

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30 2009	December 31 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 56,586,820	\$ 65,379,340
Marketable securities (note 4)	155,628	198,080
Accounts receivable (note 8)	4,913,552	8,049,421
Inventory (note 10)	186,116	352,127
Prepays and deposits	576,544	970,003
	62,418,660	74,948,971
Goodwill	2,467,816	2,467,816
Property, plant and equipment, net (note 3)	84,764,326	88,114,346
	\$ 149,650,802	\$ 165,531,133
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,465,335	\$ 20,640,982
Future income taxes	1,174,620	2,705,845
Asset retirement obligations (note 6)	5,189,989	4,994,862
	17,829,944	28,341,689
Shareholders' Equity		
Common shares (note 7)	192,287,756	191,991,012
Questerre shares held by subsidiary	(23,109,376)	(23,109,376)
Contributed surplus (note 7 (f))	9,316,982	6,739,230
Deficit	(46,674,504)	(38,431,422)
	131,820,858	137,189,444
	\$ 149,650,802	\$ 165,531,133

Contractual obligations and commitments (note 12).

See accompanying notes to the consolidated financial statements.

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

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2009	2008	2009	2008
Revenue				
Petroleum and natural gas revenue	\$ 2,974,761	\$ 9,037,355	\$ 6,699,760	\$ 16,269,184
Royalties	(103,003)	(1,493,597)	(572,000)	(2,768,270)
	2,871,758	7,543,758	6,127,760	13,500,914
Expenses				
Operating	893,649	1,775,776	2,126,073	3,205,486
General and administrative	1,308,047	626,500	2,431,565	1,161,900
Interest expense	12,417	83,519	15,817	122,900
Interest income	(89,293)	(311,405)	(291,349)	(390,174)
Realized (gain) loss on sale of marketable securities (note 4)	(106)	–	(106)	711,929
Unrealized (gain) loss on marketable securities (note 4)	(25,210)	–	30,500	(7,230)
Realized loss on risk management activities	–	221,942	–	221,942
Unrealized loss on risk management activities	–	496,133	–	723,390
Stock-based compensation (note 7 (e))	1,279,164	528,878	2,687,870	858,434
Depletion and depreciation	3,829,013	4,305,208	8,658,919	8,451,447
Accretion of asset retirement obligations (note 6)	106,214	44,641	210,126	100,873
	7,313,895	7,771,192	15,869,415	15,160,897
Net loss before income taxes	(4,442,137)	(227,434)	(9,741,655)	(1,659,983)
Income Taxes				
Current	29,787	8,598	32,652	8,598
Future (recovery)	(636,867)	2,434,054	(1,531,225)	349,304
	(607,080)	2,442,652	(1,498,573)	357,902
Net loss and comprehensive loss	(3,835,057)	(2,670,086)	(8,243,082)	(2,017,885)
Deficit, beginning of period	(42,839,447)	(28,566,607)	(38,431,422)	(29,218,808)
Acquisition of Terrenex Ltd.	–	(17,652,964)	–	(17,652,964)
Deficit, end of period	\$ (46,674,504)	\$ (48,889,657)	\$ (46,674,504)	\$ (48,889,657)
Net loss per share (note 7 (c))				
Basic and diluted	\$ (0.019)	\$ (0.015)	\$ (0.042)	\$ (0.011)

See accompanying notes to the consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2009	2008	2009	2008
Operating Activities				
Net loss	\$ (3,835,057)	\$ (2,670,086)	\$ (8,243,082)	\$ (2,017,885)
Items not affecting cash and cash equivalents:				
Depletion and depreciation	3,829,013	4,305,208	8,658,919	8,451,447
Stock-based compensation (note 7 (e))	1,279,164	528,878	2,687,870	858,434
Accretion of asset retirement obligations (note 6)	106,214	44,641	210,126	100,873
Realized (gain) loss on sale of marketable securities (note 4)	(106)	–	(106)	711,929
Unrealized (gain) loss on marketable securities (note 4)	(25,210)	–	30,500	(7,230)
Unrealized loss on risk management activities	–	496,133	–	723,390
Future income taxes (recovery)	(636,867)	2,434,054	(1,531,225)	349,304
Abandonment expenditures	–	–	(32,500)	(92,310)
	717,151	5,138,828	1,780,502	9,077,952
Net change in non-cash working capital	(255,210)	3,140,693	(3,334,365)	761,555
	461,941	8,279,521	(1,553,863)	9,839,507
Financing Activities				
Issue of common shares	186,626	76,602,979	186,626	76,810,729
Share issue costs	–	(5,145,194)	–	(5,179,246)
Repayment of bank loan	–	(3,690,000)	–	–
	186,626	67,767,785	186,626	71,631,483
Investing Activities				
Expenditures on property, plant and equipment	(1,732,487)	(3,354,566)	(5,291,398)	(21,049,420)
Acquisition of Terrenex Ltd.	–	(602,161)	–	(602,161)
Sale of property, plant and equipment	–	890,446	–	890,446
Sale of marketable securities (note 4)	12,058	–	12,058	1,274,551
	(1,720,429)	(3,066,281)	(5,279,340)	(19,486,584)
Net change in non-cash working capital	(516,635)	(8,880,726)	(2,145,943)	(8,027,939)
	(2,237,064)	(11,947,007)	(7,425,283)	(27,514,523)
Increase (decrease) in cash and cash equivalents	(1,588,497)	64,100,299	(8,792,520)	53,956,467
Cash and cash equivalents, beginning of period	58,175,317	3,755,444	65,379,340	13,899,276
Cash and cash equivalents, end of period	\$ 56,586,820	\$ 67,855,743	\$ 56,586,820	\$ 67,855,743

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 and six months ended June 30, 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 do not include all disclosures required in the annual consolidated financial statements and 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 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

	June 30 2009	December 31 2008
Property, plant and equipment	\$ 167,709,911	\$ 162,401,012
Accumulated depletion and depreciation	(82,945,585)	(74,286,666)
	\$ 84,764,326	\$ 88,114,346

During the six months ended June 30, 2009, the Company capitalized administrative overhead charges of \$252,805 (December 31, 2008: \$2,090,419) directly relating to exploration and development activities.

At June 30, 2009, property, plant and equipment included \$22,117,306 (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:

	June 30 2009	December 31 2008
Balance, beginning of period	\$ 198,080	\$ 1,979,250
Purchase of marketable securities	–	295,942
Sale of marketable securities	(12,058)	(1,274,551)
Realized gain (loss) on sale of marketable securities	106	(711,929)
Unrealized loss on marketable securities	(30,500)	(90,632)
Balance, end of period	\$ 155,628	\$ 198,080

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 June 30, 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 June 30, 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:

	June 30 2009	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	210,126	248,481
Liabilities settled	(32,500)	–
Property dispositions	–	(1,085,603)
Balance, end of period	\$ 5,189,989	\$ 4,994,862

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 June 30, 2009, 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, 2008	197,299,642	\$ 191,991,012
Issued for cash on exercise of options	319,167	186,626
Stock-based compensation recognized on exercise of stock options		110,118
Balance, June 30, 2009	197,618,809	\$ 192,287,756

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 June 30</i>		<i>Six months ended June 30</i>	
	2009	2008	2009	2008
Basic	197,370,978	181,275,421	197,335,508	175,504,676
Diluted	205,065,933	194,380,878	205,059,942	187,525,387

For the purpose of calculating the diluted net loss per share for the three and six months ended June 30, 2009 and 2008, 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 six months ended June 30, 2009:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2008	17,655,421	\$1.26
Granted	1,065,000	1.80
Forfeited	(69,167)	2.54
Exercised	(319,167)	0.58
Outstanding, June 30, 2009	18,332,087	\$1.29
Exercisable, June 30, 2009	10,707,905	\$0.67

The following table summarizes information about stock options outstanding and exercisable at June 30, 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	822,501	0.47	\$0.30	822,501	\$0.30
\$0.39 - \$0.65	8,836,668	2.61	0.46	5,786,660	0.46
\$0.72 - \$1.00	3,180,835	1.76	0.80	2,885,623	0.80
\$1.23 - \$1.80	2,622,083	3.94	1.54	1,041,246	1.34
\$2.38 - \$4.70	2,870,000	3.99	4.47	171,875	2.78
	18,332,087	2.77	\$1.29	10,707,905	\$0.67

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 June 30</i>		<i>Six months ended June 30</i>	
	2009	2008	2009	2008
Weighed average fair value per option (\$)	–	3.44	1.21	1.25
Risk free interest rate (%)	–	3.23	1.61	3.04
Expected life (years)	–	3.0	3.6	3.0
Expected volatility (%)	–	131	101	95

f) Contributed Surplus

The following table sets forth a reconciliation of contributed surplus for the six months ended June 30, 2009:

Balance, December 31, 2008	\$ 6,739,230
Stock-based compensation expense	2,687,870
Stock-based compensation recognized on exercise of stock options	(110,118)
Balance, June 30, 2009	\$ 9,316,982

8. Financial Instruments

Credit Risk

The Company's accounts receivable are aged as follows:

Aging	
Current	\$ 2,788,720
31 - 60 days	243,790
61 - 90 days	563,230
> 90 days	3,998,990
Allowance for doubtful accounts	(2,681,178)
Balance, June 30, 2009	\$ 4,913,552

Fair Values of Financial Instruments

The carrying and fair values of the Company's financial instruments as at June 30, 2009 are as follows:

	Carrying Value	Fair Value
Financial Assets		
Held-for-trading:		
Cash and cash equivalents	\$ 56,586,820	\$ 56,586,820
Deposits	440,582	440,582
Marketable securities	155,628	155,628
Loans and receivables:		
Accounts receivable	4,913,552	4,913,552
Financial Liabilities		
Accounts payable and accrued liabilities ¹	\$ 11,465,335	\$ 9,693,494

(1) The fair value of the Magnus payables of \$1,771,841 cannot be estimated as the final settlement amounts are unknown (See Note 1).

9. Capital Disclosures

The Company considers its capital structure to include shareholders' equity, 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, securing additional credit facilities and/or adjusting its capital spending. Questerre monitors its capital based on the current and projected cash flow from operations.

	June 30 2009	December 31 2008
Shareholders' equity	\$ 131,820,858	\$ 137,189,444
Debt	-	-
Working Capital	50,953,325	54,307,989
	\$ 182,774,183	\$ 191,497,433

10. Inventory

Inventory is carried at the lower of weighted average cost or net realizable value. For the six months ended June 30, 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 \$166,011 (2008: \$176,558) was recognized as an expense.

11. Supplemental Cash Flow Information

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2009	2008	2009	2008
Cash interest paid	\$ 12,417	\$ 83,519	\$ 15,817	\$ 122,900
Cash taxes (refunded) paid	\$ (9,070)	\$ 8,598	\$ 12,002	\$ 8,598

12. Contractual Obligations and Commitments

The Company is obligated to make total payments under an operating lease of \$57,905 in 2009, \$115,811 in 2010 and \$9,651 in 2011. Questerre has commitments under a lease for office space of \$169,854 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.