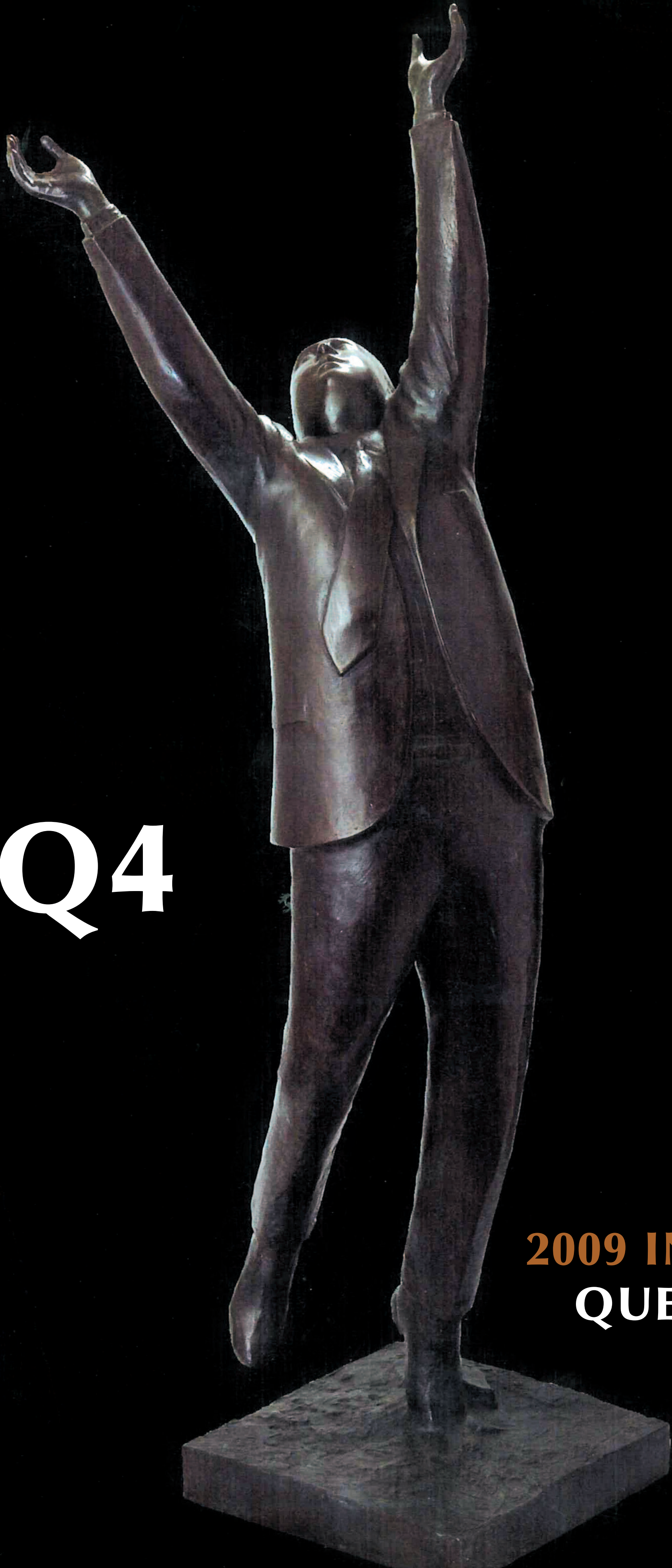

# Q4

## 2009 INTERIM REPORT

## QUESTERRE ENERGY CORPORATION

**Questerre Energy Corporation is an independent energy company focused on shale gas in North America. The Company is concentrated on establishing commerciality of its Utica shale gas discovery in the St. Lawrence Lowlands, Quebec. Questerre's common shares trade on the Toronto Stock Exchange and Oslo Stock Exchange under the symbol QEC.**

Cover image:
"All Hail the Triumphant"

## Select Information

| *As at/for the period ended December 31* | *Three months ended* | | | *Year ended* |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| **Financial ($)** | | | | |
| Petroleum and Natural Gas Sales | **3,447,123** | 4,644,224 | **12,933,267** | 29,805,568 |
| Cash Flow from Operations | **595,717** | 2,799,792 | **2,878,576** | 17,289,298 |
| Per share – Basic | **–** | 0.01 | **0.01** | 0.09 |
| Per share – Diluted | **–** | 0.01 | **0.01** | 0.09 |
| Net Loss | **(3,898,088)** | (7,487,376) | **(13,722,888)** | (9,212,614) |
| Per share – Basic | **(0.02)** | (0.04) | **(0.07)** | (0.05) |
| Per share – Diluted | **(0.02)** | (0.04) | **(0.07)** | (0.05) |
| Capital Expenditures, net of acquisitions and dispositions | **3,438,205** | 14,377,062 | **11,989,541** | 42,490,941 |
| Working Capital Surplus | **46,500,671** | 54,307,989 | **46,500,671** | 54,307,989 |
| Total Assets | **145,272,364** | 165,531,133 | **145,272,364** | 165,531,133 |
| Shareholders' Equity | **129,977,202** | 137,189,444 | **129,977,202** | 137,189,444 |
| Common Shares Outstanding | **199,722,143** | 197,299,642 | **199,722,143** | 197,299,642 |
| Weighted average – basic | **199,243,068** | 197,293,327 | **197,940,390** | 186,447,776 |
| Weighted average – diluted | **208,653,009** | 206,230,961 | **206,729,689** | 196,593,333 |
| **Operations (units as noted)** | | | | |
| Average Production | | | | |
| Crude Oil and Natural Gas Liquids (bbl/d) | **343** | 421 | **378** | 385 |
| Natural Gas (Mcf/d) | **2,499** | 2,911 | **2,591** | 4,761 |
| Total (boe/d) | **759** | 907 | **810** | 1,178 |
| Average Sales Price | | | | |
| Crude Oil and Natural Gas Liquids ($/bbl) | **76.30** | 64.87 | **63.88** | 99.42 |
| Natural Gas ($/Mcf) | **4.53** | 7.35 | **4.34** | 8.99 |
| Total ($/boe) | **49.37** | 55.65 | **43.75** | 69.13 |
| Netback ($/boe) | | | | |
| Total Revenue | **49.37** | 55.65 | **43.75** | 69.13 |
| Royalties | **6.93** | 8.38 | **3.32** | 11.55 |
| Percentage | **14%** | 15% | **8%** | 17% |
| Field Operating Expense | **14.49** | 14.83 | **13.86** | 14.05 |
| Operating Netback | **27.95** | 32.44 | **26.57** | 43.53 |
| Net Cash G&A | **15.85** | 8.06 | **15.94** | 6.72 |
| Cash Netback | **12.10** | 24.38 | **10.63** | 36.81 |
| Wells Drilled | | | | |
| Gross | **1.00** | 8.00 | **4.00** | 19.00 |
| Net | **0.21** | 5.30 | **1.71** | 12.10 |

# INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | December 31 2009 | December 31 2008 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 51,396,052** | $ 65,379,340 |
| Marketable securities (note 4) | **204,336** | 198,080 |
| Accounts receivable (note 8) | **4,509,203** | 8,049,421 |
| Inventory (note 10) | **301,599** | 352,127 |
| Prepaids and deposits | **619,990** | 970,003 |
| | **57,031,180** | 74,948,971 |
| Future income taxes | **1,486,533** | – |
| Goodwill | **2,467,816** | 2,467,816 |
| Property, plant and equipment, net (note 3) | **84,286,835** | 88,114,346 |
| | **$ 145,272,364** | $ 165,531,133 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **$ 10,530,509** | $ 20,640,982 |
| Future income taxes | **–** | 2,705,845 |
| Asset retirement obligations (note 6) | **4,764,653** | 4,994,862 |
| | **15,295,162** | 28,341,689 |
| **Shareholders' Equity** | | |
| Common shares (note 7) | **183,706,643** | 191,991,012 |
| Questerre shares held by subsidiary (note 7 (b)) | **–** | (23,109,376) |
| Contributed surplus (note 7 (f)) | **11,218,598** | 6,739,230 |
| Deficit | **(64,948,039)** | (38,431,422) |
| | **129,977,202** | 137,189,444 |
| | **$ 145,272,364** | $ 165,531,133 |

Contractual obligations and commitments (note 12).

*See accompanying notes to the consolidated financial statements.*

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

| | Three months ended Dec. 31 | | Year ended Dec. 31 | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| **Revenue** | | | | |
| Petroleum and natural gas revenue | **$ 3,447,123** | $ 4,644,224 | **$ 12,933,267** | $ 29,805,568 |
| Royalties | **(483,996)** | (699,453) | **(980,719)** | (4,979,101) |
| | **2,963,127** | 3,944,771 | **11,952,548** | 24,826,467 |
| **Expenses** | | | | |
| Operating | **1,011,470** | 1,237,619 | **4,097,207** | 6,057,492 |
| General and administrative | **1,106,564** | 672,414 | **4,711,526** | 2,900,189 |
| Interest expense | **–** | – | **–** | 122,900 |
| Interest income | **(73,209)** | (598,069) | **(478,060)** | (1,501,223) |
| Realized (gain) loss on sale of marketable securities (note 4) | **–** | – | **(106)** | 711,929 |
| Unrealized (gain) loss on marketable securities (note 4) | **(9,504)** | 97,862 | **(18,208)** | 90,632 |
| Realized gain on risk management activities | **–** | (128,898) | **–** | (109,749) |
| Unrealized loss on risk management activities | **–** | 151,013 | **–** | – |
| Allowance for doubtful accounts | **–** | 1,730,462 | **–** | 1,730,462 |
| Stock-based compensation (note 7 (e)) | **1,341,819** | 2,222,311 | **5,225,313** | 4,076,503 |
| Depletion and depreciation | **4,142,461** | 4,125,480 | **15,873,155** | 17,234,553 |
| Accretion of asset retirement obligations (note 6) | **104,957** | 101,175 | **424,335** | 248,481 |
| | **7,624,558** | 9,611,369 | **29,835,162** | 31,562,169 |
| Net loss before income taxes | **(4,661,431)** | (5,666,598) | **(17,882,614)** | (6,735,702) |
| **Income Taxes** | | | | |
| Current | **–** | 54,223 | **32,652** | 67,560 |
| Future (recovery) | **(763,343)** | 1,766,555 | **(4,192,378)** | 2,409,352 |
| | **(763,343)** | 1,820,778 | **(4,159,726)** | 2,476,912 |
| **Net loss and comprehensive loss** | **(3,898,088)** | (7,487,376) | **(13,722,888)** | (9,212,614) |
| Deficit, beginning of period | **(61,049,951)** | (30,944,046) | **(38,431,422)** | (29,218,808) |
| Cancellation of shares (note 7 (b)) | **–** | – | **(12,793,729)** | – |
| **Deficit, end of period** | **$ (64,948,039)** | $ (38,431,422) | **$ (64,948,039)** | $ (38,431,422) |
| **Net loss per share (note 7 (c))** | | | | |
| Basic and diluted | **$ (0.020)** | $ (0.038) | **$ (0.069)** | $ (0.049) |

*See accompanying notes to the consolidated financial statements.*

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | *Three months ended Dec. 31* | | *Year ended Dec. 31* | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| **Operating Activities** | | | | |
| Net loss | **$ (3,898,088)** | $ (7,487,376) | **$ (13,722,888)** | $ (9,212,614) |
| Items not affecting cash and cash equivalents: | | | | |
| Depletion and depreciation | **4,142,461** | 4,125,480 | **15,873,155** | 17,234,553 |
| Stock-based compensation (note 7 (e)) | **1,341,819** | 2,222,311 | **5,225,313** | 4,076,503 |
| Accretion of asset retirement obligations (note 6) | **104,957** | 101,175 | **424,335** | 248,481 |
| Realized (gain) loss on sale of marketable securities (note 4) | **–** | – | **(106)** | 711,929 |
| Unrealized (gain) loss on marketable securities (note 4) | **(9,504)** | 97,862 | **(18,208)** | 90,632 |
| Unrealized loss on risk management activities | **–** | 151,013 | **–** | – |
| Allowance for doubtful accounts | **–** | 1,730,462 | **–** | 1,730,462 |
| Future income taxes (recovery) | **(763,343)** | 1,766,555 | **(4,192,378)** | 2,409,352 |
| Abandonment expenditures | **(322,585)** | 92,310 | **(710,647)** | – |
| | **595,717** | 2,799,792 | **2,878,576** | 17,289,298 |
| Net change in non-cash working capital | **(1,575,091)** | 4,806,890 | **(2,905,105)** | 6,176,758 |
| | **(979,374)** | 7,606,682 | **(26,529)** | 23,466,056 |
| **Financing Activities** | | | | |
| Issue of common shares | **317,250** | 7,754 | **1,285,333** | 77,301,878 |
| Share issue costs | **–** | (41,243) | **–** | (5,267,071) |
| | **317,250** | (33,489) | **1,285,333** | 72,034,807 |
| **Investing Activities** | | | | |
| Expenditures on property, plant and equipment | **(3,438,205)** | (15,561,132) | **(11,989,541)** | (43,956,604) |
| Acquisition of Terrenex Ltd. | **–** | (71,308) | **–** | (680,161) |
| Sale of property, plant and equipment | **–** | 1,255,378 | **–** | 2,145,824 |
| Sale of marketable securities (note 4) | **–** | – | **12,058** | 1,274,551 |
| Purchase of marketable securities | **–** | (295,942) | **–** | (295,942) |
| | **(3,438,205)** | (14,673,004) | **(11,977,483)** | (41,512,332) |
| Net change in non-cash working capital | **524,293** | 3,202,350 | **(3,264,609)** | (2,508,467) |
| | **(2,913,912)** | (11,470,654) | **(15,242,092)** | (44,020,799) |
| Increase (decrease) in cash and cash equivalents | **(3,576,036)** | (3,897,461) | **(13,983,288)** | 51,480,064 |
| Cash and cash equivalents, beginning of period | **54,972,088** | 69,276,801 | **65,379,340** | 13,899,276 |
| **Cash and cash equivalents, end of period** | **$ 51,396,052** | $ 65,379,340 | **$ 51,396,052** | $ 65,379,340 |

See supplemental cash flow information contained in note 11.

*See accompanying notes to the consolidated financial statements.*

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*For the three and twelve months ended December 31, 2009 and 2008 (unaudited)*

## 1. Basis of Presentation and Nature of Operations

The interim consolidated financial statements include the accounts of Questerre Energy Corporation and its subsidiaries ("Questerre" or the "Company") and have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements are unaudited. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2008, except as disclosed in Note 2. These interim consolidated financial statements do not include all disclosures required in the annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual report for the year ended December 31, 2008. Preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

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

On June 18, 2008, Magnus Energy Inc. ("Magnus") and its wholly owned subsidiary Magnus One Energy Corp. (collectively the "Magnus Entities") applied for protection under the *Bankruptcy and Insolvency Act*. Magnus is a wholly owned subsidiary of Questerre. At meetings of the creditors of the Magnus Entities held on September 30, 2008, the creditors approved a proposal to settle amounts outstanding. Court approval of this proposal was obtained on April 2, 2009. Questerre has lost control of Magnus due to the bankruptcy and appointment of a trustee, however, because of uncertainty over responsibility for the liabilities recorded in Magnus relating to the investment in the subsidiary, the investment has been recorded as a liability equal to the full amount of the book value of Magnus's liabilities. No adjustments have been made to the carrying values of the liabilities pending confirmation of the settlement amounts. This is expected to be completed in the first half of 2010.

Cabernet Holdings Ltd., a wholly owned subsidiary of Terrenex Ltd., transferred all of its assets to Terrenex Ltd. and then was dissolved on July 23, 2009. Subsequently, on September 1, 2009, Terrenex Ltd., a wholly owned subsidiary of Questerre, was amalgamated with Questerre. See note 7(b) for further discussion.

## 2. Changes in Accounting Policies

On January 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard was applied retroactively and has had no material impact on Questerre's consolidated financial statements.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009 and are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (IFRS). The adoption of this section required enhanced disclosures on Questerre's consolidated financial statements.

This section was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Questerre's marketable securities are recorded at fair value using quoted market prices and are classified as level 1 in the fair value hierarchy.

*Future Accounting Pronouncements*

As of January 1, 2011, Questerre will be required to adopt the following CICA Handbook sections:

"Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of operations. The adoption of this standard will impact the accounting treatment of future business combinations.

"Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard should not have a material impact on Questerre's Consolidated Financial Statements.

"Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on Questerre's Consolidated Financial Statements.

## 3. Property, Plant and Equipment

| | **December 31 2009** | December 31 2008 |
|---|---|---|
| Property, plant and equipment | **$ 174,446,656** | $ 162,401,012 |
| Accumulated depletion and depreciation | **(90,159,821)** | (74,286,666) |
| | **$ 84,286,835** | $ 88,114,346 |

During the year ended December 31, 2009, the Company capitalized administrative overhead charges of $571,651 (December 31, 2008: $2,090,419) directly relating to exploration and development activities.

At December 31, 2009, property, plant and equipment included $23,621,537 (December 31, 2008: $19,889,320) relating to unproved properties which have been excluded from the depletion calculation. Amounts are carried at the lower of cost or fair value. Included in the depletion calculation are future development costs of $6,154,700 (December 31, 2008: $5,355,000).

## 4. Marketable Securities

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

The following table sets out the changes in marketable securities:

| | | **December 31 2009** | | December 31 2008 |
|---|---|---|---|---|
| Balance, beginning of period | **$** | **198,080** | $ | 1,979,250 |
| Purchase of marketable securities | | **–** | | 295,942 |
| Sale of marketable securities | | **(12,058)** | | (1,274,551) |
| Realized gain (loss) on sale of marketable securities | | **106** | | (711,929) |
| Unrealized gain (loss) on marketable securities | | **18,208** | | (90,632) |
| **Balance, end of period** | **$** | **204,336** | $ | 198,080 |

## 5. Bank Indebtedness

The Company has a $5 million revolving credit facility with a Canadian chartered bank. The advances bear interest at the bank prime rate plus 1.5%. The authorized limit is currently under review and the Company is evaluating its requirements for this facility in light of its cash position and planned capital programs in 2010. The facility is collateralized with a $20 million fixed and floating charge debenture over the assets of the Company. As at December 31, 2009, there were no amounts outstanding under this facility.

## 6. Asset Retirement Obligations

The total future asset retirement obligation was estimated by management based on Questerre's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. At December 31, 2009, the Company estimates its total undiscounted asset retirement obligation to be $9,578,736 (December 31, 2008: $9,840,101).

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

| | | **December 31 2009** | | December 31 2008 |
|---|---|---|---|---|
| Balance, beginning of period | **$** | **4,994,862** | $ | 4,578,140 |
| Revision in estimates | | **–** | | 829,910 |
| Liabilities incurred | | **56,103** | | 423,934 |
| Accretion expense | | **424,335** | | 248,481 |
| Liabilities settled | | **(710,647)** | | – |
| Property dispositions | | **–** | | (1,085,603) |
| **Balance, end of period** | **$** | **4,764,653** | $ | 4,994,862 |

## 7. Share Capital

### *a) Authorized*

The Company is authorized to issue an unlimited number of Class A common voting shares. The Company is also authorized to issue an unlimited number of Class B common voting shares and an unlimited number of preferred shares, issuable in one or more series. At December 31, 2009, there were no Class B common voting shares or preferred shares outstanding.

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

| | Number | Amount |
|---|---|---|
| **Common Shares** | | |
| Balance, December 31, 2008 | 197,299,642 | $ 191,991,012 |
| Issued for cash on exercise of options | 2,422,501 | 1,285,333 |
| Reclassification to share capital on exercise of stock options | | 745,945 |
| Cancellation of shares[1] | – | (10,315,647) |
| **Balance, December 31, 2009** | **199,722,143** | **$ 183,706,643** |

(1) On September 30, 2009, 10,698,785 Questerre common shares that were acquired in the Terrenex Ltd. acquisition were cancelled. The cancellation has been recorded as $10,315,647 being deducted from common shares and $12,793,729 as an increase to the deficit. Due to the pending cancellation of the 10,698,785 Questerre common shares at the time of acquisition in 2008, the cancellation has already been factored into the opening number of shares outstanding and therefore no outstanding share amounts need to be adjusted for in 2009.

### *c) Per Share Amounts*

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

| | *Three months ended Dec. 31* | | *Year ended Dec. 31* | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Basic | **199,243,068** | 197,293,327 | **197,940,390** | 186,447,776 |
| Diluted | **208,653,009** | 206,230,961 | **206,729,689** | 196,593,333 |

For the purpose of calculating the diluted net loss per share for the three and twelve months ended December 31, 2009 and 2008, incremental shares from assumed exercise of stock options are not included due to their anti-dilutive effect.

### *d) Stock Options*

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

The following table sets forth a reconciliation of the stock option plan activity for the year ended December 31, 2009:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, December 31, 2008 | 17,655,421 | $1.26 |
| Granted | 3,520,000 | 2.26 |
| Forfeited | (134,167) | 2.40 |
| Exercised | (2,422,501) | 0.53 |
| **Outstanding, December 31, 2009** | **18,618,753** | **$1.53** |
| **Exercisable, December 31, 2009** | **10,568,530** | **$0.87** |

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

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price | Common Shares Issuable | Weighted Average Years to Expiry | Weighted Average Exercise Price | Common Shares Issuable | Weighted Average Exercise Price |
| $0.40 - $0.54 | 7,248,334 | 2.24 | $ 0.44 | 5,201,660 | $ 0.43 |
| $0.65 - $0.82 | 3,646,669 | 1.21 | 0.77 | 3,556,668 | 0.80 |
| $1.28 - $1.80 | 2,423,750 | 3.51 | 1.55 | 1,142,917 | 1.36 |
| $2.37 - $2.78 | 2,765,000 | 5.75 | 2.49 | 219,791 | 2.77 |
| $4.40 - $4.70 | 2,535,000 | 3.45 | 4.70 | 447,494 | 4.70 |
| | **18,618,753** | **2.89** | **$ 1.53** | **10,568,530** | **$ 0.87** |

### *e) Stock-Based Compensation Costs*

The Company accounts for its stock based compensation plan using the fair value method. Under this method, compensation cost attributable to share options granted to employees, officers or directors is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. The exercise of stock options is recorded as an increase in common shares with a corresponding reduction in contributed surplus. Forfeiture of options are recorded as incurred and any unvested stock based compensation expense is recorded as a reduction in the expense.

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

| | *Three months ended Dec. 31* | | *Year ended Dec. 31* | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Weighed average fair value per option ($) | **1.67** | 0.98 | **1.53** | 1.27 |
| Risk free interest rate (%) | **2.42** | 2.65 | **2.18** | 3.01 |
| Expected life (years) | **3.7** | 3.0 | **3.7** | 3.0 |
| Expected volatility (%) | **100** | 102 | **100** | 97 |

### *f) Contributed Surplus*

The following table sets forth a reconciliation of contributed surplus for the year ended December 31, 2009:

| | | |
|---|---|---|
| Balance, December 31, 2008 | $ | 6,739,230 |
| Stock-based compensation expense | | 5,225,313 |
| Reclassification to share capital on exercise of stock options | | (745,945) |
| **Balance, December 31, 2009** | **$** | **11,218,598** |

## 8. Financial Instruments

### *Credit Risk*

The Company's accounts receivable are aged as follows:

| Aging | | |
|---|---|---|
| Current | $ | 2,789,481 |
| 31 - 60 days | | 366,425 |
| 61 - 90 days | | 178,568 |
| > 90 days | | 4,073,841 |
| Allowance for doubtful accounts | | (2,899,112) |
| **Balance, December 31, 2009** | **$** | **4,509,203** |

### *Fair Values of Financial Instruments*

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

| | Carrying Value | Fair Value |
|---|---|---|
| Financial Assets | | |
| Held-for-trading: | | |
| Cash and cash equivalents | $ 51,396,052 | $ 51,396,052 |
| Deposits | 440,582 | 440,582 |
| Marketable securities | 204,336 | 204,336 |
| Loans and receivables: | | |
| Accounts receivable | 4,509,203 | 4,509,203 |
| Financial Liabilities | | |
| Accounts payable and accrued liabilities[1] | $ 10,530,509 | $ 8,774,604 |

(1) The fair value of the Magnus payables of $1,755,905 cannot be estimated as the final settlement amounts are unknown and this has been deducted above to arrive at fair value (See Note 1).

Questerre's marketable securities are recorded at fair value using quoted market prices and are classified as level 1 in the fair value hierarchy.

## 9. Capital Disclosures

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

| | **December 31 2009** | December 31 2008 |
|---|---|---|
| Shareholders' equity | **$ 129,977,202** | $ 137,189,444 |
| Debt | **–** | – |
| Working Capital | **46,500,671** | 54,307,989 |
| | **$ 176,477,873** | $ 191,497,433 |

## 10. Inventory

Inventory is carried at the lower of weighted average cost or net realizable value. For the year ended December 31, 2009, there were no write downs or reversals of previously written down amounts. During the year, $249,979 in fuel inventory was purchased (2008: $676,724) and $300,508 (2008: $529,059) was recognized as an expense.

## 11. Supplemental Cash Flow Information

| | *Three months ended Dec. 31* | | *Year ended Dec. 31* | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Cash interest paid | **$ –** | $ – | **$ –** | $ 122,900 |
| Cash taxes paid | **$ –** | $ 9,006 | **$ 12,002** | $ 155,946 |

## 12. Contractual Obligations and Commitments

The Company is obligated to make total payments under an operating lease of $115,811 in 2010 and $9,651 in 2011. Questerre has commitments under a lease for office space of $333,241 in 2010.

## 13. Comparative Figures

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

# CORPORATE INFORMATION

### Directors

Les Beddoes, Jr.

Michael Binnion

Pierre Boivin

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

Paul Harrington
VP Finance

Maria Rees
Corporate Secretary

Rick Tityk
VP Land

### Bankers

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T2P 1T1

### Legal Counsel

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### Auditors

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### Independent Reservoir Engineers

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Netherland, Sewell & Associates, Inc.
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### Stock Information

Toronto Stock Exchange
Oslo Stock Exchange
Symbol: QEC

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