Q3

2012

QUARTERLY REPORT

QUESTERRE ENERGY CORPORATION

2012

QUESTERRE ENERGY CORPORATION IS LEVERAGING ITS EXPERTISE GAINED THROUGH EARLY EXPOSURE TO SHALE AND OTHER NON-CONVENTIONAL RESERVOIRS.

THE COMPANY HAS BASE PRODUCTION AND RESERVES IN THE TIGHT OIL BAKKEN/TORQUAY OF SOUTHEAST SASKATCHEWAN. IT IS BRINGING ON PRODUCTION FROM ITS LANDS IN THE HEART OF THE HIGH-LIQUIDS MONTNEY SHALE FAIRWAY. IT IS A LEADER ON SOCIAL LICENSE TO OPERATE ISSUES FOR ITS GIANT UTICA SHALE GAS DISCOVERY IN QUEBEC. IN CONJUNCTION WITH A SUPERMAJOR, IT IS AT THE LEADING EDGE OF COMMERCIALIZING A PROVEN PROCESS TO UNLOCK THE MASSIVE RESOURCE POTENTIAL OF OIL SHALE.

QUESTERRE IS A BELIEVER THAT THE FUTURE SUCCESS OF THE OIL AND GAS INDUSTRY DEPENDS ON A BALANCE OF ECONOMICS, ENVIRONMENT AND SOCIETY. WE ARE COMMITTED TO BEING TRANSPARENT AND ARE RESPECTFUL THAT THE PUBLIC MUST BE PART OF MAKING THE IMPORTANT CHOICES FOR OUR ENERGY FUTURE.

QUESTERRE'S COMMON SHARES TRADE ON THE TORONTO STOCK EXCHANGE AND OSLO STOCK EXCHANGE UNDER THE SYMBOL QEC.

President's Message

We made progress on both our conventional and non-conventional assets in the quarter.

We validated our discovery in the liquids-rich Montney in the Kakwa-Resthaven area of Alberta with our second well. It was completed in October and tested at gross rates of 1800 boe/d. Based on our results and industry activity nearby, our acreage lies in the heart of the fairway for this emerging resource play.

We plan to invest additional capital here over the remainder of this year as we await the results from our ongoing pilot waterflood in Antler. We expect both these areas will provide growth in reserves, production and cash flow in the near term.

Red Leaf is transitioning from a research and development to a project execution focused company. A new Chief Executive Officer was recently appointed and they are building the organization needed to commercially scale up the EcoShale process. They also began work in the field with Total S.A. in advance of constructing the first large scale capsule next year. During the quarter, we also completed our second core hole program in Pasquia Hills, Saskatchewan, to further assess our oil shale acreage.

Highlights

- Spud second horizontal well targeting liquids-rich natural gas in the Kakwa-Resthaven area of Alberta
- Red Leaf and supermajor Total S.A. began in-field testing and engineering work to commercialize EcoShale In-Capsule process
- Commenced second core hole program for oil shale acreage in Pasquia Hills, Saskatchewan
- Cash flow from operations of $2.8 million for the quarter with average daily production of 696 boe/d
- Over $40 million in positive working capital and no debt

Western Canada

The excellent results from our first two wells are proving up the value of our prime acreage in the Kakwa-Resthaven area.

Development of the Montney shale has historically focused on areas of dry gas or relatively low liquids of approximately 25 bbls/MMcf in British Columbia. Recent activity has targeted a sweet spot where natural gas liquids range between 50 to 100 bbls/MMcf and materially improve the economics. With test rates between 150 to over 200 bbls/MMcf, it appears our land lies in the sweet spot of this liquids-rich fairway. More importantly, liquids from our wells are mainly condensate which retain a premium to light oil and liquids prices as a diluent for heavy oil production in Alberta.

Published production data and reserve estimates from larger companies with surrounding acreage and wells support our preliminary estimates of between 3 to 5 Bcf of natural gas and 300,000 to 500,000 barrels of condensate and natural gas liquids per well per interval. Based on four wells per section and our existing four net sections, potential resources net to Questerre's interest could range from 48 to 80 Bcf and 4.8 to 8 million barrels or 12.8 to 21.3 million boe.

Two additional intervals in the upper Montney have not been evaluated or tested on our acreage yet. They have however been tested by our competitors with flow rates consistent with our wells in the lower interval. With success on our acreage, these have the potential to triple our estimated resource.

These significant resources are driving record activity in the area and have made access to infrastructure a priority. We plan to commit to firm service at a third party processing plant upgrade that is scheduled for completion in early 2014. We also started engineering work on constructing our own processing facilities as part of a long-term development plan. In the interim, we have secured interruptible processing capacity for our existing wells. We expect these wells will come on production once third-party facility disruptions downstream are resolved.

While we prove up the resource potential of our acreage for the liquids-rich Montney with additional drilling, in the near term, we are planning to grow our light oil reserves at Antler with our proposed waterflood.

The reservoir at Antler has no water or gas drive making it an ideal candidate for a waterflood to increase recovery of the oil in place. We plan to mirror the waterflood that has been successfully implemented in a similar reservoir at the Sinclair field, approximately 5 miles away from our main pool in Antler.

The operator at Sinclair is projecting an increase in recovery from about 9% to between 16 to 24% of the oil in place. Using more conservative increases in projected recovery at Antler of approximately 8% to between 13 to17%, we estimate this could add as much as 250,000 to 540,000 of incremental barrels per section for very little additional capital.

We started our pilot waterflood in the third quarter by injecting water into one horizontal well. We are monitoring production and pressures in the adjacent wells and expect to see a response by year-end. With success, we plan to initially expand this to two and a half sections with an additional nine sections available for waterflood in the future.

Oil Shale Mining

With the budget and work program approved at the end of June, Red Leaf's focus is executing the Early Production System ("EPS") phase of its joint venture with Total.

Under the EPS, Total and Red Leaf will invest US$200 million to scale up Red Leaf's successful pilot capsule. The goal of the EPS is the construction of a large scale capsule. Capsule construction is planned for late 2013 with first oil expected in 2014. To achieve this goal, the joint venture recently set up the senior operations team with Total seconding three senior personnel including the deputy project manager.

As part of its front end engineering and design for the EPS, key derisking projects are planned in four main areas -- blasting parameter testing to achieve the optimal size of shale for the capsule, mining horizon and geotechnical testing to identify and test the various intervals of oil shale used for building capsules and processing, shale degradation testing to assess how much shale degrades as it is moved from the mine to the capsule and the capsule construction methodology. The last area will involve the construction of several small scale capsules to prove the design. Work on the first de-risking project began in the field in early October.

Concurrent with their engineering and field work in Utah, we have been working with Red Leaf to assess our joint oil shale acreage in Wyoming. We will manage this project for the joint venture. Our first phase is a core hole program to substantiate an existing resource assessment that estimates 800 million barrels of oil in place. Subject to permitting, we expect to begin this program next summer.

We also continued assessing our 100,000 net acres in Pasquia Hills, Saskatchewan. A six well program was completed on our eastern block and encountered over 45m of the target Second White Specks shale in all the wells drilled. This follows a 10 well program conducted this winter on the western block with 30m of the shale encountered in all wells. We are analyzing this data along with the data from the first core hole program to develop a resource assessment and high grade our acreage.

Operational and Financial

The lifting of road bans and better ground conditions at Antler improved our results over the prior quarter. In late August, we finalized the completion and tie-in of wells drilled earlier in the year. This contributed to production of 696 boe/d up from 525 boe/d in the second quarter.

Production benefitted from the narrowing differential between the benchmark WTI and Edmonton light prices during the quarter. The differential decreased from US$10.87/bbl in July to a premium of US$0.35/bbl in September resulting in a realized oil price of $85.14/bbl. This improved cash flow from operations to $2.8 million in the third quarter compared to $1.22 million in the second quarter.

Our capital investment program in the third quarter was largely focused on Antler and our Kakwa-Resthaven discovery. Of the $9.39 million invested, approximately one third or $3.06 million was incurred in Kakwa drilling our second well and tying in our first well and $2.67 million was incurred completing and tying wells in at Antler. We also spent $1.92 million on our core hole program in Pasquia Hills and $1.2 million on an exploratory oil well in Southern Alberta.

Outlook

We are very excited about our new Montney asset.

It lies between our producing assets and our high impact oil shale and shale gas assets in terms of potential. Together with the waterflood at Antler, we believe it will provide near-term growth in production and cash flow. Both these assets are a reserve of value and a source of capital for future development of our larger assets.

These assets include our oil shale assets in Pasquia Hills and Wyoming with estimated resources in excess of several hundred million barrels. Assessing the size of these resources will be a priority for us next year. We are looking forward to continued derisking of the EcoShale process in 2013 and first production in 2014. We believe this process will be key to unlocking these significant resources.

Michael Binnion
President and Chief Executive Officer

Management's Discussion and Analysis ("MD&A") was prepared as of November 14, 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 September 30, 2012 and for the three and nine month periods ended September 30, 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 working to secure 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 existing and future 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.

Additional IFRS and Non-IFRS Measures

This document contains the term "cash flow from operations", which is an additional IFRS measure. The Company uses this measure 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 Sept. 30,		*Nine months ended Sept. 30,*	
	2012	2011	**2012**	2011
Net cash from operating activities	**$ 3,507,278**	$ 2,397,426	**$ 7,786,860**	$ 6,511,134
Change in non-cash operating working capital	**(672,985)**	611,139	**(440,640)**	402,057
Cash flow from operations	**$ 2,834,293**	$ 3,008,565	**$ 7,346,220**	$ 6,913,191

This document also contains the terms "netbacks" and "working capital surplus", which are non-IFRS measures.

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 period ended September 30,	Three months ended 2012	Three months ended 2011	Nine months ended 2012	Nine months ended 2011
Financial ($, except common shares outstanding)				
Petroleum and Natural Gas Sales	4,842,799	4,330,124	13,610,430	12,433,563
Cash Flow from Operations	2,834,293	3,008,565	7,346,220	6,913,191
Per share - Basic	0.01	0.01	0.03	0.03
Per share - Diluted	0.01	0.01	0.03	0.03
Net Profit (Loss)	(110,757)	1,758,768	(1,813,488)	7,931,414
Per share - Basic	-	0.01	(0.01)	0.03
Per share - Diluted	-	0.01	-	0.03
Capital Expenditures, net of acquisitions and dispositions	9,389,246	19,726,206	29,369,272	28,275,467
Working Capital Surplus	40,597,138	114,194,728	40,597,138	114,194,728
Total Assets	257,813,560	258,890,553	257,813,560	258,890,553
Shareholders' Equity	234,846,041	236,592,124	234,846,041	236,592,124
Common Shares Outstanding	230,804,204	232,115,528	230,804,204	232,115,528
Weighted average - basic	230,793,334	232,115,528	230,950,427	233,352,514
Weighted average - diluted	232,420,240	234,382,606	232,734,913	236,539,123
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbl/d)	602	487	553	446
Natural Gas (Mcf/d)	562	699	570	1,000
Total (boe/d)	696	604	648	613
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	85.14	90.55	87.29	93.21
Natural Gas ($/Mcf)	2.44	4.23	2.39	3.97
Total ($/boe)	75.64	77.93	76.60	74.30
Netback ($/boe)				
Petroleum and Natural Gas Sales	75.64	77.93	76.60	74.30
Royalties Expense	(5.14)	(5.96)	(4.89)	(6.04)
Percentage	7%	8%	6%	8%
Direct Operating Expense	(16.05)	(10.15)	(17.31)	(12.06)
Operating Netback	54.45	61.82	54.40	56.20
Wells Drilled				
Gross	2.00	4.00	11.00	13.00
Net	1.25	3.02	6.88	8.27

Highlights

- Spud second horizontal well targeting liquids-rich natural gas in the Kakwa-Resthaven area of Alberta
- Red Leaf and supermajor Total S.A. began in-field testing and engineering work to commercialize EcoShale In-Capsule process
- Commenced second core hole program for oil shale acreage in Pasquia Hills, Saskatchewan
- Cash flow from operations of $2.8 million for the quarter with average daily production of 696 boe/d
- Over $40 million in positive working capital and no debt

Third Quarter 2012 Activities

Western Canada

Kakwa-Resthaven, Alberta

Following the successful test results from its discovery well in the Kakwa-Resthaven area of Alberta, Questerre and its partners spudded a second well in the third quarter.

Situated one mile north of the discovery well, the second well targets the same prospective interval in the Montney shale formation. The well was drilled to a measured depth of 4678m and subsequently completed with a 14-stage fracture stimulation in the 1230m horizontal leg in the fourth quarter. On a 96-hour production test, the well flowed 974 bbl/d of condensate and 4.97 MMcf/d of natural gas. A subsequent four-hour test was completed to determine the free-flowing capability of the well against a wellhead pressure of 2477 kPa (360 psi). On this four-hour test, the well flowed at 1324 bbl/d of condensate and 6.4 MMcf/d of natural gas. Production tubing is currently being installed and the well will be tied into the third party processing plant by early next year.

Installation of production facilities for the first well and construction of a six mile tie-in to the third party processing plant were also completed in the quarter. Due to recent outages at downstream facilities that process natural gas liquids, in particular propane and butane, the third party processing plant is temporarily unable to accept any production that includes these natural gas liquids. Production from the first well is expected to commence once this restriction has been lifted.

Antler, Saskatchewan

Questerre resumed field work in Antler during the quarter, finalizing the completion and tie-in of several wells drilled in the first quarter of 2012. Operations included the completion of one (0.75 net) horizontal well targeting the Torquay/Bakken formation and two (1.25 net) vertical wells targeting the shallower Souris Valley formation. Questerre also re-completed one existing horizontal well in the main pool. Following these completion operations, a total of four (2.50 net) horizontal wells drilled in the year were tied-in to the main battery in the latter half of the quarter. The Company continues to evaluate options for production facilities for its two Souris Valley wells prior to placing them on-stream. In the Wawota area, one exploration well targeting permeable oil stained rock was successfully stimulated but did not produce significant oil on test. Results are being analyzed and incorporated into the Company's exploration plans for this area.

For the remainder of this year, Questerre anticipates activities here will focus on the implementation of the pilot secondary recovery scheme and production optimization. With capital being reallocated to the Kakwa-Resthaven area, Questerre expects to defer further light oil drilling at Antler pending the results of the waterflood.

Questerre also drilled and completed one (1.00 net) oil well in Southern Alberta. The well is currently on extended flow-back and further testing is underway.

Oil Shale Mining

In the third quarter of 2012, Red Leaf Resources Inc. ("Red Leaf") began working with a US affiliate of the French-based supermajor Total S.A. ("Total") to jointly develop Red Leaf's oil shale assets in Utah.

Red Leaf is a private Utah-based oil shale and technology company. Its principal assets are its proprietary EcoShale In-Capsule Technology to recover oil from shale and mineral leases in the states of Wyoming and Utah that are prospective for oil shale. Questerre currently holds approximately 6% of the equity capital of Red Leaf. It has also partnered with the company to develop its oil shale acreage in the state of Wyoming and has an option to obtain licenses to utilize the Red Leaf process.

The joint venture with Total will launch an Early Production System ("EPS") to demonstrate the scalability of Red Leaf's EcoShale process. Total will fund an 80% share of the EPS expenses estimated at US$200 million. The EPS follows a successful field pilot. It is intended to prove the technical and environmental attributes of the process at large scale. Red Leaf and Total subsequently plan to launch an advanced commercial project on approximately 11,000 acres of jointly held acreage for oil shale. Total will also fund an 80% share of the first US$200 million of the commercial production phase of operations.

During the quarter, the joint venture finalized the senior project team with Total seconding several key personnel including the deputy project manager. Red Leaf recently appointed a new Chief Executive Officer. Work has also been ongoing for the front end engineering and design in four key areas: mining and materials handling, capsule construction, processing facilities and site infrastructure. In addition, the joint venture is developing several key risk mitigation activities to derisk the project in advance of constructing the first capsule in 2013. Work on the risk mitigation activities commenced in the field early in the fourth quarter.

During the quarter, Questerre continued the evaluation of its 100,000 acres prospective for oil shale in the Pasquia Hills area of east central Saskatchewan. Field operations commenced on its second core hole program for its eastern block. Six wells were drilled under this program and a total of 653m of core was obtained. An approximate 49m thick interval of the target shale formation was encountered in all the wells drilled. This follows a 10 well program this winter that targeted the western block where over 30m of the shale interval was encountered in all wells drilled. The core data from both programs is being collated and analyzed to delineate the prospective resource and high grade the land position.

St. Lawrence Lowlands, Quebec

As part of its public consultation process, the committee conducting the strategic environmental assessment ("SEA") on shale gas development in Quebec met with several municipalities in the summer of 2012. In addition the committee also announced the formation of mirror committees to promote public participation in the process. The mirror committees will focus on four issues: development scenarios, health and the environment, governance and land use and lastly, social and economic benefits. The first mirror committee met at the end of September and focused on development scenarios.

Consistent with its previous guidance, Questerre expects that any further operations, including the completion of the Fortierville and St. Gertrude horizontal wells will be postponed until the release of the final report from the SEA that is scheduled for the end of November 2013.

Drilling Activities

In the third quarter of 2012, Questerre participated in the drilling of one (1.00 net) oil well and one (0.25 net) natural gas well in Alberta. The oil well is on an extended production test and the natural gas well was being drilled at the end of the quarter. For the same period in 2011, Questerre participated in the drilling of four (3.02 net) oil wells in Saskatchewan.

Production

Three months ended Sept. 30,	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	571	-	571	433	-	433
Alberta	31	526	119	54	579	151
British Columbia	-	36	6	-	120	20
	602	562	696	487	699	604

Nine months ended Sept. 30,	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	521	-	521	388	-	388
Alberta	32	528	120	58	646	166
British Columbia	-	42	7	-	354	59
	553	570	648	446	1,000	613

With the relaxation of road bans and improving ground conditions in Antler during the third quarter, the Company was able to finalize the completion and tie-in of the remaining wells drilled in the first quarter of 2012. As a result, daily volumes for the three months ended September 30, 2012, increased 15% to 696 boe/d from 604 boe/d for same quarter in 2011. Current quarter production grew significantly over the prior quarter volumes of 525 boe/d when the majority of production in Antler was shut-in due to weather and the related municipal road bans.

While volumes increased marginally on a year to date basis to 648 boe/d from 613 boe/d, oil and natural gas liquids as a proportion of production grew to 85% from 73%. This reflects the increased investment in light oil assets primarily at Antler and limited investment in conventional natural gas assets. While natural gas accounted for 13% of production volumes for the quarter (2011: 19%), Questerre expects this will increase materially in the fourth quarter once the Company's liquids-rich natural gas well in the Kakwa-Resthaven area is placed on production.

Based on the test results from its wells in this area, Questerre anticipates reallocating capital from Antler to this area in the near-term. Subject to addressing the facility constraints and placing its wells on production, Questerre is maintaining its target exit rate of over 1,000 boe/d for 2012.

Third Quarter 2012 Financial Results

Petroleum and Natural Gas Sales

Three months ended Sept. 30,	2012			2011		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 4,480,896	$ -	$ 4,480,896	$ 3,623,860	$ -	$ 3,623,860
Alberta	235,802	118,226	354,028	434,415	233,790	668,205
British Columbia	-	7,875	7,875	-	38,059	38,059
	$ 4,716,698	$ 126,101	$ 4,842,799	$ 4,058,275	$ 271,849	$ 4,330,124

Nine months ended Sept. 30,	2012			2011		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Saskatchewan	$ 12,484,820	$ -	$ 12,484,820	$ 9,907,353	$ -	$ 9,907,353
Alberta	748,676	348,086	1,096,762	1,442,699	744,390	2,187,089
British Columbia	-	28,848	28,848	-	339,121	339,121
	$ 13,233,496	$ 376,934	$ 13,610,430	$ 11,350,052	$ 1,083,511	$ 12,433,563

Increased oil volumes in the third quarter of 2012 materially offset marginally lower oil prices resulting in higher oil and liquids sales for the period. Despite lower natural gas volumes and prices as compared to the prior year, petroleum and natural gas sales increased to $4.84 million from $4.33 million in the previous year. For the first nine months of 2012, sales revenue increased over the prior year mainly due to the higher oil sales in the first and third quarter, offset by lower oil revenue in the second quarter of 2012.

Pricing

	Three months ended Sept. 30,		*Nine months ended Sept. 30,*	
	2012	2011	**2012**	2011
Benchmark prices:				
Natural Gas - AECO, daily spot ($/Mcf)	**2.30**	3.66	**2.12**	3.78
Crude Oil - Edmonton light ($/bbl)	**84.33**	91.47	**86.84**	94.26
Realized prices:				
Natural Gas ($/Mcf)	**2.44**	4.23	**2.39**	3.97
Crude Oil and Natural Gas Liquids ($/bbl)	**85.14**	90.55	**87.29**	93.21

Crude oil prices improved over the course of the third quarter with the benchmark WTI price increasing from US$82.41/bbl in June to US$94.56/bbl in September. Speculation about continued fiscal stimulus and optimism around the European debt situation contributed to improving equity markets and higher oil prices. Domestic prices experienced a more significant improvement as the increase in the WTI price was aided by a narrowing differential with the benchmark Edmonton light sweet pricing. The differential between the US WTI price and the Canadian Edmonton light price declined from US$10.87/bbl barrel in July to a premium of $0.35/bbl in September. While increased rail capacity has likely been largely responsible for this improvement, we expect this differential will continue to remain fairly volatile into 2013.

Consistent with prior periods, realized prices for the third quarter tracked the Edmonton Light benchmark price. In the third quarter, the realized price averaged $85.14/bbl (2011: $90.55/bbl) as compared to an average Edmonton Light price of $84.33/bbl (2011: $91.47/bbl).

Although natural gas prices in the third quarter of 2012 increased over the prior quarter, they declined over the same period in 2011. This decline led to strong demand for power usage over coal that has eliminated the storage surplus that built up to record levels earlier this year. While reductions in drilling rigs have contributed to relatively stable dry gas production of approximately 65 Bcf/d in North America, further reductions in dry gas, liquids-rich gas and associated gas drilling will be necessary along with increased power usage to tighten the supply demand imbalance.

Questerre continued to realize a premium to the benchmark AECO spot price during the quarter due to the higher heat content of its natural gas from Vulcan, Southern Alberta.

Royalties

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	**2012**	2011
Saskatchewan	**$ 278,779**	$ 189,984	**$ 857,422**	$ 543,150
Alberta	**50,263**	141,082	**23,620**	453,009
British Columbia	**-**	181	**119**	14,202
	$ 329,042	$ 331,247	**$ 881,161**	$ 1,010,361
% of Revenue:				
Saskatchewan	**6%**	5%	**7%**	5%
Alberta	**14%**	21%	**2%**	21%
British Columbia	**0%**	0%	**0%**	4%
Total Company	**7%**	8%	**6%**	8%

In the third quarter of 2012, Questerre's royalty rate as a percentage of revenue decreased marginally to 7% from 8% in the prior year and from 8% to 6% on a year to date basis. Royalties on Saskatchewan production increased to 6% for the quarter (2011: 5%) with new production from freehold lands attracting a higher royalty rate than existing production primarily from Crown lands. Reflecting lower production volumes and prices in Alberta this quarter, royalties on production from the province declined to 14% from 21% in the prior year.

Operating Costs

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	**2012**	2011
Saskatchewan	**$ 807,921**	$ 355,240	**$ 2,353,726**	$ 893,943
Alberta	**207,948**	183,009	**682,131**	630,085
British Columbia	**11,878**	25,600	**40,426**	494,069
	$ 1,027,747	$ 563,849	**$ 3,076,283**	$ 2,018,097
$/boe:				
Saskatchewan	**15.38**	8.92	**16.49**	8.44
Alberta	**18.99**	13.17	**20.75**	14.18
British Columbia	**-**	13.91	**21.08**	30.67
Total Company	**16.05**	10.15	**17.31**	12.06

For the three months ended September 30, 2012, operating costs on a unit of production basis increased to $16.05/boe from $10.15/boe in same period in 2011 and decreased from $24.23/boe in the prior period.

The variance in operating costs is attributable to the increase at Antler which accounts for 80% of the Company's gross operating costs. Relative to the third quarter of 2011, higher operating costs at Antler mainly relate to the increased proportion of production from single well batteries, including the acquisition completed in the summer of 2011 south of the main producing pool. Operating costs associated with single well batteries reflect additional trucking fees, equipment rentals and fuel charges over pipelined wells. Furthermore, with an active drilling program since 2010, increased costs were incurred for minor well servicing and workovers over the prior year. On a year to date basis, this increase was compounded by the shut-ins in the second quarter where the fixed costs were allocated over fewer volumes, increasing the cost per unit of production.

In Alberta, the relatively fixed proportion of costs in Vulcan, Southern Alberta coupled with lower production volumes over the prior year accounted for the increase in operating costs on a boe basis for both the three month and nine month periods. With production shut-in at the Greater Sierra area of British Columbia due to low natural gas prices, Questerre reported minimal operating costs from this province for the quarter. For the nine month period, costs decreased over the prior year due to the disposition of the Beaver River Field in the second quarter of 2011.

General and Administrative Expenses

	Three months ended Sept. 30,		*Nine months ended Sept. 30,*	
	2012	2011	**2012**	2011
General and administrative expenses, gross	**$ 1,702,064**	$ 1,913,754	**$ 5,474,074**	$ 5,424,453
Capitalized expenses and overhead recoveries	**(698,882)**	(609,489)	**(2,202,668)**	(1,754,983)
General and administrative expenses, net	**$ 1,003,182**	$ 1,304,265	**$ 3,271,406**	$ 3,669,470

Gross general and administrative expenses ("G&A") in the third quarter of 2012 declined 11% to $1.70 million from $1.91 million in the prior year. Lower staffing costs, stock exchange fees and legal fees were primarily responsible for the reduction in G&A in the quarter. With higher capitalized expenses due to the company's new projects and overhead recoveries in the current quarter, net G&A decreased by 23% to $1.00 million from $1.30 million in 2011. On a year to date basis, while gross expenses remained relatively constant, the higher capitalized expenses and overhead recoveries in 2012 reduced net G&A expenses by 11% to $3.27 million.

Other Income and Expenses

Questerre reported interest income of $0.83 million (2011: $1.33 million) for the nine months ended September 30, 2012 and $0.27 million for the three months ended September 30, 2012 (2011: $0.43 million). The interest is from cash investments in Guaranteed Investment Certificates issued by Canadian chartered banks and credit unions and from its investment in convertible bonds in the second quarter of 2012. With increased capital investment, the decline in interest income over the prior year reflects the lower cash balances in the current year.

The pre-exploration expense of $0.03 million (2011: $0.03 million) in the third quarter of 2012 and $0.07 million for the first three quarters of 2012 (2011: $0.07 million) relates to activities before the legal right to explore is acquired.

Questerre invested in Transeuro Energy Corp. senior secured convertible bonds in the second quarter of 2012. They mature May 22, 2015 and have a coupon rate of 12%. The change in fair value of the investment in convertible bonds in the third quarter of 2012 resulted in a loss of $0.31 million (2011: $nil).

The loss on foreign exchange, net of deferred tax, through other comprehensive income (loss) of $1.37 million in the third quarter of 2012 (2011: $nil) and $0.78 million for the first nine months of 2012 (2011: $nil) is due to the change in the exchange rate relating to US dollar investments.

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 nine months of 2012.

Share based compensation expense for the third quarter of 2012 was a recovery of $0.03 million as compared to an expense of $0.27 million in the prior quarter and a recovery of $0.79 million in the third quarter of 2011. For the nine months ended September 30, 2012, share based compensation was an expense of $1.33 million compared to a recovery of $1.65 million in the same period of 2011. 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 for the third quarter of 2012 increased 37% to $2.51 million from $1.83 million in the prior quarter. The increase in the expense is due to a 33% increase in production volumes and a 2% increase in the depletion and depreciation rate from $38.41/boe to $39.27/boe.

The higher depletable base in the current year accounts for the 24% increase, on a unit of production basis, from $31.14/boe in the third quarter of 2011. For the nine months ended September 30, the higher rate and volumes translated to an increase in the expense from $4.69 million in 2011 to $6.90 million in 2012.

The impairment of assets of $0.02 million in the third quarter of 2012 (2011: ($0.03 million)) and $1.77 million for the first nine months of 2012 (2011: $0.20 million) relate to undeveloped land expiries within the exploration and evaluation asset pool.

Questerre recognized $0.03 million in accretion expense for the third quarter of 2012 unchanged from the prior quarter and the same quarter in 2011. Year to date, the accretion expense is $0.10 million (2011: $0.12 million). 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 September 30, 2012, the estimated net present value of the total asset retirement obligation is $6.49 million, based on a total future undiscounted liability of $9.02 million.

Deferred Taxes

In the third quarter of 2012, Questerre reported a deferred tax recovery of $0.26 million (2011: $0.32 million expense) and the same amount for the first nine months of 2012 (2011: $0.57 million expense). Consistent with prior periods, Questerre had sufficient tax pool deductions to offset taxable income in 2012.

Capital Expenditures

	Three months ended Sept. 30,		*Nine months ended Sept. 30,*	
	2012	2011	**2012**	2011
Saskatchewan	**$ 4,787,693**	$ 18,644,483	**$ 20,291,199**	$ 25,079,044
Alberta	**4,319,295**	712,792	**8,072,982**	2,300,811
Quebec	**298,343**	256,108	**956,058**	605,185
Manitoba	**3,562**	37,718	**22,266**	149,183
British Columbia	**25,965**	25,965	**51,811**	77,656
Corporate	**(45,612)**	49,140	**149,956**	63,588
	9,389,246	19,726,206	**29,544,272**	28,275,467
Dispositions	**-**	-	**(175,000)**	-
Total	**$ 9,389,246**	$ 19,726,206	**$ 29,369,272**	$ 28,275,467

Questerre incurred net capital expenditures of $9.39 million in the third quarter of 2012 (2011: $19.73 million) and $29.54 million for the first nine months of the year (2011: $28.28 million), primarily on its light oil assets in Saskatchewan and its liquids-rich natural gas assets in Alberta. The Company's significant capital expenditures for the first nine months of 2012 consisted of the following:

- In Saskatchewan, $20.29 million was incurred mainly to drill, complete and tie-in several wells. In the first quarter of 2012, a total of six (3.75 net) horizontal wells and two (1.5 net) vertical wells were spud. The horizontal wells were all completed and tied-in by the third quarter of the year. In addition, a total of three (2.50 net) horizontal wells drilled in 2011 were completed and tied-in by early 2012. Included in the Saskatchewan total is $3.53 million relating to the evaluation of the Pasquia Hills area prospective for oil shale.
- $8.07 million spent in Alberta relates mainly to the drilling and completion of two (0.63 net) wells in the Montney shale in Alberta and the associated tie-in to a third party processing plant. Included in this amount is approximately $1.20 million for an oil well in Southern Alberta.
- In the St. Lawrence Lowlands of Quebec $0.96 million was invested primarily working to secure the Company's social license to operate in the province.
- The disposition of $0.18 million related to the sale of a non-core property in Alberta.

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

- In Saskatchewan, $12.89 million was spent on a property acquisition, net of adjustments, and $12.19 million was incurred mainly to drill, complete and tie-in several wells. In the first nine months of 2011, a total of 12 (7.77 net) wells were spud.
- $2.30 million was invested in the St. Lawrence Lowlands, Quebec targeting the evaluation of the Utica shale.
- A significant portion of the $0.61 million of expenditures in Alberta relate to the drilling and completion of one (0.50 net) oil well.
- $0.15 million incurred in Manitoba primarily related to acquiring land rights.

Liquidity and Capital Resources

Questerre reported a working capital surplus of $40.60 million at September 30, 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 $45.70 million, $1.80 million in investments in convertible bonds, $6.33 million of accounts receivable and $0.62 million in deposits and prepaid expenses. Current liabilities of $13.86 million represent accounts payable and accrued liabilities.

The Company believes it is sufficiently capitalized with a working capital surplus of $40.60 million at September 30, 2012, positive cash flow from operations and no debt to fund its capital investment program for the next 18-24 months. The capital program is expected to include investments in its conventional assets primarily in the Kakwa-Resthaven area of 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 conventional 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

Year to date, the cash flow from operations of $7.35 million was $0.43 million or 6% higher than the first nine months of 2011 at $6.91 million. For the third quarter of 2012, cash flow from operations was $2.83 million, $0.17 million or 6% lower than the prior year third quarter. The decrease in the cash flow from operations in the current quarter over the same period in 2011 is primarily due to lower operating costs, higher interest and other income in 2011. This was offset to some extent by higher production revenue driven by increasing volumes.

Net cash from operating activities for the three months ended September 30, 2012 was $3.51 million compared to $2.40 million for the same period in 2011. The increase in net cash from operating activities of $1.11 million was due to the positive change in the non-cash working capital of $1.28 million being offset by the decrease in the cash flow from operations of $0.17 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.

	November 14, 2012	September 30, 2012	December 31, 2011
Common shares	230,804,204	230,804,204	231,300,028
Stock options	21,241,669	21,421,669	22,674,169
Weighted average common shares			
Basic		230,950,427	233,025,712
Diluted		232,734,913	235,975,196

In the first nine months of 2012, 755,824 common shares have been purchased under the Normal Course Issuer Bid for consideration of $0.52 million. All transactions have been settled and the common shares have been cancelled and returned to Treasury.

There have been 147,500 options granted, 1,065,000 options forfeited, 75,000 options expired and 260,000 options exercised during the first nine 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 September 30, 2012:

	Volumes	Average Price	Term		Fair Value Asset
WTI NYMEX oil swap	150 bbl/d	$103/bbl	Feb. 1, 2012 - Dec. 31, 2012	$	159,457
WTI NYMEX oil swap	150 bbl/d	$99.65/bbl	Jan. 1, 2013 - Dec. 31, 2013		374,107
				$	533,564

The unrealized gain recorded in net profit (loss) for the first nine months of 2012 was $0.53 million (2011: $nil). The realized gain recorded in net profit (loss) for the first nine months of 2012 was $0.27 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.

Due to recent personnel changes in the third quarter, Questerre is currently in the process of engaging staff to enhance its internal controls over financial reporting, achieve greater segregation of duties and address the other weaknesses identified above. There were no significant changes in Questerre's ICFR during the quarter ended September 30, 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

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Production (boe/d)	**696**	525	725	743
Average Realized Price ($/boe)	**75.64**	72.10	80.68	85.42
Petroleum and Natural Gas Sales	**4,842,799**	3,444,473	5,323,158	5,839,520
Cash Flow from Operations	**2,834,293**	1,220,773	3,291,154	3,149,746
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)	**(110,757)**	130,555	(1,833,286)	(4,030,018)
Per share - Basic	**-**	-	(0.01)	(0.02)
Per share - Diluted	**-**	-	-	-
Capital Expenditures, net of acquisitions and dispositions	**9,389,246**	5,188,353	14,791,673	12,490,404
Working Capital Surplus	**40,597,138**	47,350,400	55,051,962	104,480,657
Total Assets	**257,813,560**	256,759,200	267,006,166	258,409,889
Shareholders' Equity	**234,846,041**	233,859,513	233,136,765	232,877,970
Weighted Average Common Shares Outstanding				
Basic	**230,793,334**	230,945,633	231,114,039	232,055,963
Diluted	**232,420,240**	232,955,303	232,694,570	233,991,289

	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Production (boe/d)	604	586	650	605
Average Realized Price ($/boe)	77.93	77.60	67.78	58.33
Petroleum and Natural Gas Sales	4,330,124	4,138,050	3,965,389	3,246,637
Cash Flow from Operations	3,008,565	2,267,676	1,636,950	2,599,486
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)	1,758,768	4,938,387	1,234,259	(3,011,526)
Per share - Basic	0.01	0.02	0.01	(0.01)
Per share - Diluted	0.01	0.02	0.01	-
Capital Expenditures, net of acquisitions and dispositions	19,726,206	1,305,781	7,243,480	20,916,846
Working Capital Surplus	114,194,728	131,312,369	130,616,809	136,076,978
Total Assets	258,890,553	250,973,021	261,365,161	260,548,991
Shareholders' Equity	236,592,124	234,312,816	232,275,278	238,686,128
Weighted Average Common Shares Outstanding				
Basic	232,115,528	233,610,707	234,434,615	234,126,067
Diluted	234,382,606	236,472,552	238,509,767	238,754,183

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 and the significant shut-ins of the Antler field due to road bans in the second quarter of 2012. This improved in the third quarter of 2012 when the road bans were lifted and additional wells were completed and tied-in.
- With an increasing percentage of Questerre's volumes being comprised of higher netback oil and liquids volumes and the corresponding increase of the realized oil and liquids pricing, petroleum and natural gas sales and cash flow from operations have increased in recent quarters with the exception of the second quarter of 2012 as noted above.
- In the third quarter of 2010, the decreased net loss from previous quarters was 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	September 30, 2012	December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents		$ 45,704,903	$ 107,566,398
Marketable securities	2	-	3,274,768
Investment in convertible bonds	3	1,800,288	-
Accounts receivable		6,334,235	10,431,385
Current portion of risk management contracts	11	437,192	-
Deposits and prepaid expenses		616,850	349,375
		54,893,468	121,621,926
Investments	4	45,014,615	494,506
Risk management contracts	11	96,372	-
Property, plant and equipment	5	85,761,533	75,462,470
Exploration and evaluation assets	6	62,958,111	51,582,526
Goodwill		2,345,944	2,345,944
Deferred tax assets		6,743,517	6,902,517
		$ 257,813,560	$ 258,409,889
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 13,859,138	$ 17,141,269
Current portion of share based compensation liability	9	2,097,354	2,097,637
		15,956,492	19,238,906
Share based compensation liability	9	516,474	487,041
Asset retirement obligation	7	6,494,553	5,805,972
		22,967,519	25,531,919
Shareholders' Equity			
Share capital	8	307,034,623	307,856,902
Contributed surplus		16,404,493	14,588,016
Accumulated other comprehensive income (loss)		1,174,394	(1,612,967)
Deficit		(89,767,469)	(87,953,981)
		234,846,041	232,877,970
		$ 257,813,560	$ 258,409,889

Subsequent Events (note 12).

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 Sept. 30, 2012	2011	Nine months ended Sept. 30, 2012	2011
Revenue					
Petroleum and natural gas sales		$ 4,842,799	$ 4,330,124	$ 13,610,430	$ 12,433,563
Royalties		(329,042)	(331,247)	(881,161)	(1,010,361)
Petroleum and natural gas revenue, net of royalties		4,513,757	3,998,877	12,729,269	11,423,202
Expenses					
Direct operating		1,027,747	563,849	3,076,283	2,018,097
General and administrative		1,003,182	1,304,265	3,271,406	3,669,470
Pre-exploration		25,000	24,951	74,817	65,701
(Gain) loss on risk management contracts	11	243,211	-	(801,151)	-
Gain on divestiture		-	-	(220,214)	-
Gain on sale of subsidiary		-	-	-	(4,682,182)
Loss on investment in convertible bonds	3	314,529	-	425,131	-
Gain on foreign exchange		(3,719)	-	(1,643)	-
Reclass from OCI on sale of marketable securities	2	-	-	(285,178)	-
Bad debt expense		-	-	-	347,834
Depletion and depreciation	5	2,514,244	1,762,649	6,897,757	4,685,993
Impairment of assets	6	22,006	(32,106)	1,765,997	198,289
Accretion of asset retirement obligation	7	31,391	33,036	97,955	123,427
Share based compensation (recovery)	9	(27,034)	(793,359)	1,327,868	(1,647,086)
Interest income		267,514	425,430	831,196	1,333,004
Other income		-	520,238	-	520,238
Profit (loss) before taxes		(369,286)	2,081,260	(2,068,563)	8,496,901
Deferred taxes (recovery)		(258,529)	322,492	(255,075)	565,487
Net profit (loss)		(110,757)	1,758,768	(1,813,488)	7,931,414
Other comprehensive income (loss), net of tax					
Gain (loss) on marketable securities and investments	2,4	1,958,400	(348,400)	3,856,545	(1,742,000)
Gain (loss) on foreign exchange		(1,372,598)	-	(784,006)	-
Reclass to profit (loss) on sale of marketable securities		-	-	(285,178)	-
		585,802	(348,400)	2,787,361	(1,742,000)
Total comprehensive income		$ 475,045	$ 1,410,368	$ 973,873	$ 6,189,414
Net profit (loss) per share					
Basic and diluted	8	$ -	$ 0.01	$ (0.01)	$ 0.03

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

(Canadian dollars)	Note	Nine months ended Sept 30, 2012	2011
Share Capital			
Balance, beginning of period		$ 307,856,902	$ 311,652,770
Options exercised		183,700	995,480
Repurchase of shares under normal course issuer bid	8	(1,005,979)	(3,705,929)
Balance, end of period		307,034,623	308,942,321
Contributed Surplus			
Balance, beginning of period		14,588,016	18,888,735
Reclassification of share based compensation	9	1,330,982	(6,487,731)
Repurchase of shares under normal course issuer bid	8	485,495	914,762
Balance, end of period		16,404,493	13,315,766
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of period		(1,612,967)	-
Other comprehensive income (loss)		2,787,361	(1,742,000)
Balance, end of period		1,174,394	(1,742,000)
Deficit			
Balance, beginning of period		(87,953,981)	(91,855,377)
Net profit (loss)		(1,813,488)	7,931,414
Balance, end of period		(89,767,469)	(83,923,963)
Total Shareholders' Equity		$ 234,846,041	$ 236,592,124

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 Sept. 30, 2012	Three months ended Sept. 30, 2011	Nine months ended Sept. 30, 2012	Nine months ended Sept. 30, 2011
Operating Activities					
Net profit (loss)		$ (110,757)	$ 1,758,768	$ (1,813,488)	$ 7,931,414
Adjustments for:					
Depletion and depreciation	5	2,514,244	1,762,649	6,897,757	4,685,993
Impairment of assets/expiries	6	22,006	(32,106)	1,765,997	198,289
Accretion of asset retirement obligation	7	31,391	33,036	97,955	123,427
Share based compensation (recovery)	9	(27,034)	(793,359)	1,327,868	(1,647,086)
Unrealized (gain) loss on risk management contracts	11	399,242	-	(533,564)	-
Gain on divestiture		-	-	(220,214)	-
Gain on sale of subsidiary		-	-	-	(4,682,182)
Loss on investment in convertible bonds	3	314,529	-	425,131	-
Gain on foreign exchange		(3,719)	-	(1,643)	-
Reclass from OCI on sale of marketable securities	2	-	-	(285,178)	-
Bad debt expense		-	-	-	347,834
Deferred taxes (recovery)		(258,529)	322,492	(255,075)	565,487
Cash paid on exercise of stock options		-	(30,000)	-	(597,070)
Abandonment expenditures		(47,080)	(12,915)	(59,326)	(12,915)
Cash flow from operations		2,834,293	3,008,565	7,346,220	6,913,191
Change in non-cash working capital		672,985	(611,139)	440,640	(402,057)
Net cash from operating activities		3,507,278	2,397,426	7,786,860	6,511,134
Investing Activities					
Property, plant and equipment expenditures	5	(2,577,107)	(17,358,212)	(16,462,006)	(23,836,398)
Exploration and evaluation expenditures	6	(6,812,139)	(2,367,994)	(13,082,266)	(4,439,069)
Sale of property, plant and equipment		-	-	175,000	-
Disposition of subsidiary		-	-	-	(705,986)
Proceeds from sale of marketable securities	2	-	-	5,412,122	-
Purchase of investments	4	-	-	(43,170,850)	(494,506)
Purchase of convertible bonds	3	-	-	(2,223,776)	-
Change in non-cash working capital		345,028	5,826,276	106,905	(110,456)
Net cash used in investing activities		(9,044,218)	(13,899,930)	(69,244,871)	(29,586,415)
Financing Activities					
Proceeds from issue of share capital		112,500	-	117,000	537,050
Shares repurchased	8	-	-	(520,484)	(2,791,167)
Net cash used in financing activities		112,500	-	(403,484)	(2,254,117)
Change in cash and cash equivalents		(5,424,440)	(11,502,504)	(61,861,495)	(25,329,398)
Cash and cash equivalents, beginning of period		51,129,343	128,147,962	107,566,398	141,974,856
Cash and cash equivalents, end of period		$ 45,704,903	$ 116,645,458	$ 45,704,903	$ 116,645,458
Cash interest received		$ 313,932	$ 26,221	$ 1,137,693	$ 817,580

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 September 30, 2012 and for the three and nine months ended September 30, 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 November 14, 2012.

2. Marketable Securities

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

	September 30, 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	(5,412,122)	-
Gain (loss) on marketable securities & investments	2,137,354	(1,852,176)
Balance, end of period	$ -	$ 3,274,768

For the period ended September 30, 2012, the gain (loss) on marketable securities of $2,137,354 (September 30, 2011: ($2,000,000)) was recorded in other comprehensive income (loss) net of deferred tax of $239,209 (September 30, 2011: $258,000).

3. Investment in Convertible Bonds

In the second quarter of 2012, Questerre invested in Transeuro Energy Corp. ("Transeuro") senior secured convertible bonds. They mature May 22, 2015 and have a coupon rate of 12%. This financial asset has been designated to be measured as fair value through profit or loss.

The following table sets out the changes in the investment in convertible bonds:

	September 30, 2012
Balance, beginning of period	$ -
Purchase of convertible bonds	2,223,776
Loss on investment in convertible bonds	(425,131)
Gain on foreign exchange	1,643
Balance, end of period	$ 1,800,288

4. Investments

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 has invested US$43 million in the equity capital of Red Leaf. See Subsequent Events, Note 12.

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

	September 30, 2012	December 31, 2011
Red Leaf	$ 44,512,425	$ -
Investment in other private company	502,190	494,506
	$ 45,014,615	$ 494,506

The following table sets out the changes in investments:

	September 30, 2012	December 31, 2011
Balance, beginning of period	$ 494,506	$ -
Purchase of investments	43,170,850	494,506
Gain on investments	2,250,000	
Loss on foreign exchange	(900,741)	-
Balance, end of period	$ 45,014,615	$ 494,506

For the period ended September 30, 2012, the loss on foreign exchange of $900,741 (2011: $nil) was recorded in other comprehensive income (loss) net of deferred tax of $116,735 (2011: $nil). For the period ended September 30, 2012, the gain on investments of $2,250,000 (September 30, 2011: nil) was recorded in other comprehensive income (loss) net of deferred tax of $291,600 (September 30, 2011: nil).

5. 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		16,961,178		149,956		17,111,134
Transfer from exploration and evaluation assets		85,686		-		85,686
Balance, September 30, 2012	**$**	**120,631,232**	**$**	**1,278,836**	**$**	**121,910,068**
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		6,817,617		80,140		6,897,757
Balance, September 30, 2012	**$**	**35,189,030**	**$**	**959,505**	**$**	**36,148,535**

		Oil and Natural Gas Assets		Other Assets		Total
Net book value:						
At December 31, 2011	$	75,212,955	$	249,515	$	75,462,470
At September 30, 2012	**$**	**85,442,202**	**$**	**319,331**	**$**	**85,761,533**

During the period ended September 30, 2012, the Company capitalized administrative overhead charges of $627,822 (2011: $475,429) including $66,913 in capitalized stock based compensation expense directly related to development activities (2011: $31,356). Included in the September 30, 2012 depletion calculation are future development costs of $10,680,079 (December 31, 2011: $18,896,000).

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

Reconciliation of the E&E assets:

	September 30, 2012	December 31, 2011
Carrying amount, beginning of period	$ 51,582,526	$ 49,762,437
Additions	13,227,268	6,977,661
Acquisitions	-	1,555,103
Transfers to property, plant and equipment	(85,686)	(241,741)
Impairment (incl. undeveloped land expiries)	(1,765,997)	(6,470,934)
Carrying amount, end of period	$ 62,958,111	$ 51,582,526

During the period ended September 30, 2012, the Company capitalized administrative overhead charges of $1,382,100 (2011: $1,182,715) including $32,051 of capitalized stock based compensation expense directly related to E&E activities (2011: $93,230).

The impairment expense for the period ended September 30, 2012 only relates to undeveloped land expiries in Saskatchewan.

At September 30, 2012, an assessment of the indicators of impairment was completed on the E&E properties. In specific, the Company assessed the impact of recent comments by the government of Quebec on shale gas development in the province. An impairment test was subsequently performed on its Quebec E&E assets and no impairment was determined.

7. 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 $6,494,553 as at September 30, 2012 (December 31, 2011: $5,805,972) based on an undiscounted total future liability of $9,020,928 (December 31, 2011: $8,184,477). These payments are expected to be made over the next 38 years. The discount factor, being the risk-free rate related to the liabilities, is between 0.99% and 2.32% (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:

	September 30, 2012	December 31, 2011
Balance, beginning of period	$ 5,805,972	$ 7,219,342
Revisions due to change in discount rates	159,036	1,029,172
Revisions due to change in estimates	1,052	201,290
Liabilities incurred	535,078	925,596
Liabilities acquired	-	251,318
Liabilities disposed	(45,214)	-
Liabilities settled	(59,326)	(36,987)
Sale of subsidiary	-	(3,939,426)
Accretion	97,955	155,667
Balance, end of period	$ 6,494,553	$ 5,805,972

8. Share Capital

The Company is authorized to issue an unlimited number of Class A common voting shares. The Company is also authorized to issue an unlimited number of Class B common voting shares and an unlimited number of preferred shares, issuable in one or more series. At September 30, 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
Issued on exercise of options	260,000	183,700
Repurchased under normal course issuer bid	(755,824)	(1,005,979)
Balance, September 30, 2012	230,804,204	$ 307,034,623

b) Normal course issuer bid

In the first nine months of 2012, 755,824 common shares have been purchased under the Normal Course Issuer Bid for consideration of $520,484 with adjustments to share capital, on an average cost basis, of $1,005,979 and to contributed surplus of $485,495. All transactions have been settled and the common shares have been cancelled and returned to Treasury as of September 30, 2012.

c) Per share amounts

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

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	**2012**	2011
Net profit (loss)	**$ (110,757)**	$ 1,758,768	**$ (1,813,488)**	$ 7,931,414
Issued common shares at beginning of period	**230,554,204**	232,115,528	**231,300,028**	234,131,728
Effect of options exercised for shares	**239,130**	-	**85,876**	506,461
Effect of treasury stock reacquired			**(435,477)**	(1,285,675)
Weighted average number of common shares outstanding (basic)	**230,793,334**	232,115,528	**230,950,427**	233,352,514
Basic net profit (loss) per share	**$ -**	$ 0.01	**$ (0.01)**	$ 0.03

Diluted net profit per share is calculated as follows:

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	**2012**	2011
Net profit (loss)	**$ (110,757)**	$ 1,758,768	**$ (1,813,488)**	$ 7,931,414
Weighted average number of common shares outstanding (basic)	**230,793,334**	232,115,528	**230,950,427**	233,352,514
Effect of outstanding options	**1,626,906**	2,267,078	**1,784,486**	3,186,609
Weighted average number of common shares outstanding (diluted)	**232,420,240**	234,382,606	**232,734,913**	236,539,123
Diluted net profit per share	**$ -**	$ 0.01	**$ -**	$ 0.03

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.

9. 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:

	September 30, 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	147,500	0.70	6,220,000	0.99
Forfeited	(1,065,000)	2.63	(1,006,666)	1.71
Expired	(75,000)	1.28	(1,105,000)	1.27
Exercised	(260,000)	0.45	(1,470,000)	0.72
Outstanding, end of period	21,421,669	$2.27	22,674,169	$2.27
Exercisable, end of period	12,563,323	$2.41	10,196,237	$2.12

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

	September 30, 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	(1,330,982)	(3,451,705)
Share based compensation expense (recovery)	1,327,868	(2,259,924)
Capitalized share based compensation expense	98,964	120,439
Reclassification to share capital on exercise of stock options	(66,700)	(458,430)
Cash payment for options surrendered	-	(597,070)
Balance, end of period	$ 2,613,828	$ 2,584,678
Current portion	$ 2,097,354	$ 2,097,637
Non-current portion	516,474	487,041
	$ 2,613,828	$ 2,584,678

10. Capital Management

The Company believes it is well capitalized with positive cash flow from operations (an additional 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 $40.60 million consisting mainly of cash and cash equivalents.

The volatility of commodity prices has 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.

	September 30, 2012	December 31, 2011
Shareholders' equity	$ 234,846,041	$ 232,877,970

11. 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 September 30, 2012 included cash and cash equivalents, investment in convertible bonds, accounts receivable, risk management contracts, deposits, investments and accounts payable and accrued liabilities. As at September 30, 2012, the fair values of the Company's financial assets and liabilities equaled their carrying values due to the short-term maturity, except for the investment in convertible bonds, investment in Red Leaf and the risk management contracts which are recorded at fair value. The investments have been valued at September 30, 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 September 30, 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 in Red Leaf, convertible bonds and other equity – The fair values are 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 and 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 September 30, 2012, the Company had the following outstanding commodity risk management contracts:

	Volumes	Average Price	Term		Fair Value Asset
WTI NYMEX oil swap	150 bbl/d	$103/bbl	Feb. 1, 2012 - Dec. 31, 2012	$	159,457
WTI NYMEX oil swap	150 bbl/d	$99.65/bbl	Jan. 1, 2013 - Dec. 31, 2013		374,107
				$	533,564

The net risk management position is as follows:

		September 30, 2012
Risk Management Assets:		
Current portion	$	437,192
Non-current portion		96,372
	$	533,564

The unrealized gain recorded in net profit (loss) for the first nine months of 2012 was $0.53 million (2011: $nil) and for the quarter ended September 30, 2012 the unrealized loss was $0.40 million (2011: $nil). The realized gain recorded in net profit (loss) for the first nine months of 2012 was $0.27 million (2011: $nil) and for the quarter ended September 30, 2012, the realized gain was $0.16 million (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 Canadian dollar WTI price were to change by + or - $5 would be + or - $342,750.

12. Subsequent Events

In the fourth quarter of 2012, pursuant to a backstop agreement between the Company and Red Leaf, Red Leaf refunded US$2.4 million of Questerre's US$40 million subscription in its equity offering completed in March 2012. This was based on the gross proceeds of the equity offering completed by Red Leaf exceeding the minimum offering size. This amount was received early in the fourth quarter and is not included in the investment held in Red Leaf as of September 30, 2012.

CORPORATE INFORMATION

Directors

Les Beddoes, Jr.

Michael Binnion

Russ Hammond

Peder Paus

Patrick Quinlan

Bjorn Inge Tonnessen

Officers

Michael Binnion
President and
Chief Executive Officer

John Brodylo
VP Exploration

Peter Coldham
VP Engineering and
Operations

Jason D'Silva
Chief Financial Officer

Ian Nicholson
VP Geology,
Western Canada

Maria Rees
Corporate Secretary

Rick Tityk
VP Land

Bankers

Canadian Western Bank
200, 606 Fourth Street SW
Calgary, Alberta
T2P 1T1

Legal Counsel

Borden Ladner Gervais LLP
1900, 520 Third Avenue SW
Calgary, Alberta
T2P 0R3

Transfer Agent

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

DNB Bank ASA
Stranden 1, Aker Brygge
N0021 Oslo, Norway

Auditors

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

Independent Reservoir Engineers

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

Netherland, Sewell & Associates, Inc.
1601 Elm Street, Suite 4500
Dallas, Texas
75201

Head Office

1650 AMEC Place
801 Sixth Avenue SW
Calgary, Alberta T2P 3W2
Telephone: (403) 777-1185
Facsimile: (403) 777-1578
Web: www.questerre.com
Email: info@questerre.com

Stock Information

Toronto Stock Exchange
Oslo Stock Exchange
Symbol: QEC

1650 AMEC Place
801 Sixth Avenue SW
Calgary, Alberta T2P 3W2
Telephone: (403) 777-1185
Facsimile: (403) 777-1578
Web: www.questerre.com
Email: info@questerre.com