally as additional horizontal wells will be drilled mainly on Crown land that attracts a royalty rate of 2.5% on the first 100,000 barrels of production.

Operating Expenses

Total operating expenses, including gathering and processing charges, for the quarter decreased approximately 15% to \$1.43 million from \$1.69 million in 2007.

The decrease reflects a 25% decline in production offset by a 9% increase on a per boe basis from \$11.01 per boe in 2007 to \$12.33 in 2008. Questerre's Alberta production saw costs increase over one-third to \$13.50 per boe this year from \$9.88 boe the previous year. This reflects higher than expected production costs on ancillary assets in Alberta, particularly Grand Forks and Westlock. By comparison, costs at Vulcan remained relatively stable at \$8.06 per boe as compared to \$8.66 for the same period in 2007.

Operating expenses in British Columbia of \$0.58 million were primarily for the Beaver River Field. Beaver River operating expenses were \$0.52 million (2007: \$0.44 million) include gathering and processing charges of \$0.17 million (2007: \$0.19 million). The higher costs incurred reflect the increase activity supporting the A-8 operation. In Antler, Saskatchewan, production expenses totaled \$0.12 million.

General and Administrative Expenses

Gross general and administrative expenses ("G&A") for the first quarter of 2008 increased 21.07% to \$1.15 million from \$0.95 million in the preceding year. The increase over the prior year is due to higher expenses in three main categories – salaries and consulting, legal fees and rent. On a net basis, this was offset by higher capitalized expenses and overhead recoveries of \$0.61 million (2007:\$0.33 million).

Based on its capital expenditures for the quarter, Questerre capitalized G&A expenses of \$0.53 million (2007: \$0.03 million) and recorded overhead recoveries of \$0.08 million (2007: nil) for capital projects where it was operator.

The higher capitalized expenses and overhead recoveries translated into a 13.8% decrease on a boe basis to \$4.62 from \$5.36 in the prior year. For the remainder of this year, Questerre expects this to remain relatively constant.

(\$ thousands)	2008	2007
General and administrative expenses	1,149	949
Bad debt expense	–	200
Capitalized expenses and overhead recoveries	(613)	(328)
General and administrative expenses, net	536	821

Stock-Based Compensation

Questerre recorded stock-based compensation expense of \$0.33 million for the quarter ended March 31, 2008, unchanged from the same period in 2007. Approximately 51% of this amount is attributable to 5.745 million options granted in the quarter with an exercise price of \$0.45 and a weighted average fair value of \$0.24 per option. The remainder relates to options granted in prior years. For this same period in 2007, a total of 0.17 million options were granted in the first quarter of 2007 with an average exercise price of \$1.26 and a weighted average fair value of \$0.64 per option.

Other Income and Expense

During the first three months of 2008, Questerre realized a loss of \$0.70 million on the disposition of its marketable securities. For the same period in 2007, Questerre recorded a realized gain of \$0.34 million and an unrealized gain of \$0.79 million. The securities represent investments in two junior exploration and production companies.

Questerre's draw downs under its credit facility were largely responsible for interest expense of \$0.04 million during the quarter (2007: \$0.003 million). For the same period in 2007, the higher cash balances held by the Company generated interest income of \$0.11 million (2008: \$0.08 million). Interest expense is expected to increase further as Questerre draws on its facility to fund its capital program for the remainder of the year.

Depletion, Depreciation and Accretion Expense

Depletion, depreciation and accretion expense for the first quarter of 2008 was \$3.55 million, relatively unchanged from the same period in 2007.

On a per boe basis, this equates to \$30.63 in 2008 and \$22.00 in 2007. The higher amount in 2008 reflects the significant increase to the depletion base in 2007 for the unsuccessful wells drilled at the Beaver River Field. This was substantially offset by the reserve additions in the Antler area through the acquisition of Magnus Energy Inc. and the successful drilling program in the first quarter of this year.

Taxes

Consistent with the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the first quarter of 2008 resulting in no income taxes payable for the quarter. During this period, Questerre recorded a future tax recovery of \$2.25 million, resulting in a future tax asset of \$3.38 million at March 31, 2008.

Net Earnings and Cash Flow

Questerre reported a net earnings of \$1.47 million for the quarter ended March 31, 2008 as compared to net earnings of \$0.48 million in the first quarter of 2007. The net earnings in the current year is primarily due to the future tax recovery of \$2.25 million.

Funds generated from operations for the period increased to \$3.94 million up from \$3.05 million in the prior year. Despite a 25.1 decrease in production volumes, higher commodity prices and materially higher netbacks, particularly from Antler, were responsible for the improvement. A 27.54% increase in realized prices contributed to netbacks increasing from \$24.57 to \$37.08.

Capital Expenditures

Capital expenditures incurred by Questerre in the first quarter of 2008 were \$17.69 million, an increase of \$10.53 million from \$7.16 million in 2007.

The front-end loaded capital program focused on the winter only access areas of Greater Sierra and the Beaver River Field in northeast British Columbia. The program consisted of the following:

- \$9.79 million spent in Greater Sierra includes \$5.8 million on the acquisition of the 3-D seismic survey with the balance spent finishing the drilling and completion of two horizontal Jean Marie wells;
- \$3.18 million primarily represent the costs at the Beaver River Field to finalize the drilling and completion of the unsuccessful A-8 well;
- \$3.28 million was spent in Antler to drill three (2.0 net) wells and successfully fracture stimulated two wells. The remainder was spent in Alberta mainly in Vulcan to drill one horizontal well and to tie-in two other wells.

In 2007, Questerre incurred \$3.68 million in British Columbia, primarily drilling the B-3 well, and \$3.28 million spent in Alberta with the remainder in Quebec.

(\$ thousands)	2008	2007
Capital Expenditures		
Alberta	\$ 1,760	\$ 3,279
British Columbia	13,325	3,683
Saskatchewan	2,604	–
Quebec	6	201
Total	\$ 17,695	\$ 7,163

Capitalization and Financial Resources

Questerre reported a working capital deficiency of \$4.5 million at March 31, 2008 as compared to a surplus of \$10.01 million at December 31, 2007.

The Company's current assets consist of cash of \$3.76 million, \$5.55 million in deposits and accounts receivable of \$10.82 million. Current liabilities include \$3.69 million in bank debt and \$21.19 million in accounts payable and accrued liabilities. The Company funded its capital expenditures of \$17.69 million for the quarter through its cash flow, credit facility and working capital.

As at March 31, 2008, the Company had a credit facility of \$7.5 million with \$3.6 million drawn against this facility. Based on a review of its reserves subsequent to quarter-end, the facility was increased to \$11.25 million.

Questerre's capital budget for the remainder of this year is expected to be approximately \$14 million with one-half spent in Antler, one quarter spent in Quebec and the remainder in Alberta. This budget will be funded through cash flow, dispositions of non-core assets and additional draw downs on the credit facility.

Share Capital

The following table provides a summary of the outstanding common shares and options as at the date of the MD&A, the end of the first quarter and the preceding year-end:

	May 9 2008	March 31 2008	December 31 2007
Common Shares	179,127,088	170,890,470	168,930,470
Stock Options	16,744,170	16,769,170	13,064,170
Fully Diluted Shares	195,871,258	187,659,640	181,994,640
Weighted average common shares			
Basic		169,733,932	157,078,211
Fully Diluted		172,902,492	163,260,612

The increase in common shares outstanding from March 31, 2008 to May 2008 was the 8,211,618 net common shares issued on the acquisition of Terrenex Ltd. and the exercise of 25,000 stock options.

Contractual Obligations

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

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

Off-Balance Sheet Arrangements

There were no off-balance sheet transactions entered into during the period, nor were there any outstanding as of the date of this MD&A.

Business Environment and Risk

Except as detailed below, there were no changes to Questerre's risk management policies during the three months ended March 31, 2008 from those detailed in the audited financial statements for the year ended December 31, 2007.

Environmental Regulation and Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined could have a material impact on the nature of oil and natural gas operations, including those of the Company.

The Federal Government released on April 26, 2007, its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as ecoACTION and which includes the Regulatory Framework for Air Emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy-using products. Regarding large industry and industry related projects the Government's Action Plan intends to achieve the following: (i) an absolute reduction of 150 megatonnes in greenhouse

gas emissions by 2020 by imposing mandatory targets; and (ii) air pollution from industry is to be cut in half by 2015 by setting certain targets. New facilities using cleaner fuels and technologies will have a grace period of three years. In order to facilitate the companies' compliance of the Action Plan's requirements, while at the same time allowing them to be cost-effective, innovative and adopt cleaner technologies, certain options are provided. These are: (i) in-house reductions; (ii) contributions to technology funds; (iii) trading of emissions with below-target emission companies; (iv) offsets; and (v) access to Kyoto's Clean Development Mechanism.

On March 8, 2007, the Alberta Government introduced Bill 3, the Climate Change and Emissions Management Amendment Act, which intends to reduce greenhouse gas emission intensity from large industries. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12% starting July 1, 2008; if such reduction is not initially possible the companies owning the large emitting facilities will be required to pay \$15 per tonne for every tonne above the 12% target. These payments will be deposited into an Alberta-based technology fund that will be used to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. As an alternate option, large emitters can invest in projects outside of their operations that reduce or offset emissions on their behalf, provided that these projects are based in Alberta. Prior to investing, the offset reductions, offered by a prospective operation, must be verified by a third party to ensure that the emission reductions are real.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company and its operations and financial condition.

Review of Alberta Royalty and Tax Regime

The government has previously stated its intention to consult with industry and potentially revise the New Royalty Framework ("NRF") for unintended consequences. This consultation has now been concluded and on April 10, 2008 the government released its clarifications as well as a new "deep resource program". Highlights of this release are as follows:

Deep oil wells

- A five-year oil program for exploration wells over 2,000 meters will provide royalty adjustments to offset higher drilling costs and provide a greater incentive for producers to continue to pursue new, deeper oil plays.
- Wells deeper than 2,000 meters represented 20 per cent of oil wells drilled and 26 per cent of new conventional oil production between 2002 and 2007.
- Wells will qualify for up to \$1 million or 12 months of royalty offsets, whichever comes first.

Deep natural gas

- To encourage continued deep gas exploration, the government will replace the existing Royalty Adjustment Program with the Natural Gas Deep Drilling Program for wells deeper than 2,500 meters.
- Wells over 2,500 meters represented five per cent of natural gas wells drilled and 27 per cent of natural gas production between 2002 and 2007.
- The Natural Gas Deep Drilling Program will provide greater benefits to deeper wells, creating a sliding scale of royalty credit according to depth, up to \$3,750 per meter.

Other clarifications as a result of the unintended consequences analysis

- Under the New Royalty Framework, four par prices instead of two will be used to calculate royalties on oil, allowing royalties to be charged at a price closer to that received by the producer.
- Natural gas royalty will be calculated based on the sum of vertical drill depth and all laterals, encouraging greater development of coalbed methane. Greater use of laterals may significantly lessen land use and the environmental footprint of CBM development.

Questerre has reviewed the new program as well as the "clarifications" and it has determined that they do not materially alter the impact of the NRF as disclosed in the Company's 2007 annual report.

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. There were no changes to Questerre's critical accounting estimates in the period from those used in the audited financial statements from 2007.

Changes in Accounting Policies

Accounting Standard Changes

As of January 1, 2008 Questerre adopted the new CICA standards, Section 3862 "Financial Instruments – Disclosures", Section 3031 "Inventories" and Section 3863 "Financial Instruments – Presentation", which will replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

Also effective January 1, 2008, the Company adopted CICA 1535 "Capital Disclosures", which will require additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements.

Future Accounting Pronouncements

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

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

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 Questerre's management as appropriate to allow timely decisions regarding required disclosure. Questerre's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, 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, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared.

Internal controls have been designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements together with the other financial information for external purposes in accordance with Canadian GAAP. The Company's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision internal controls over financial reporting related to the Company, including its consolidated subsidiaries.

The Company's Chief Executive Officer and Chief Financial Officer are required to cause the Company to disclose here-in any change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. There were no material changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2008.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of Questerre Energy Corporation for the three months ended March 31, 2008 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Corporation. These statements have not been reviewed by the Corporation's external auditors.



Michael Binnion
President and Chief Executive Officer



Jason D'Silva
Vice President, Finance

Calgary, Alberta, Canada
May 9, 2008

CONSOLIDATED BALANCE SHEETS

(unaudited)

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

Contractual Commitments and Obligations (note 8)

See accompanying notes to consolidated financial statements.

STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT

(unaudited)

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

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

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

See accompanying notes to consolidated financial statements.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 (unaudited)

The interim consolidated financial statements include the accounts of Questerre Energy Corporation and its subsidiaries ("Questerre" or the "Company") and have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements are unaudited and have not been subject to review by the Company's external auditors. The interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2007. The disclosure which follows is incremental to the disclosure included with the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual report for the year ended December 31, 2007. Preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

1. Nature of Operations and Basis of Presentation

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

2. Changes in Accounting Policies

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

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

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

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

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

Future Accounting Pronouncements

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

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

3. Petroleum and Natural Gas Properties

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

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

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

4. Asset Retirement Obligations

The total future asset retirement obligation was estimated by management based on Questerre's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company estimates its total undiscounted asset retirement obligations to be \$6,282,338 at March 31, 2008. Questerre uses a credit adjusted risk free rate of seven percent and an inflation rate of three percent over the varying lives of the assets to calculate the present value of the asset retirement obligation.

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

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

5. Marketable Securities

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

6. Bank Indebtedness

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

In January 2007, the term loan was paid out.

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

7. Share Capital

a) Authorized

The Company is authorized to issue an unlimited number of Class A common voting shares. The Company is also authorized to issue an unlimited number of Class B common voting shares and an unlimited number of preferred shares, issuable in one or more series. At March 31, 2008, there were no Class B common voting shares or preferred shares outstanding.

b) Issued and outstanding - Class A common shares

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

c) Per share amounts

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

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

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

d) Stock options

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

The following table sets forth a reconciliation of the stock option plan activity for the three months ended March 31, 2008:

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

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

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

e) Stock-based compensation costs

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

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

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

f) Contributed surplus

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

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

8. Contractual Commitments and Obligations

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

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

9. Financial Instruments

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

Market risk

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

Commodity price risk

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

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

Foreign currency exchange risk

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

Interest rate risk

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

Credit risk

Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25th day of the month following delivery. The Company has not experienced any credit loss in the collection of its accounts receivable.

Liquidity risk

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

Fair values of financial instruments

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

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

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

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

10. Capital Disclosures

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

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

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

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

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

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

11. Related Part Transactions

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

CORPORATE INFORMATION

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

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Michael Binnion
President and Chief
Executive Officer

John Brodylo
VP Exploration

Peter Coldham
VP Engineering
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Stock Information

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