

## INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31 2009	December 31 2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 58,175,317	\$ 65,379,340
Marketable securities (note 4)	142,370	198,080
Accounts receivable (note 8)	5,820,852	8,049,421
Inventory (note 10)	232,221	352,127
Prepays and deposits	900,205	970,003
	<b>65,270,965</b>	74,948,971
Goodwill	2,467,816	2,467,816
Property, plant and equipment, net (note 3)	86,860,852	88,114,346
	<b>\$ 154,599,633</b>	\$ 165,531,133
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,514,246	\$ 20,640,982
Future income taxes	1,811,487	2,705,845
Asset retirement obligations (note 6)	5,083,775	4,994,862
	<b>20,409,508</b>	28,341,689
<b>Shareholders' Equity</b>		
Common shares (note 7)	191,991,012	191,991,012
Questerre shares held by subsidiary	(23,109,376)	(23,109,376)
Contributed surplus (note 7 (f))	8,147,936	6,739,230
Deficit	(42,839,447)	(38,431,422)
	<b>134,190,125</b>	137,189,444
	<b>\$ 154,599,633</b>	\$ 165,531,133

Contractual obligations and commitments (note 12)

See accompanying notes to the consolidated financial statements.

## INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT (UNAUDITED)

<i>For the three months ended March 31</i>	<b>2009</b>	2008
<b>Revenue</b>		
Petroleum and natural gas revenue	\$ 3,724,999	\$ 7,231,829
Royalties	(468,997)	(1,274,673)
	<b>3,256,002</b>	5,957,156
<b>Expenses</b>		
Operating	1,232,424	1,429,710
General and administrative	1,123,518	535,399
Interest expense	3,400	39,381
Interest income	(202,056)	(78,769)
Realized loss on sale of marketable securities (note 4)	–	711,929
Unrealized (gain) loss of marketable securities (note 4)	55,710	(7,230)
Unrealized loss on risk management activities	–	227,257
Stock-based compensation (note 7 (e))	1,408,706	329,556
Depletion and depreciation	4,829,906	4,146,240
Accretion of asset retirement obligations (note 6)	103,912	56,232
	<b>8,555,520</b>	7,389,705
Net loss before income taxes	<b>(5,299,518)</b>	(1,432,549)
<b>Income Taxes</b>		
Current	2,865	–
Future (recovery)	(894,358)	(2,084,750)
	<b>(891,493)</b>	(2,084,750)
<b>Net earnings (loss) and comprehensive income (loss)</b>	<b>(4,408,025)</b>	652,201
Deficit, beginning of period	(38,431,422)	(29,218,808)
<b>Deficit, end of period</b>	<b>\$ (42,839,447)</b>	<b>\$ (28,566,607)</b>
<b>Net earnings (loss) per share (note 7 (c))</b>		
Basic and diluted	\$ (0.022)	\$ 0.004

*See accompanying notes to the consolidated financial statements.*

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>For the three months ended March 31</i>	<b>2009</b>	2008
<b>Operating Activities</b>		
Net earnings (loss)	\$ (4,408,025)	\$ 652,201
Items not affecting cash and cash equivalents:		
Depletion and depreciation	4,829,906	4,146,240
Stock-based compensation (note 7 (e))	1,408,706	329,556
Accretion of asset retirement obligations (note 6)	103,912	56,232
Realized loss on sale of marketable securities (note 4)	–	711,929
Unrealized (gain) loss on marketable securities (note 4)	55,710	(7,230)
Unrealized loss on risk management activities	–	227,257
Future income taxes (recovery)	(894,358)	(2,084,750)
Abandonment expenditures	(32,500)	(92,310)
	<b>1,063,351</b>	3,939,125
Net change in non-cash working capital	<b>(3,079,155)</b>	(2,379,138)
	<b>(2,015,804)</b>	1,559,987
<b>Financing Activities</b>		
Issue of common shares	–	207,696
Share issue costs	–	(33,998)
Bank debt	–	3,690,000
	–	3,863,698
<b>Investing Activities</b>		
Expenditures on property, plant and equipment	(3,558,911)	(17,694,854)
Sale of marketable securities (note 4)	–	1,274,551
	<b>(3,558,911)</b>	(16,420,303)
Net change in non-cash working capital	<b>(1,629,308)</b>	852,786
	<b>(5,188,219)</b>	(15,567,517)
Decrease in cash and cash equivalents	<b>(7,204,023)</b>	(10,143,832)
Cash and cash equivalents, beginning of period	<b>65,379,340</b>	13,899,276
<b>Cash and cash equivalents, end of period</b>	<b>\$ 58,175,317</b>	<b>\$ 3,755,444</b>

See supplemental cash flow information contained in note 11.

See accompanying notes to the consolidated financial statements.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008 (unaudited)

### 1. Basis of Presentation and Nature of Operations

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. The interim consolidated 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, 2008, except as disclosed in Note 2. 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, 2008. 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 the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

Questerre is a full cycle exploration and production company. The Company targets scalable high-impact projects and has developed a portfolio of conventional exploration and production assets.

On June 18, 2008, Magnus Energy Inc. (“Magnus”) and its wholly owned subsidiary Magnus One Energy Corp. (collectively the “Magnus Entities”) applied for protection under the *Bankruptcy and Insolvency Act*. Magnus Energy is a wholly owned subsidiary of Questerre. At meetings of the creditors of the Magnus Entities held on September 30, 2008, the creditors approved a proposal to settle amounts outstanding. Court approval of this proposal was obtained on April 2, 2009. No adjustments have been made to the carrying values of the liabilities pending confirmation of the settlement amounts. This is expected to be completed in the latter half of 2009.

### 2. Changes in Accounting Policies

On January 1, 2009, the Company adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Section:

“Goodwill and Intangible Assets”, Section 3064. The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard was applied retroactively and has had no material impact on Questerre’s consolidated financial statements.

#### *Future Accounting Pronouncements*

In February 2008, the CICA’s Accounting Standards Board confirmed that International Financial Reporting Standards (“IFRS”) will replace Canadian generally accepted accounting principles in 2011 for profit-oriented Canadian publicly accountable enterprises. Questerre will be required to report its results in accordance with IFRS beginning in 2011. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The impact of IFRS on the Company’s consolidated financial statements is not reasonably determinable at this time.

### 3. Property, Plant and Equipment

	March 31 2009	December 31 2008
Property, plant and equipment	\$ 165,977,424	\$ 162,401,012
Accumulated depletion and depreciation	(79,116,572)	(74,286,666)
	<b>\$ 86,860,852</b>	<b>\$ 88,114,346</b>

During the three months ended March 31, 2009, the Company capitalized administrative overhead charges of \$170,305 (December 31, 2008: \$2,090,419) directly relating to exploration and development activities.

At March 31, 2009, property, plant and equipment included \$21,969,972 (December 31, 2008: \$19,889,320) relating to seismic expenditures and unproved properties which have been excluded from the depletion calculation. Amounts are carried at the lower of cost or fair value. Included in the depletion calculation are future development costs of \$5,355,000 (December 31, 2008: \$5,355,000).

### 4. Marketable Securities

Marketable securities represent investments in shares of public companies which are designated as held for trading and are stated at fair value. Any unrealized gains or losses are recognized in the statements of operations for the period in which they arise.

The following table sets out the changes in marketable securities:

	March 31 2009	December 31 2008
Balance, beginning of period	\$ 198,080	\$ 1,979,250
Purchase of marketable securities	–	295,942
Sale of marketable securities	–	(1,274,551)
Realized loss on sale of marketable securities	–	(711,929)
Unrealized loss on marketable securities	(55,710)	(90,632)
<b>Balance, end of period</b>	<b>\$ 142,370</b>	<b>\$ 198,080</b>

### 5. Bank Indebtedness

The Company has a \$5 million revolving credit facility with a Canadian chartered bank. The advances bear interest at the bank prime rate plus 1.5%. The authorized limit is currently under review and the Company is evaluating its requirements for this facility in light of its cash position and planned capital programs in 2009. The facility is collateralized with a \$20 million fixed and floating charge debenture over the assets of the Company. As at March 31, 2009, there were no amounts outstanding under this facility.

## 6. 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. At March 31, 2009, the Company estimates its total undiscounted asset retirement obligation to be \$9,864,687 (December 31, 2008: \$9,840,101).

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

	<b>March 31 2009</b>	December 31 2008
Balance, beginning of period	\$ 4,994,862	\$ 4,578,140
Revision in estimates	–	829,910
Liabilities incurred	17,501	423,934
Accretion expense	103,912	248,481
Liabilities settled	(32,500)	–
Property dispositions	–	(1,085,603)
<b>Balance, end of period</b>	<b>\$ 5,083,775</b>	<b>\$ 4,994,862</b>

## 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, 2009, there were no Class B common voting shares or preferred shares outstanding.

### *b) Issued and Outstanding – Class A Common Shares*

	Number	Amount
<b>Common Shares</b>		
Balance, December 31, 2008 and March 31, 2009	197,299,642	\$ 191,991,012

### *c) Per Share Amounts*

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

<i>Three months ended March 31</i>	<b>2009</b>	2008
Basic	197,299,642	169,733,932
Diluted	205,069,693	172,902,492

For the purpose of calculating the diluted net loss per share for the three months ended March 31, 2009, incremental shares from assumed exercise of stock options are not included due to the anti-dilutive effect.

*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 generally vest evenly over a three-year period or vest evenly over a three-year period starting one year from the grant date. The grants generally 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, 2009:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2008	17,655,421	\$1.26
Granted	1,065,000	1.80
Forfeited	(10,000)	4.70
<b>Outstanding, March 31, 2009</b>	<b>18,710,421</b>	<b>\$1.28</b>
<b>Exercisable, March 31, 2009</b>	<b>10,311,242</b>	<b>\$0.66</b>

The following table summarizes information about stock options outstanding and exercisable at March 31, 2009:

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	827,501	0.72	\$0.30	827,501	\$0.30
\$0.39 - \$0.65	9,075,835	2.84	0.46	5,563,743	0.47
\$0.72 - \$1.00	3,280,835	2.00	0.80	2,834,581	0.81
\$1.23 - \$1.80	2,636,250	4.19	1.54	929,167	1.34
\$2.38 - \$4.70	2,890,000	4.24	4.48	156,250	2.78
	<b>18,710,421</b>	<b>3.01</b>	<b>\$1.28</b>	<b>10,311,242</b>	<b>\$0.66</b>

*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, officers 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 exercise of stock options is recorded as an increase in common shares with a corresponding reduction in contributed surplus. Forfeiture of options are recorded as incurred and any unvested stock based compensation expense is recorded as a reduction in the expense.

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:

<i>Three months ended March 31</i>	<b>2009</b>	2008
Weighed average fair value per option (\$)	<b>1.21</b>	0.24
Risk free interest rate (%)	<b>1.61</b>	2.95
Expected life (years)	<b>3.6</b>	3.0
Expected volatility (%)	<b>101</b>	79

#### *f) Contributed Surplus*

The following table sets forth a reconciliation of contributed surplus for the three months ended March 31, 2009:

Balance, December 31, 2008	\$ 6,739,230
Stock-based compensation expense	1,408,706
<b>Balance, March 31, 2009</b>	<b>\$ 8,147,936</b>

## **8. Financial Instruments**

### *A) Risks Associated with Financial Assets and Liabilities*

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

#### 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. Accounts receivable 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 and the Company has not experienced any credit loss relating to these revenues.

The Company's accounts receivable are aged as follows:

<u>Aging</u>	
Current	\$ 3,737,427
31 - 60 days	474,098
61 - 90 days	24,835
> 90 days	4,126,101
Allowance for doubtful accounts	(2,541,609)
<b>Balance, March 31, 2009</b>	<b>\$ 5,820,852</b>

### 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 to protect its cash flow on future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. As at March 31, 2009 the Company had no oil and natural gas risk management contracts in place. The Company has estimated the impact of changing commodity prices on its net earnings/(loss) for the three months ended March 31, 2009 as follows: A \$10/bbl change in realized oil prices would result in a \$0.36 million change in net earnings/(loss). A \$1.00/mcf change in realized natural gas prices would result in a \$0.28 million change in net earnings/(loss).
- **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. As at March 31, 2009 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 period ended March 31, 2009.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and are updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital.

Since the Company operates in the upstream oil and gas industry, it requires sufficient cash to fund capital programs necessary to maintain or increase production and develop reserves and to potentially acquire strategic assets. The Company's capital programs are funded principally by cash obtained through equity issuances and from operating activities. During times of low oil and natural gas prices, a portion of capital programs can generally be deferred, however, due to the long cycle times and the importance to future cash flow in maintaining the Company's production, it may be necessary to utilize alternative sources of capital to continue the Company's strategic investment plan during periods of low commodity prices. As a result, the Company frequently evaluates the options available with respect to sources of long and short-term capital resources. Occasionally, the Company will hedge a portion of its production to protect cash flow in the event of commodity price declines. In addition, the Company has access to a revolving credit facility which allows the Company to borrow money if required.

See Note 9 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.

One of the Company's subsidiaries, Magnus sought protection under the Bankruptcy and Insolvency Act (See Note 1).

### *B) Fair Values of Financial Instruments*

Questerre's financial assets and liabilities are comprised of cash and cash equivalents, marketable securities, accounts receivable, deposits, accounts payable and accrued liabilities.

The carrying and fair values of the Company's financial instruments as at March 31, 2009 are as follows:

	Carrying Value	Fair Value
Financial Assets		
Held-for-trading:		
Cash and cash equivalents	\$ 58,175,317	\$ 58,175,317
Deposits	743,673	743,673
Marketable securities	142,370	142,370
Loans and receivables:		
Accounts receivable	5,820,852	5,820,852
Financial Liabilities		
Accounts payable and accrued liabilities <sup>1</sup>	\$ 13,514,246	\$ 11,699,522

(1) The fair value of the Magnus payables of \$1,814,724 cannot be estimated as the final settlement amounts are unknown (See Note 1).

The fair value of marketable securities is determined by the closing bid price per share as at the balance sheet date multiplied by the number of shares. Questerre's line of credit bears interest at a floating market rate. As at March 31, 2009 the company has no amounts outstanding. 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 statements of operations for the period.

## **9. Capital Disclosures**

The Company believes it is well capitalized to weather the current volatility in financial markets with positive cash flow from operations, no debt and a working capital surplus of over \$50 million consisting mainly of cash and cash equivalents.

The majority of planned capital spending in 2009 will be incurred in Quebec and is in part contingent upon the results of the pilot programs conducted by Questerre's partners. The Company does not currently anticipate using its line of credit to fund capital expenditures in 2009 or 2010. The line of credit is believed to provide adequate contingency for unanticipated changes in capital spending or market conditions.

The recent change in commodity prices will have a material impact on Questerre's cash flow from operations. Questerre attempts to mitigate the effect of lower prices by shutting in production in unusually low pricing environments and reallocating capital to more profitable areas or reducing capital spending based on results and other market considerations.

The Company considers its capital structure to include shareholders' equity, bank debt and working capital. The Company will adjust its capital structure to minimize its cost of capital through the issuance of shares, increasing its bank line of credit and/or adjusting its capital spending. Questerre monitors its capital based on the current and projected cash flow from operations.

	March 31 2009	December 31 2008
Shareholders' equity	\$ 134,190,125	\$ 137,189,444
Bank Debt	–	–
Working Capital	51,756,719	54,307,989
	<b>\$ 185,946,844</b>	<b>\$ 191,497,433</b>

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 cash flows, joint venture relationships or asset/corporate acquisitions which are financed primarily through share issuances.

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

### 10. Inventory

Inventory is carried at the lower of weighted average cost or net realizable value. For the three months ended March 31, 2009, there were no write downs or reversals of previously written down amounts. During the period, \$nil in fuel inventory was purchased (2008: \$444,156) and \$119,905 (2008: \$169,780) recognized as an expense.

### 11. Supplemental Cash Flow Information

<i>Three months ended March 31</i>	2009	2008
Cash interest paid	\$ 3,400	\$ 39,381
Cash taxes paid	\$ 21,072	\$ –

### 12. Contractual Obligations and Commitments

The Company is obligated to make total payments under an operating lease of \$86,858 in 2009, \$115,811 in 2010 and \$9,651 in 2011. Questerre has commitments under a lease for office space of \$254,781 in 2009 and \$311,399 in 2010.

### 13. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.