Q1

2012

QUARTERLY REPORT

QUESTERRE ENERGY CORPORATION

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2012

QUESTERRE ENERGY CORPORATION IS AN INDEPENDENT ENERGY COMPANY FOCUSED ON NON-CONVENTIONAL OIL AND GAS RESOURCES. THE COMPANY IS CURRENTLY DEVELOPING A PORTFOLIO OF OIL SHALE ASSETS IN NORTH AMERICA. IT IS ALSO SECURING A SOCIAL LICENSE TO COMMERCIALIZE ITS UTICA NATURAL GAS DISCOVERY IN QUEBEC. THE COMPANY IS UNDERPINNED BY LIGHT OIL ASSETS AND A STRONG BALANCE SHEET. QUESTERRE IS COMMITTED TO THE ECONOMIC DEVELOPMENT OF ITS RESOURCES IN AN ENVIRONMENTALLY CONSCIOUS AND SOCIALLY RESPONSIBLE MANNER. QUESTERRE'S COMMON SHARES TRADE ON THE TORONTO AND OSLO STOCK EXCHANGE UNDER THE SYMBOL QEC.

President's Message

The significant investment in oil shale at the end of this quarter capped a year of looking for new high-impact projects.

Our recently acquired assets could add in excess of several hundred million barrels in resources, complementing our multi-Tcf discovery in Quebec. Our goal for the next two years is to move these assets along the learning curve towards commercial development.

To generate near-term cash flow and build capital value, we also invested in our conventional assets. Developing Antler remained a priority, though growth in the quarter was delayed as strict municipal road bans during breakup shut-in production. We successfully drilled our first well in the liquids-rich window of the Montney shale and the results were better than expected.

Highlights

- Invested $40 million in oil shale acquiring an equity interest in Red Leaf Resources Inc., licensing rights to their EcoShale process and a 20% interest in oil shale acreage in Wyoming
- Completed core hole drilling program on oil shale acreage in Pasquia Hills, Saskatchewan
- Spud first Montney well targeting liquids-rich natural gas in Alberta
- Early spring breakup and resulting road bans slowed light oil drilling program in Antler, Saskatchewan
- Improved oil weighting generated cash flow from operations of $3.29 million with average daily production of 725 boe/d
- Balance sheet strength preserved with $55 million in positive working capital and no debt

Oil Shale Mining

Oil shales are on the cusp of becoming the next major resource to be commercially developed. Unlocking these resources will require innovative processes, like Red Leaf's EcoShale In-Capsule process.

Historically, efforts focused on improving the efficiency of the retorting process that, barring costs and environmental concerns, have produced oil from shale for centuries. Until now, these efforts have not addressed one of the most significant costs associated with mining shale – rock handling. By moving the retort process to the rock instead of the rock to the process, the EcoShale process has the potential to dramatically reduce costs. This approach also contains the spent shale within a sealed capsule to EPA standards, addressing the environmental concerns associated with disposing of spent shale.

Red Leaf's pilot project in Utah, completed in 2009, successfully demonstrated that high quality oil can be produced from an EcoShale capsule on a one-tenth scale. Commercializing this process, however, will not happen overnight or over the next year. Just as drilling commercial wells for new shale plays requires the methodical approach of the learning curve to perfect the recipe, we believe that the optimal capsule also requires the rigor of the learning curve.

With an initial budget of US$200 million and a joint venture with Total E&P USA, Red Leaf is well capitalized both in terms of financial and intellectual capital to move up this learning curve. Work will begin this summer and includes a test capsule and other field testing to optimize capsule design in advance of building their three-quarter scale capsule next year. First commercial production from this capsule is planned for early 2014.

Concurrent with the field work in Utah, we are working with Red Leaf on our joint 5,120 acres in Wyoming where we hold a 20% working interest. We are in the resource assessment phase of the learning curve in Wyoming. Our plans are to conduct a core hole program this fall to validate an existing resource assessment and assess the suitability of the shale for the Red Leaf EcoShale process.

We recently completed a 10 well core program on our oil shale acreage in Pasquia Hills, Saskatchewan. Approximately 30m of the target Second White Specks shale was encountered in all the wells drilled. We plan to drill another 10 well program this summer. We are currently analyzing over 700 core samples, including modified Fisher assay analysis, to develop our own resource assessment of this 100,000 acre block by early 2013.

Western Canada

While assessing the scale of the resource is our priority for the oil shale acreage in Pasquia Hills, east central Saskatchewan, maximizing recovery of the light oil in place is our priority for Antler in southeast Saskatchewan.

Following the six (3.75 net) horizontal wells drilled this quarter, we intend to drill up to 12 (9.00 net) additional horizontal wells after spring breakup this year. These are primarily stepout wells to define the southern extent of the oil pool. Recently, economics for these wells have been challenged by widening differentials that have reduced netbacks by as much as $25/bbl and cost inflation due to tight equipment availability. We will monitor these metrics closely and reallocate investment to other projects as necessary to meet our production goals.

Our most profitable investment in this pool will be a secondary recovery scheme. For an additional $1.20 - $1.50 million in incremental capital, we expect to increase recovery by over 240,000 barrels per section. We started preliminary work on a secondary recovery scheme this winter. Subject to results and requisite approvals, we intend to implement this scheme on our first section this summer and expand this to two additional sections over the next 12-18 months.

In addition to the development of our oil pool at Antler, our new Montney project in west central Alberta is expected to contribute to our production target of over 1,500 boe/d by the end of 2013.

The first well, drilled and completed on schedule and budget this winter, tested at over 2,500 boe/d with condensate accounting for over 46% of the total volumes. We have begun work to tie-in this well to the local pipeline. Production will likely be constrained given the available processing facilities for liquids extraction and the strong industry activity in the area.

Even though natural gas prices are at ten year lows, industry activity in the Kakwa-Resthaven area is driven by the high liquids content and Crown royalty incentives for deep horizontal wells. The results from our first well confirm that our 16 sections (4 net) are in the heart of the fairway for this play with liquids content exceeding our expectations. Together with our partners, we have begun work on identifying follow-up locations and other prospective intervals within the Montney formation. Subject to results from the initial wells and processing capacity, full development for this first target interval could include up to 64 gross (16 net) wells.

We continue to look selectively for accretive acquisitions and farmin opportunities to diversify and further grow our conventional assets.

Operational and Financial

Our results were impacted by municipal enforcement of road bans in Saskatchewan and widening differentials between the benchmark West Texas Intermediate price and our realized price.

Production averaged almost 800 boe/d for the first seventy days of the quarter including over 850 boe/d for the first ten days in March. However, our daily production over the quarter only averaged 725 boe/d. Stringently enforced road bans in Saskatchewan shut-in over 100 boe/d from all our single well batteries for the remainder of March. Additional road bans introduced later in the month suspended trucking of oil from our main battery to the sales terminal, shutting in the entire field for the last days of the quarter. These road bans have continued for the majority of the second quarter.

In spite of oil prices averaging over US$100/bbl for the entire quarter, infrastructure constraints and growing oil supplies in the United States widened differentials and reduced our realized prices by $18 per barrel in the month of March. As a result, our realized oil and liquids price this quarter averaged $92.19/bbl and we generated $3.29 million in cash flow for the period.

Consistent with prior periods, our capital expenditures during the quarter focused on Antler.

Of the $14.79 million invested, approximately 80% was incurred drilling up our existing light oil pool. This included the drilling of six (3.75 net) horizontal wells and completion of six (4.25 net) wells including three (2.50 net) wells drilled in the fourth quarter of 2011. Capital costs in Antler were higher than expected due to cost overruns of approximately $1 million on a vertical well targeting the Souris Valley. The remainder was invested primarily in our Montney well and the core hole program for our oil shale acreage in Saskatchewan.

Outlook

Our prospects for growth are better now than they were a year ago when we learnt that the strategic environmental assessment in Quebec would delay our Utica shale gas project till the end of 2013.

The investment by Total in Red Leaf and its EcoShale process validates our thesis on oil shale. We have positioned Questerre to capitalize on this new kind of rock. Although early, we are convinced it will ultimately have a material impact on energy markets.

Our discovery in Quebec when commercialized will have a similar impact on local energy markets. We were very encouraged to see that the Ministry of Finance in its 2012-2013 budget allocated $1 billion to acquiring equity interests in companies in the mining and oil and gas sectors. During the assessment, we will continue to work on our social license to operate and communicate the local economic benefits.

Underlying our shale gas and oil shale assets is a portfolio of conventional assets that provides a reserve of value. The value of these assets grew in 2011 and we plan to sustain this growth in 2012. With our strong cash position, they provide a source of future capital for our entire portfolio.

Michael Binnion
President and Chief Executive Officer

Management's Discussion and Analysis ("MD&A") was prepared as of May 10, 2012. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") as at and for the three month periods ended March 31, 2012 and 2011, and the 2011 MD&A and audited annual consolidated financial statements of the Company for the year ended December 31, 2011. Additional information relating to Questerre, including Questerre's Annual Information Form for the year ended December 31, 2011 is available on SEDAR at www.sedar.com.

Questerre is an independent energy company focused on non-conventional oil and gas resources. The Company is currently developing a portfolio of oil shale assets in North America. It is also securing a social license to commercialize its Utica natural gas discovery in Quebec. The Company is underpinned by light oil assets and a strong balance sheet. Questerre is committed to the economic development of its resources in an environmentally conscious and socially responsible manner.

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

Basis of Presentation

Questerre presents figures in the MD&A using accounting policies within the framework of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All financial information is reported in Canadian dollars, unless otherwise noted. Certain amounts in prior years have been reclassified to conform to the current year's presentation.

Forward Looking Statements

Certain statements contained within this MD&A constitute forward-looking statements. These statements relate to future events or Questerre's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A.

This MD&A contains forward-looking statements pertaining to the following:

- the performance of the Company's oil and natural gas properties;
- the size of the Company's oil, natural gas liquids and natural gas reserves and production levels;
- estimates of future cash flow;
- projections of prices and costs;
- drilling plans and timing of drilling, recompletion and tie-in of wells by Questerre and its partners;
- weighting of production between different commodities;
- commodity prices, foreign exchange rates and interest rates;
- expected levels of royalty rates, operating costs, general and administrative costs, costs of services and other costs and expenses;

- capital expenditure programs and other expenditures and the timing and method of financing thereof;
- supply of and demand for oil, natural gas liquids and natural gas;
- expectations regarding Questerre's ability to raise capital and to continually add to reserves through acquisitions and development;
- The Company's ability to grow or sustain production and reserves through prudent management;
- the emergence of accretive growth opportunities and continued access to capital markets;
- The Company's future operating and financial results;
- schedules and timing of certain projects and Questerre's strategy for future growth; and
- treatment under governmental and other regulatory regimes and tax, environmental and other laws.

In particular, this MD&A contains the following forward-looking statements pertaining to the following:

- production volumes;
- timing of drilling programs and resulting cash flows;
- future oil and natural gas prices;
- operating costs;
- royalty rates;
- future development, exploration and acquisition activities, and related expenditures;
- the amount of future asset retirement obligations; and
- future liquidity and financial capacity.

With respect to forward-looking statements contained in this MD&A we have made assumptions regarding, among other things:

- future oil and natural gas prices;
- the continued availability of capital, undeveloped lands and skilled personnel;
- the costs of expanding the Company's property holdings;
- the ability to obtain equipment in a timely manner to carry out exploration, development and exploitation activities;
- the ability to obtain financing on acceptable terms;
- the ability to add production and reserves through exploration, development and exploitation activities; and
- the continuation of the current tax and regulatory regimes.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in market prices for oil, natural gas liquids and natural gas;
- counterparty credit risk;
- access to capital;
- changes or fluctuations in oil, natural gas liquids and natural gas production levels;
- liabilities inherent in oil and natural gas operations;
- adverse regulatory rulings, orders and decisions;
- attracting, retaining and motivating skilled personnel;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and services;
- incorrect assessments of the value of acquisitions and targeted exploration and development assets;
- fluctuations in foreign exchange or interest rates;
- stock market volatility, market valuations and the market value of the securities of Questerre;
- failure to realize the anticipated benefits of acquisitions;
- actions by governmental or regulatory authorities including changes in royalty structures and programs, and income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry;
- limitations on insurance;
- changes in environmental or other legislation applicable to the Company's operations, and its ability to comply with current and future environmental and other laws; and
- geological, technical, drilling and processing problems, and other difficulties in producing oil, natural gas liquids and natural gas reserves.

Statements relating to "reserves" or "resources" are by their nature deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities law.

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.

Non-IFRS Terms

This document contains the terms "cash flow from operations" and "netbacks", which are non-IFRS terms. The Company uses these measures to help evaluate its performance.

As an indicator of Questerre's performance, cash flow from operations should not be considered as an alternative to, or more meaningful than, net cash from operating activities as determined in accordance with IFRS. Questerre's determination of cash flow from operations may not be comparable to that reported by other companies. Questerre considers cash flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund operations and support activities related to its major assets.

Cash Flow from Operations Reconciliation

Three months ended March 31,	2012	2011
Net cash from operating activities	$ 740,800	$ 866,496
Change in non-cash operating working capital	2,550,354	770,454
Cash flow from operations	$ 3,291,154	$ 1,636,950

The Company considers netbacks to be a key measure as it demonstrates its profitability relative to current commodity prices. Operating netbacks per boe equal total petroleum and natural gas sales per boe adjusted for royalties per boe and direct operating expenses per boe.

The Company also uses the term "working capital surplus". Working capital surplus, as presented, does not have any standardized meaning prescribed by IFRS and may not be comparable with the calculation of similar measures for other entities. Working capital surplus, as used by the Company, is calculated as current assets less current liabilities excluding the current portions of the share based compensation liability and risk management contracts.

Select Information

As at/for the three months ended March 31,	2012	2011
Financial ($, except common shares outstanding)		
Petroleum and Natural Gas Sales	5,323,158	3,965,389
Cash Flow from Operations	3,291,154	1,636,950
Per share - Basic	0.01	0.01
Per share - Diluted	0.01	0.01
Net Profit (Loss)	(1,780,075)	1,234,259
Per share - Basic	(0.01)	0.01
Per share - Diluted	-	0.01
Capital Expenditures, net of acquisitions and dispositions	14,791,673	7,243,480
Working Capital Surplus	55,051,962	130,616,809
Total Assets	267,006,166	261,365,161
Shareholders' Equity	233,136,765	232,275,278
Common Shares Outstanding	231,109,028	234,623,728
Weighted average - basic	231,114,039	234,434,615
Weighted average - diluted	232,694,570	238,509,767
Operations (units as noted)		
Average Production		
Crude Oil and Natural Gas Liquids (bbl/d)	617	450
Natural Gas (Mcf/d)	646	1,198
Total (boe/d)	725	650
Average Sales Price		
Crude Oil and Natural Gas Liquids ($/bbl)	92.19	87.78
Natural Gas ($/Mcf)	2.49	3.82
Total ($/boe)	80.68	67.78
Netback ($/boe)		
Petroleum and Natural Gas Sales	80.68	67.78
Royalties Expense	(3.98)	(5.91)
Percentage	5%	9%
Direct Operating Expense	(13.50)	(13.37)
Operating Netback	63.20	48.50
Wells Drilled		
Gross	9.00	8.00
Net	5.63	4.75

Highlights

- Invested $40 million in oil shale acquiring an equity interest in Red Leaf Resources Inc., licensing rights to their EcoShale process and a 20% interest in oil shale acreage in Wyoming
- Completed core hole drilling program on oil shale acreage in Pasquia Hills, Saskatchewan
- Spud first Montney well targeting liquids-rich natural gas in Alberta
- Early spring breakup and resulting road bans slowed light oil drilling program in Antler, Saskatchewan
- Improved oil weighting generated cash flow from operations of $3.29 million with average daily production of 725 boe/d
- Balance sheet strength preserved with $55 million in positive working capital and no debt

First Quarter 2012 Activities

Oil Shale Mining

Late in the first quarter of 2012, Questerre successfully concluded its letter of intent with Red Leaf Resources Inc. ("Red Leaf"), a private Utah-based oil shale and technology company. Red Leaf's principal assets are its proprietary EcoShale In-Capsule Technology to recover oil from shale and mineral leases in the states of Wyoming and Utah prospective for oil shale.

The Company invested US$40 million in Red Leaf, representing just under 6% of the equity capital of Red Leaf. Questerre received a Board seat and appointed its President to the Red Leaf Board.

In conjunction with the equity investment, the Company entered into a farmin and participation agreement with Red Leaf to develop 5,120 acres licensed by Red Leaf in the Washakie Basin in southwestern Wyoming. Questerre will participate for a 20% working interest with Red Leaf holding the remaining 80% interest. The parties are currently planning a work program to update an existing resource assessment of the oil shale prospectivity of these lands. Questerre's anticipated share of this program for 2012-2013 will be $0.25 million.

Through its equity investment in Red Leaf, Questerre has acquired an indirect interest in Red Leaf's principal oil shale project covering approximately 17,000 acres in the Uinta Basin in southeastern Utah. Red Leaf recently completed a successful pilot on a portion of this acreage. With the direct participation of Total E&P USA ("Total"), Red Leaf plans to advance this pilot to early commercialization beginning in 2012. Total is expected to invest up to US$320 million in this project to acquire a 50% interest in Red Leaf's Utah assets.

Questerre has also executed a ten year non-exclusive option agreement to license Red Leaf's EcoShale In-Capsule processes and technology for any project identified by Questerre. Subject to the project meeting the criteria for commerciality, Questerre will pay Red Leaf a fee of US$2 million for each license issued. Red Leaf will receive a gross overriding royalty on the project on mutually acceptable terms.

In advance of its letter of intent with Red Leaf, Questerre acquired over 100,000 net acres in the Pasquia Hills area of east central Saskatchewan during the fourth quarter of 2011. The acreage overlies an established oil shale deposit. During the first quarter of 2012, the Company conducted a core hole program to further assess this acreage.

Over 700m of continuous core was obtained from 10 wells. The wells were drilled to an average depth of 100m with wireline logs obtained from surface to depth. Good core was recovered throughout the target formation with approximately 30m of the oil shale formation encountered in all wells drilled. The Company plans to expand this program in the summer of 2012 to further assess this acreage.

Western Canada

Questerre continued to develop its light oil pool in Antler, Saskatchewan during the first quarter of 2012. Following an extended drilling program in 2011, the Company drilled six (3.75 net) horizontal wells targeting the Torquay/Bakken formation. Although three (1.75 net) of these wells were completed in the quarter, an early spring breakup and limited equipment availability deferred completion for the remaining three (2.00 net) wells. The Company was also able to complete three (2.50 net) wells drilled during the fourth quarter of 2011.

Existing production was also impacted by weather and the related municipal road bans. Strict road bans enforced by the local municipalities resulted in production from the Company's single wells batteries, representing approximately 20% of Antler volumes, being shut-in for almost the entire month of March 2012. Questerre was unable to transport production volumes from the main battery to the sales terminal for the latter part of March 2012 due to additional road bans. Produced volumes from the entire field have since been intermittent as these road bans have continued in the second quarter of 2012.

To evaluate the potential of other prospective intervals in Saskatchewan, including the Souris Valley, a shallower oil bearing zone, in the first quarter of 2012 Questerre participated in the drilling of two (1.50 net) vertical wells and the recompletion of one (0.50 net) well drilled in 2011. This resulted in two suspended wells and one completed well.

As part of its strategy to develop its portfolio of conventional assets, in February 2012, the Company and its partners spud the first horizontal well targeting liquids-rich natural gas from the Montney shale in the Kakwa-Resthaven area of west central Alberta.

The well was successfully drilled to a measured depth of 5071m and subsequently completed with 15-stage fracture stimulations in the 1430m horizontal leg. On a 96 hour test, the well flowed 8.3 MMcf/d of natural gas and 1150 bbl/d of condensate. These test results exceeded Management's expectations. The well is currently shut-in awaiting tie-in scheduled for the fourth quarter of 2012. Questerre holds a 37.5% interest in this well before payout and a 25% interest in this well after payout. The Company also holds a 25% working interest in 16 contiguous sections of land in this area.

St. Lawrence Lowlands, Quebec

The pilot program to assess the commerciality of the Utica shale remained suspended while the government conducted its strategic environmental assessment ("SEA") on shale gas development in Quebec.

Following the public consultation of its plan to implement the SEA, the oversight committee published its update to the plan in April 2012. The oversight committee will recommend that no modern completion operations, in specific hydraulic fracturing, be conducted during the SEA. Furthermore, the committee will commission several studies on the impacts of shale gas development including the effects on the agriculture, forestry and tourism industries. With limited industry expertise in Quebec, the committee will also study natural gas migration and surface casing vent flows. The committee also plans to visit Canadian provinces and US states where shale gas is currently being developed commercially.

As a result of this updated plan, Questerre expects that any further operations, including the completion of the Fortierville and St. Gertrude horizontal wells, may only be conducted after the SEA has published its final report in November 2013.

Drilling Activities

In the first quarter of 2012, Questerre participated in the drilling of eight (5.25 net) oil wells in Saskatchewan and one (0.38 net) natural gas well in Alberta. For the same period in 2011, Questerre participated in the drilling of eight (4.75 net) oil wells in Saskatchewan and no natural gas wells.

Production

Three months ended March 31,	2012			2011		
	Oil and Liquids (bbl/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbl/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Saskatchewan	574	-	574	387	-	387
Alberta	43	556	136	63	682	177
British Columbia	-	90	15	-	516	86
	617	646	725	450	1,198	650

Consistent with the prior year, production volumes in the first quarter of 2012 reflect the increased investment in light oil while suspending investment in conventional dry natural gas. Despite this investment in the first quarter of 2012, growth in the quarter continued to be hampered by weather and equipment availability.

For the three months ended March 31, 2012, daily production averaged 725 boe/d as compared to 743 boe/d in the fourth quarter of 2011 and 650 boe/d for the first quarter of 2011.

As a proportion of total volumes, oil and liquids increased to 85% in the first quarter of 2012 from 69% in the first quarter of 2011 and 84% in the fourth quarter of 2011. Following a 15 (10.27 net) horizontal well drilling program and a light oil asset acquisition in 2011, Questerre participated in the drilling of six (3.75 net) additional horizontal wells in the first quarter of 2012 at Antler. As a result, oil production from the province increased by 48% to 574 boe/d over the first quarter in 2011.

The impact on production from the increased investment was delayed by the early spring breakup and resulting road bans in Saskatchewan. In early March 2012, the road bans shut-in production from the Company's single well batteries that represent over 100 bbl/d of production. Additional road bans were introduced later in March 2012 and halted trucking of produced oil from the main battery, effectively shutting-in the field at the end of the first quarter of 2012. Trucking has resumed intermittently in the second quarter of 2012 as road bans permit.

Subject to results from the wells drilled in the first quarter of 2012, weather and equipment availability, Questerre plans to drill up to 12 (9.00 net) additional horizontal wells at Antler over the remainder of 2012 . As a result of the production shut-ins due to weather, Questerre anticipates its production for the second quarter of 2012 will be materially lower than the first quarter of 2012.

Although natural gas represented only 15% of production volumes, Questerre expects this could increase in the fourth quarter of 2012 with the planned tie-in of its recently drilled liquids-rich gas well in the Kakwa area of Alberta. The Company is evaluating follow-on locations that could be drilled in early 2013.

First Quarter 2012 Financial Results

Petroleum and Natural Gas Sales

Three months ended March 31,	2012			2011		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$4,825,269	$ -	$4,825,269	$ 3,076,789	$ -	$ 3,076,789
Alberta	348,823	128,880	477,703	473,992	253,008	727,000
British Columbia	-	20,186	20,186	-	161,600	161,600
	$5,174,092	$ 149,066	$5,323,158	$ 3,550,781	$ 414,608	$ 3,965,389

Increased oil volumes benefitted from higher oil prices and improved revenue to $5.32 million in the first quarter of 2012 from $3.97 million in the first quarter of 2011. This was offset by the reduced natural gas revenue that reflected lower volumes and materially lower prices.

Pricing

Three months ended March 31,	2012	2011
Benchmark prices		
Natural Gas - AECO, daily spot ($/Mcf)	2.15	3.79
Crude Oil - Edmonton light ($/bbl)	92.18	87.97
Realized prices		
Natural Gas ($/Mcf)	2.49	3.82
Crude Oil and Natural Gas Liquids ($/bbl)	92.19	87.78

International crude oil prices were relatively strong in the first quarter of 2012 due to the geopolitical tensions in the Middle East and, to a lesser extent, supply disruptions from producers in that region. This was muted in North America where differentials between the benchmark US West Texas Intermediate and Canadian Edmonton Light prices widened considerably during the quarter reaching $18/bbl in March 2012. This was attributed to growing inventories in the PADD II region from Bakken production, seasonal refinery turnarounds and limited pipeline takeaway capacity to the Gulf Coast. While pipeline and rail infrastructure initiatives are planned and this differential has narrowed, it is expected to persist for the remainder of 2012.

Realized prices for the first quarter of 2012 reflected this differential and continued to track the Edmonton Light benchmark price. In 2012, the realized price was $92.19/bbl (2011: $87.78/bbl) as compared to an Edmonton Light price of $92.18/bbl (2011: $87.97/bbl) and a WTI price of US$100.67/bbl (2011: US$91.74/bbl).

An unseasonably warm winter and persistent supply translated into the lowest natural gas prices in ten years. During the first quarter of 2012, the supply/demand imbalance marginally tightened through reduced rig counts, producer shut-ins/curtailments and increased demand from the power sector. Notwithstanding, the storage surplus at the end of the first quarter of 2012 stood at almost 900 Bcf or 60% above last year and the five year average suggesting further weakness in prices for the remainder of 2012.

Higher heat content natural gas realized prices of $2.49/Mcf in the first quarter of 2012 (2011: $3.82/Mcf) as compared to the benchmark AECO price of $2.15/Mcf (2011: $3.79/Mcf).

Royalties

Three months ended March 31,		2012		2011
Saskatchewan	$	371,212	$	154,209
Alberta		(108,489)		180,901
British Columbia		97		10,819
	$	262,820	$	345,929
% of Revenue				
Saskatchewan		8%		5%
Alberta		-23%		25%
British Columbia		0%		7%
Total Company		5%		9%

The Company's effective royalty rate for the first quarter of 2012 was 5% as compared to 9% in the first and fourth quarters of 2011.

The rate includes a royalty credit for production in Alberta. Excluding this credit, the royalty rate in the period was 9%. The current royalty rate for production in Saskatchewan has risen to 8% in the first quarter of 2012 from 5% in the first quarter of 2011. Questerre anticipates this will increase further as more wells are drilled on freehold lands that attract a royalty rate of 15% to 18% as compared to 2.5% on Crown lands.

Operating Costs

Three months ended March 31,		2012		2011
Saskatchewan	$	674,209	$	274,559
Alberta		193,963		256,585
British Columbia		22,837		251,260
	$	891,009	$	782,404
$/boe				
Saskatchewan		12.91		7.88
Alberta		15.67		15.84
British Columbia		16.73		32.46
Total Company		13.50		13.37

Operating costs for the first quarter increased, on a unit of production basis, to $13.50 from $11.61 in the preceding quarter and $13.37 in the same period in 2011.

With approximately 80% of production volumes from Antler, the variance is due to the increased operating costs in Saskatchewan. These reflect the higher volumes associated with single well batteries, higher fixed costs associated with these batteries during the shut-ins and higher trucking costs. The Company expects these costs will reduce in the latter half of 2012 with plans to tie-in wells in south Antler and future drilling planned proximate to existing pipelines. Although production from BC accounts for only 2% of production volumes, operating costs in the province fell by almost 50% due to the disposition of the Beaver River Field in the second quarter of last year.

General and Administrative Expenses

Three months ended March 31,		2012		2011
General and administrative expenses, gross	$	1,950,965	$	1,609,518
Capitalized expenses and overhead recoveries		(768,991)		(517,592)
General and administrative expenses, net	$	1,181,974	$	1,091,926

Gross general and administrative expenses ("G&A") in the first quarter of 2012 of $1.95 million (2011: $1.61 million) were consistent with the prior quarter expense of $1.97 million. A significant portion of the increase year over year relates to increased staffing costs.

With the increase in the gross expense partially offset by the increase in the capitalized expenses and overhead recoveries, net G&A increased to $1.18 million in the first quarter of 2012 from $1.09 million in the same period of 2011.

Other Income and Expenses

Questerre reported interest income of $0.34 million in the first quarter of 2012 (2011: $0.46 million) and $0.41 million in the fourth quarter of 2011. The decrease in the interest income is as expected with the lower cash balances in 2012. The cash is invested in Guaranteed Investment Certificates issued by Canadian chartered banks and credit unions.

The pre-exploration expense relates to activities before the legal right to explore is acquired. The 2012 first quarter charge of $0.02 million relates primarily to geological and geophysical expenditures.

Marketable securities represent investments in shares of public companies which are designated as available for sale and are stated at fair value. Any unrealized gain or loss is recognized in other comprehensive income (loss) for the period in which they arise. The Company recorded an unrealized gain, net of deferred tax, of $1.74 million in the first quarter of 2012 (2011: $nil) compared to a $0.13 million unrealized gain in the fourth quarter of 2011. In the first quarter of 2012, Questerre sold a portion of the marketable securities for proceeds of $2.35 million resulting in a realized gain of $0.26 million. At March 31, 2012, Questerre held marketable securities with a market value of $3.18 million. Subsequent to March 31, 2012, further marketable securities were sold for proceeds of $1.40 million.

With the sale of the marketable securities in the first quarter of 2012, $0.05 million (2011: $nil) of other comprehensive income was reclassified to net profit (loss).

The loss on foreign exchange of $0.08 million in the first quarter of 2012 (2011: $nil) is due to the change in the exchange rate relating to the US dollar investments at March 31, 2012.

Share Based Compensation

Under the Company's current share based compensation plan, fair values are determined at each reporting date using the Black-Scholes option pricing model. Periodic changes in fair value are recognized in net profit (loss) as share based compensation expense (recovery) with a corresponding change to the liability. Obligations for cash payments are recorded as a share based compensation liability based on the fair value of the liability at the reporting date.

The Black-Scholes model calculates a theoretical value of the options based on the price of the Company's shares, its volatility, risk-free rate and expected life. Due to the increase in the Company's share price in 2012, the Black-Scholes values have increased resulting in an expense in the first quarter of 2012.

Share based compensation for the first quarter of 2012 is an expense of $1.09 million compared to recoveries of $0.61 million and $0.96 million in the fourth and first quarters of 2011, respectively. As mandated by existing accounting standards, this represents the change in the estimated fair value of stock options outstanding using the Black-Scholes pricing model.

Depletion, Depreciation, Impairment and Accretion

Depletion and depreciation expense for the first quarter of 2012 increased 2% to $2.55 million from $2.49 million in the fourth quarter of 2011. The increase in the expense is due to a 6% increase in the depletion and depreciation rate from $36.41/boe in the fourth quarter of 2011 to $38.63/boe in the first quarter of 2012 mitigated by a 2% decrease in production volumes.

The higher depletable base in the first quarter of 2012 accounts for the 52% increase, on a unit of production basis, from $25.45/boe in the first quarter of 2011. With the higher rate and a 12% increase in production volumes, gross depletion and depreciation expense increased from $1.50 million in the first quarter of 2011 to $2.55 million in the first quarter of 2012.

The impairment of assets of $1.65 million in the first quarter of 2012 (2011: $0.08 million) relates to undeveloped land expiries within the exploration and evaluation asset pool.

Questerre recognized $0.03 million in accretion expense for the first quarter of 2012 (2011: $0.05 million) unchanged from $0.03 million in the fourth quarter of 2011. The decrease year over year relates to the sale of the Questerre Beaver River Inc. subsidiary in May 2011 offset by the new liabilities incurred relating to drilling and acquisitions. As at March 31, 2012, the estimated net present value of the total asset retirement obligation is $6.12 million, based on a total future undiscounted liability of $8.83 million.

Deferred Taxes

The recovery of deferred taxes in the first quarter of 2012 was $0.28 million compared to a recovery of $1.59 million in the fourth quarter of 2011 and an expense of $0.14 million in the first quarter of 2011. Consistent with prior periods, Questerre had sufficient tax pool deductions to offset taxable income in the first quarter of 2012.

Total Comprehensive Income (Loss)

Questerre recorded total comprehensive loss in the first quarter of 2012 of $0.17 million compared to total comprehensive income of $1.23 million in the first quarter of 2011. The first significant item contributing to the loss position in 2012 was the increase in the fair value of the stock options creating a share based compensation expense of $1.09 million in the first quarter of 2012 compared to a $0.96 million recovery in the first quarter of 2011. Secondly, a $0.35 million loss was recognized on the risk management contracts and thirdly, the impairment of assets and depletion and depreciation expenses increased to $4.20 million in the first quarter of 2012 from $1.57 million in the first quarter of 2011. These three items were mitigated by higher sales from the increased oil and liquids production and higher realized pricing, a $1.74 million unrealized gain on marketable securities, net of deferred tax, and a $0.26 million realized gain on the sale of marketable securities.

Capital Expenditures

Three months ended March 31,	2012	2011
Saskatchewan	$ 12,648,062	$ 6,040,690
Alberta	1,668,159	(7,015)
Quebec	315,177	1,079,490
Manitoba	15,544	85,369
British Columbia	9,494	34,348
Corporate	135,237	10,598
Total	$ 14,791,673	$ 7,243,480

Questerre incurred net capital expenditures of $14.79 million in the first three months of 2012 (2011: $7.24 million) primarily on its light oil assets in Saskatchewan. The Company's significant capital expenditures for the first quarter of 2012 consisted of the following:

- In Saskatchewan, $12.65 million was incurred mainly to drill, complete and tie-in several wells. In the first quarter of 2012, the Company spud a total of eight (5.25 net) wells in the province. The Company was also able to complete three (2.50 net) wells drilled during the fourth quarter of 2011.
- The $1.67 million spent in Alberta relates to the drilling of one (0.38 net) well in the Montney shale in Alberta.
- In the St. Lawrence Lowlands of Quebec $0.32 million was invested primarily working on to secure the Company's social license to operate.

The Company's significant capital expenditures for the first quarter of 2011 consisted of the following:

- In Saskatchewan, $6.04 million was incurred primarily to drill, complete and tie-in several wells. In the first quarter of 2011, the Company spud a total of eight (4.75 net) wells.
- In the St. Lawrence Lowlands of Quebec $1.08 million was invested primarily working on to secure the Company's social license to operate and commercialize its Utica shale gas discovery.
- The $0.09 million incurred in Manitoba primarily related to acquiring land rights.

Liquidity and Capital Resources

Questerre reported a working capital surplus of $55.05 million at March 31, 2012 as compared to a surplus of $104.48 million at December 31, 2011.

The Company's current assets consist of cash and cash equivalents of $63.85 million, $3.18 million of marketable securities, $9.71 million of accounts receivable and $2.48 million in deposits and prepaid expenses. Current liabilities of $24.17 million represent accounts payable and accrued liabilities.

The Company believes it is sufficiently capitalized with a working capital surplus of $55.05 million at March 31, 2012, positive cash flow from operations and no debt to fund its capital investment program for 2012. The capital program is expected to include investments in its conventional assets including its assets in Saskatchewan and Alberta and its non-conventional assets.

The majority of future capital spending that may be incurred in Quebec over the next 3 to 5 years is contingent upon the results of the strategic environmental assessment, the introduction of new hydrocarbon legislation and the results of the pilot program conducted by Questerre and its partners. Subject to these considerations, Questerre anticipates the ongoing development of its light oil assets will provide a further source of capital for future activities in Quebec or any of the Company's other assets, including its oil shale assets.

Cash Flow from Operations and Net Cash from Operating Activities

Cash flow from operations in the first quarter of 2012 of $3.29 million was $0.14 million or 4% higher than the fourth quarter of 2011 and $1.65 million or 101% higher than the first quarter of 2011. The increase from the prior year first quarter was mainly due to significantly higher petroleum and natural gas sales, a realized gain on marketable securities and lower royalties offset by lower interest income and higher operating and G&A expenses. The petroleum and natural gas sales increase is due to the increased oil weighting that leveraged higher oil prices.

Net cash from operating activities for the first quarter of 2012 was $0.74 million compared to $0.87 million in the same period in 2011. The decreased net cash from operating activities of $0.13 million was due to the negative change in the non-cash working capital of $1.78 million outweighing the increase in the cash flow from operations of $1.65 million as discussed above.

Share Capital

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

	May 10, 2012	March 31, 2012	December 31, 2011
Common shares	231,119,028	231,109,028	231,300,028
Stock options	22,477,919	22,505,419	22,674,169
Weighted average common shares			
Basic		231,114,039	233,025,712
Diluted		232,694,570	235,975,196

In 2012, 191,000 common shares were purchased under the NCIB for consideration of $124,944 and an adjustment to share capital on an average cost basis of $254,218.

There have been 110,000 options granted and 278,750 options forfeited during the first three months of 2012.

Risk Management

The Company's activities in the petroleum and natural gas industry expose it to a variety of financial risks, including credit, liquidity and market risks associated with commodity prices, exchange rate and interest rate fluctuations. There have been no changes to the Company's risks from those detailed in the MD&A for the year ended December 31, 2011.

The Company may use financial instruments to reduce corporate risk in certain situations. In the first quarter of 2012, Questerre entered into the following commodity risk management contracts with the corresponding fair values as at March 31, 2012:

	Volumes	Average Price	Term		Fair Value (Liability)
WTI NYMEX oil swap	150 bbl/d	$103/bbl	Feb. 1, 2012 - Dec. 31, 2012	$	(68,833)
WTI NYMEX oil swap	150 bbl/d	$99.65/bbl	Jan. 1, 2013 - Dec. 31, 2013		(273,759)
				$	(342,592)

The unrealized loss recorded in net profit (loss) for the first three months of 2012 was $0.34 million (2011: nil). The realized loss recorded in net profit (loss) for the first three months of 2012 was $0.01 million (2011: nil).

Internal Controls over Financial Reporting

Questerre is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The 2012 certificate requires that the Company disclose in the interim MD&A any changes in the Company's internal controls over financial reporting ("ICFR") that occurred during the period that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

Management completed an assessment of the ICFR. During the process of management's assessment, it was determined that certain weaknesses existed in ICFR. The weaknesses are the result of the Company's size and limited number of staff and include: (i) the inability to achieve complete segregation of duties; and (ii) having insufficient staff with the required technical tax knowledge to deal with complex and non-routine matters. The Company believes that these weaknesses are mitigated by: (i) the President and Chief Executive Officer and the Chief Financial Officer overseeing all material transactions; (ii) the audit committee, comprised of independent members of the Board of Directors, reviewing the quarterly interim and annual audited financial statements with management; (iii) the Board of Directors' approval of the financial statements based on the audit committee's recommendation after its review; and (iv) the Company consulting with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions.

There were no significant changes in Questerre's ICFR during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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.

Quarterly Financial Information

	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Production (boe/d)	**725**	743	604	586
Average Realized Price ($/boe)	**80.68**	85.42	77.93	77.60
Petroleum and Natural Gas Sales	**5,323,158**	5,839,520	4,330,124	4,138,050
Cash Flow from Operations	**3,291,154**	3,149,746	3,008,565	2,267,676
Per share - Basic	**0.01**	0.01	0.01	0.01
Per share - Diluted	**0.01**	0.01	0.01	0.01
Net Profit (Loss)	**(1,780,075)**	(4,030,018)	1,758,768	4,938,387
Per share - Basic	**(0.01)**	(0.02)	0.01	0.02
Per share - Diluted	**-**	-	0.01	0.02
Capital Expenditures, net of acquisitions and dispositions	**14,791,673**	12,490,404	19,726,206	1,305,781
Working Capital Surplus	**55,051,962**	104,480,657	114,194,728	131,312,369
Total Assets	**267,006,166**	258,409,889	258,890,553	250,973,021
Shareholders' Equity	**233,136,765**	232,877,970	236,592,124	234,312,816
Weighted Average Common Shares Outstanding				
Basic	**231,114,039**	232,055,963	232,115,528	233,610,707
Diluted	**232,694,570**	233,991,289	234,382,606	236,472,552

	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Production (boe/d)	650	605	649	620
Average Realized Price ($/boe)	67.78	58.33	49.47	49.87
Petroleum and Natural Gas Sales	3,965,389	3,246,637	2,953,980	2,813,743
Cash Flow from Operations	1,636,950	2,599,486	1,438,666	190,017
Per share - Basic	0.01	0.01	0.01	-
Per share - Diluted	0.01	0.01	0.01	-
Net Profit (Loss)	1,234,259	(3,011,526)	(1,652,678)	(4,535,629)
Per share - Basic	0.01	(0.01)	(0.01)	(0.02)
Per share - Diluted	0.01	-	-	-
Capital Expenditures, net of acquisitions and dispositions	7,243,480	20,916,846	8,606,402	3,806,236
Working Capital Surplus	130,616,809	136,076,978	154,531,153	160,932,087
Total Assets	261,365,161	260,548,991	261,433,625	258,023,289
Shareholders' Equity	232,275,278	238,686,128	239,189,258	237,989,679
Weighted Average Common Shares Outstanding				
Basic	234,434,615	234,126,067	234,021,347	233,809,187
Diluted	238,509,767	238,754,183	240,363,560	240,694,908

The general trends over the last eight quarters are as follow:

- The increased capital spending in Saskatchewan has generated production and cash flow growth but production decreases in both Beaver River and Vulcan have generally offset the Saskatchewan production gains. This was compounded with the sale of Questerre Beaver River Inc. in the second quarter of 2011.
- With an increasing percentage of Questerre's volumes being comprised of oil and liquids and the corresponding increase of the realized oil and liquids pricing, petroleum and natural gas sales has increased in recent quarters.
- Following the same trend as the petroleum and natural gas sales, the cash flow from operations has increased in recent quarters due to the increase in higher netback oil and liquids volumes.
- In the second quarter of 2010, the net loss increased due to additional share based compensation expense and bad debt expense. The decreased net loss in the third quarter of 2010 is primarily due to the gain on extinguishment of liabilities related to Magnus entities. In the first quarter of 2011, with the adoption of the liability method of accounting for stock options, the decrease in the fair value of the stock options at the end of the quarter created a gain for share based compensation and overall a net profit. In the second quarter of 2011, the higher profit was primarily due to the gain on the sale of the Questerre Beaver River Inc. subsidiary. In the fourth quarter of 2011, an impairment loss of $6.99 million was recorded creating the only quarterly loss in 2011.
- In general, the working capital surplus has decreased as the capital expenditures have been higher than the cash flow from operations. The significant decline in the first quarter of 2012 was due to the US$40 million investment in Red Leaf.

Condensed Consolidated Interim Balance Sheets *(unaudited)*

(Canadian dollars)	Note	March 31, 2012	December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents		$ 63,848,634	$ 107,566,398
Marketable securities	2	3,183,476	3,274,768
Accounts receivable		9,709,582	10,431,385
Deposits and prepaid expenses		2,479,404	349,375
		79,221,096	121,621,926
Investments	3	40,474,051	494,506
Property, plant and equipment	4	85,162,993	75,462,470
Exploration and evaluation assets	5	52,874,333	51,582,526
Goodwill		2,345,944	2,345,944
Deferred tax assets		6,927,749	6,902,517
		$ 267,006,166	$ 258,409,889
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 24,169,134	$ 17,141,269
Current portion of risk management contracts	10	151,238	-
Current portion of share based compensation liability	8	2,623,467	2,097,637
		26,943,839	19,238,906
Risk management contracts	10	191,354	-
Share based compensation liability	8	617,770	487,041
Asset retirement obligation	6	6,116,438	5,805,972
		33,869,401	25,531,919
Shareholders' Equity			
Share capital	7	307,602,684	307,856,902
Contributed surplus		15,272,977	14,588,016
Accumulated other comprehensive income (loss)		(4,840)	(1,612,967)
Deficit		(89,734,056)	(87,953,981)
		233,136,765	232,877,970
		$ 267,006,166	$ 258,409,889

The notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Comprehensive income (loss) *(unaudited)*

(Canadian dollars)	Note	Three months ended March 31, 2012	2011
Revenue			
Petroleum and natural gas sales		$ 5,323,158	$ 3,965,389
Royalties		(262,820)	(345,929)
Petroleum and natural gas revenue, net of royalties		5,060,338	3,619,460
Expenses			
Direct operating		891,009	782,404
General and administrative		1,181,974	1,091,926
Pre-exploration		24,122	-
Realized gain on marketable securities	2	(256,372)	-
Loss on risk management contracts	10	349,777	-
Reclass from OCI on sale of marketable securities		(53,211)	-
Bad debt expense		-	173,439
Depletion and depreciation	4	2,548,681	1,489,006
Impairment of assets	5	1,652,389	76,773
Accretion of asset retirement obligation	6	32,223	46,328
Share based compensation (recovery)	8	1,088,762	(956,775)
		7,459,354	2,703,101
Interest income		335,106	458,890
Profit (loss) before taxes		(2,063,910)	1,375,249
Deferred taxes (recovery)		(283,835)	140,990
Net profit (loss)		(1,780,075)	1,234,259
Other comprehensive income, net of tax			
Unrealized gain on marketable securities	2	1,743,299	-
Loss on foreign exchange		(81,961)	-
Reclass to profit (loss) on sale of marketable securities		(53,211)	-
		1,608,127	-
Total comprehensive income (loss)		$ (171,948)	$ 1,234,259
Net profit (loss) per share			
Basic and diluted	7	$ (0.01)	$ 0.01

The notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity *(unaudited)*

(Canadian dollars)	Note		Three months ended March 31, 2012		2011
Share Capital					
Balance, beginning of period		$	307,856,902	$	311,652,770
Options exercised			-		753,480
Repurchase of shares under normal course issuer bid	7		(254,218)		-
Balance, end of period			307,602,684		312,406,250
Contributed Surplus					
Balance, beginning of period			14,588,016		18,888,735
Reclassification of share based compensation	8		555,687		(8,398,589)
Repurchase of shares under normal course issuer bid	7		129,274		-
Balance, end of period			15,272,977		10,490,146
Accumulated Other Comprehensive Income (Loss)					
Balance, beginning of period			(1,612,967)		-
Other comprehensive income			1,608,127		-
Balance, end of period			(4,840)		-
Deficit					
Balance, beginning of period			(87,953,981)		(91,855,377)
Net profit (loss)			(1,780,075)		1,234,259
Balance, end of period			(89,734,056)		(90,621,118)
Total Shareholders' Equity		$	233,136,765	$	232,275,278

The notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows *(unaudited)*

(Canadian dollars)	Note	Three months ended March 31, 2012	2011
Operating Activities			
Net profit (loss)		$ (1,780,075)	$ 1,234,259
Adjustments for:			
Depletion and depreciation	4	2,548,681	1,489,006
Impairment of assets	5	1,652,389	76,773
Accretion of asset retirement obligation	6	32,223	46,328
Share based compensation (recovery)	8	1,088,762	(956,775)
Realized gain on marketable securities	2	(256,372)	-
Unrealized loss on risk management contracts	10	342,592	-
Reclass from OCI on sale of marketable securities		(53,211)	-
Bad debt expense		-	173,439
Deferred taxes (recovery)		(283,835)	140,990
Cash paid on exercise of stock options		-	(567,070)
		3,291,154	1,636,950
Change in non-cash working capital		(2,550,354)	(770,454)
Net cash from operating activities		740,800	866,496
Investing Activities			
Property, plant and equipment expenditures	4	(11,916,434)	(5,791,239)
Exploration and evaluation expenditures	5	(2,875,239)	(1,452,241)
Proceeds from sale of marketable securities	2	2,349,566	-
Purchase of investments	3	(40,061,500)	-
Change in non-cash working capital		8,169,987	(620,993)
Net cash used in investing activities		(44,333,620)	(7,864,473)
Financing Activities			
Proceeds from issue of share capital		-	319,800
Repurchase of shares under normal course issuer bid	7	(124,944)	-
Net cash from (used in) financing activities		(124,944)	319,800
Change in cash and cash equivalents		(43,717,764)	(6,678,177)
Cash and cash equivalents, beginning of period		107,566,398	141,974,856
Cash and cash equivalents, end of period		$ 63,848,634	$ 135,296,679
Cash interest received		$ 776,910	$ 416,000

The notes are an integral part of these condensed consolidated interim financial statements.

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 and has developed a portfolio of exploration and production assets. The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2012 and 2011 comprise the Company and its wholly owned subsidiaries in those periods owned.

Questerre is incorporated under the laws of the Province of Alberta and is domiciled in Canada. The address of its registered office is 1650, 801 – 6th Avenue SW, Calgary, Alberta.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and have been prepared following the same accounting policies and method of computation as the annual consolidated financial statements for the year ended December 31, 2011 with the exception of deferred taxes. Taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss. The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on May 10, 2012.

2. Marketable Securities

Marketable securities represent investments in shares of public companies. The following table sets out the changes in marketable securities:

	March 31, 2012	December 31, 2011
Balance, beginning of period	$ 3,274,768	$ -
Proceeds on sale of subsidiary	-	2,800,000
Purchase of marketable securities	-	2,326,944
Sale of marketable securities	(2,349,566)	-
Realized gain on sale of marketable securities	256,372	-
Unrealized gain (loss) on marketable securities	2,001,902	(1,852,176)
Balance, end of period	$ 3,183,476	$ 3,274,768

For the period ended March 31, 2012, the unrealized gain on marketable securities of $2,001,902 (2011: ($1,852,176)) was recorded in other comprehensive income net of deferred tax of $258,603 (2011: $239,209).

Subsequent to March 31, 2012, further marketable securities were sold for proceeds of $1,397,581.

3. Investments

Late in the first quarter of 2012, Questerre successfully concluded its letter of intent with Red Leaf Resources Inc. ("Red Leaf"), a private Utah based oil shale and technology based company. Red Leaf's principal assets are its proprietary EcoShale In-Capsule Technology to recover oil from shale and mineral leases in the states of Wyoming and Utah prospective for oil shale. Questerre invested US$40 million in Red Leaf.

The investments balance is comprised of the following private company investments:

		March 31, 2012		December 31, 2011
Red Leaf	$	39,964,000	$	-
Other equity investment		510,051		494,506
	$	40,474,051	$	494,506

The following table sets out the changes in investments:

		March 31, 2012		December 31, 2011
Balance, beginning of period	$	494,506	$	-
Purchase of investments		40,061,500		494,506
Change in foreign exchange		(81,955)		-
Balance, end of period	$	40,474,051	$	494,506

4. Property, Plant and Equipment

Reconciliation of the property, plant and equipment assets:

	Oil and Natural Gas Assets	Other Assets	Total
Cost or deemed cost:			
Balance, December 31, 2010	$ 72,543,248	$ 1,579,105	$ 74,122,353
Additions	23,240,878	181,239	23,422,117
Acquisitions	11,338,805	-	11,338,805
Transfer from exploration and evaluation assets	241,741	-	241,741
Disposals	(3,780,304)	(631,464)	(4,411,768)
Balance, December 31, 2011	103,584,368	1,128,880	104,713,248
Additions	12,066,605	135,237	12,201,842
Transfer from exploration and evaluation assets	47,362	-	47,362
Balance, March 31, 2012	$ 115,698,335	$ 1,264,117	$ 116,962,452
Depletion, depreciation and impairment losses:			
Balance, December 31, 2010	$ 24,488,470	$ 1,384,476	$ 25,872,946
Depletion and depreciation	7,048,579	126,353	7,174,932
Impairment	614,668	-	614,668
Disposals	(3,780,304)	(631,464)	(4,411,768)
Balance, December 31, 2011	28,371,413	879,365	29,250,778
Depletion and depreciation	2,524,481	24,200	2,548,681
Balance, March 31, 2012	$ 30,895,894	$ 903,565	$ 31,799,459

	Oil and Natural Gas Assets	Other Assets	Total
Net book value:			
At December 31, 2011	$ 75,212,955	$ 249,515	$ 75,462,470
At March 31, 2012	$ 84,802,441	$ 360,552	$ 85,162,993

During the period ended March 31, 2012, the Company capitalized administrative overhead charges of $231,529 (2011: $119,517) directly related to development activities. Included in the March 31, 2012 depletion calculation are future development costs of $16,009,578 (December 31, 2011: $18,896,000).

5. Exploration and Evaluation ("E&E") Assets

Reconciliation of the E&E assets:

		March 31, 2012		December 31, 2011
Carrying amount, beginning of period	$	51,582,526	$	49,762,437
Additions		2,991,558		6,977,661
Acquisitions		-		1,555,103
Transfers to property, plant and equipment		(47,362)		(241,741)
Impairment (incl. undeveloped land expiries)		(1,652,389)		(6,470,934)
Carrying amount, end of period	$	52,874,333	$	51,582,526

During the period ended March 31, 2012, the Company capitalized administrative overhead charges of $496,985 (2011: $345,202) directly related to E&E activities.

The impairment (incl. undeveloped land expiries) expense for the period ended March 31, 2012 only relates to undeveloped land expiries.

At March 31, 2012, an assessment of the indicators of impairment was completed on the E&E properties. An impairment test was performed on its Quebec E&E assets. The impairment test was based on the average value ascribed on a per acre basis in several comparable non-conventional gas farmin and acquisition transactions in North America. Using the average value attributed to acreage in these transactions and applying conservative discount rates due to the early stage nature of the Quebec acreage and political considerations, no impairment was recognized as the attributed value exceeds the carrying value of the Quebec E&E assets. A VIU impairment test was also performed and also resulted in no impairment as the value exceeded the Quebec E&E carrying value of $25,611,496.

6. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be $6,116,438 as at March 31, 2012 (December 31, 2011: $5,805,972) based on an undiscounted total future liability of $8,831,728 (December 31, 2011: $8,184,477). These payments are expected to be made over the next 35 years. The discount factor, being the risk-free rate related to the liabilities, is between 1.20% and 2.66% (December 31, 2011: 0.95% and 2.49%). An inflation rate of 3% over the varying lives of the assets is used 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, 2012		December 31, 2011
Balance, beginning of period	$	5,805,972	$	7,219,342
Revisions due to change in discount rates		(132,109)		1,029,172
Revisions due to change in estimates		-		201,290
Liabilities incurred		410,352		925,596
Liabilities acquired		-		251,318
Liabilities settled		-		(36,987)
Sale of subsidiary		-		(3,939,426)
Accretion		32,223		155,667
Balance, end of period	$	6,116,438	$	5,805,972

7. Share Capital

The Company is authorized to issue an unlimited number of Class A common voting shares. The Company is also authorized to issue an unlimited number of Class B common voting shares and an unlimited number of preferred shares, issuable in one or more series. At March 31, 2012, there were no Class B common voting shares or preferred shares outstanding.

a) Issued and outstanding – Class A Common Shares

	Number		Amount
Balance, December 31, 2010	234,131,728	$	311,652,770
Issued on exercise of options	767,000		995,480
Repurchased under normal course issuer bid	(3,598,700)		(4,791,348)
Balance, December 31, 2011	231,300,028		307,856,902
Repurchased under normal course issuer bid	(191,000)		(254,218)
Balance, March 31, 2012	**231,109,028**	**$**	**307,602,684**

b) Normal course issuer bid

In the first quarter of 2012, 191,000 common shares were repurchased under the Normal Course Issuer Bid for consideration of $124,944 with adjustments to share capital, on an average cost basis, of $254,218 and to contributed surplus of $129,274.

c) Per share amounts

Basic net profit (loss) per share is calculated as follows:

	Three months ended March 31,			
		2012		2011
Net profit (loss)	$	(1,780,075)	$	1,234,259
Issued common shares at beginning of period		231,300,028		234,131,728
Effect of options exercised for shares		-		302,887
Effect of treasury stock reacquired		(185,989)		-
Weighted average number of common shares outstanding (basic)		231,114,039		234,434,615
Basic net profit (loss) per share	$	(0.01)	$	0.01

Diluted net profit per share is calculated as follows:

		Three months ended March 31, 2012		2011
Net profit (loss)	$	(1,780,075)	$	1,234,259
Weighted average number of common shares outstanding (basic)		231,114,039		234,434,615
Effect of outstanding options		1,580,531		4,075,152
Weighted average number of common shares outstanding (diluted)		232,694,570		238,509,767
Diluted net profit per share	$	-	$	0.01

Under the current stock option plan, options can be exchanged for common shares of the Company or for cash at the Company's discretion. As a result, they are considered potentially dilutive and are included in the calculation of diluted net profit per share. Diluted per share amounts are not calculated when there is a net loss. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding.

8. Share Based Compensation

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

The number and weighted average exercise prices of the stock options are as follows:

	March 31, 2012		December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	22,674,169	$2.27	20,035,835	$2.47
Granted	110,000	0.70	6,220,000	0.99
Forfeited	(278,750)	1.18	(1,006,666)	1.71
Expired	-	-	(1,105,000)	1.27
Exercised	-	-	(1,470,000)	0.72
Outstanding, end of period	22,505,419	$2.28	22,674,169	$2.27
Exercisable, end of period	11,180,263	$2.26	10,196,237	$2.12

The following table provides a reconciliation of the Company's share based compensation liability.

	March 31, 2012	December 31, 2011
Balance, beginning of period	$ 2,584,678	$ -
Amount transferred on modification of option plan	-	9,231,368
Amount transferred to contributed surplus	(555,687)	(3,451,705)
Share based compensation expense (recovery)	1,088,762	(2,259,924)
Capitalized share based compensation expense	123,484	120,439
Reclassification to share capital on exercise of stock options	-	(458,430)
Cash payment for options surrendered	-	(597,070)
Balance, end of period	$ 3,241,237	$ 2,584,678
Current portion	$ 2,623,467	$ 2,097,637
Non-current portion	617,770	487,041
	$ 3,241,237	$ 2,584,678

9. Capital Management

The Company believes it is well capitalized with positive cash flow from operations (a non-IFRS measure defined as net cash from operating activities before changes in non-cash operating working capital), no debt and a working capital surplus (defined as current assets less current liabilities excluding the current portions of the share based compensation liability and risk management contracts) of $55 million consisting mainly of cash and cash equivalents.

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

The Company considers its capital structure to include shareholders' equity and any outstanding debt. The Company will adjust its capital structure to minimize its cost of capital through the issuance of shares, securing credit facilities and adjusting its capital spending. Questerre monitors its capital structure based on the current and projected cash flow from operations.

	March 31, 2012	December 31, 2011
Shareholders' equity	$ 233,136,765	$ 232,877,970

10. Financial Risk Management and Determination of Fair Values

a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

b) Fair value of financial instruments

The Company's financial instruments as at March 31, 2012 included cash and cash equivalents, marketable securities, investments, accounts receivable, deposits, accounts payable and accrued liabilities, and liabilities for risk management contracts. As at March 31, 2012, the fair values of the Company's financial assets and liabilities equaled their carrying values due to the short-term maturity, except for marketable securities and the risk management contracts which are recorded at fair value. The investments have been valued at March 31, 2012 and no differences have been noted from the assets carrying value.

Disclosures about the inputs to fair value measurements are required, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

Marketable securities – 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.

As the marketable securities are recorded at fair value using quoted market prices they are classified as Level 1 of the hierarchy.

Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

The Company's financial derivative instruments are carried at fair value as at March 31, 2012 and are considered a Level 2 instrument. The fair value is determined by reference to independent monthly forward settlement prices and currency rates.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

Investments – The fair value is determined using valuation models where significant inputs are not derived from observable market data.

As at each reporting period, the Company will assess whether a financial asset is impaired, other than those classified as fair value through profit or loss. Any impairment loss will be included in net profit (loss) for the period.

c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's net profit (loss) or the value of its financial instruments. The objective of the Company is to mitigate exposure to these risks while maximizing returns to the Company.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. The Company may enter into oil and natural gas contracts to protect, to the extent possible, its cash flows from 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, 2012, the Company had the following outstanding commodity risk management contracts:

	Volumes	Average Price	Term		Fair Value (Liability)
WTI NYMEX oil swap	150 bbl/d	$103/bbl	Feb. 1, 2012 - Dec. 31, 2012	$	(68,833)
WTI NYMEX oil swap	150 bbl/d	$99.65/bbl	Jan. 1, 2013 - Dec. 31, 2013		(273,759)
				$	(342,592)

The net risk management position is as follows:

		March 31, 2012		December 31, 2011
Risk Management Liabilities:				
Current portion	$	(151,238)	$	-
Non-current portion		(191,354)		-
	$	(342,592)	$	-

The unrealized loss recorded in net profit (loss) for the first three months of 2012 was $342,592 (2011: $nil). The realized loss recorded in net profit (loss) for the first three months of 2012 was $7,185 (2011: $nil).

The value of Questerre's commodity price risk management contracts fluctuate with changes in the underlying market price of crude oil. The impact on Questerre's net profit (loss) if the CDN $ WTI price were to change by + or - $5 would be + or - $480,000.

Corporate Information

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