

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared at, and is dated, May 5, 2005. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review first quarter 2005 activities and results as compared to the previous period. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2005 and the audited consolidated financial statements for the year ended December 31, 2004.

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Questerre's management at the time the statements were made. Questerre assumes no obligation to update forward-looking statements should circumstances or management's estimates change.

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 and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalent at the wellhead.

Drilling Activities

The Company participated in the drilling and completion of five wells in Alberta during the first quarter of 2005. Four wells (1.8 net) were cased as oil and gas producers and one well (0.3 net) was dry and abandoned. Three of the four wells were completed and tested for stable initial flow rates towards the end of the quarter. The remaining well will be completed and tested after break-up.

In aggregate, the three tested wells flowed over 400 boe per day with an estimated 170 boe per day net to Questerre's interest. The Company anticipates that production from one of these wells could be improved and it will be re-stimulated and re-tested during the second quarter. In conjunction with the operator, the Company is developing plans for facilities and pipeline tie-ins for these wells. Questerre is currently evaluating follow-on locations and expects to participate in additional wells during the remainder of the year.

2004 FINANCIAL RESULTS

Production

The Company's existing production is primarily natural gas from the Beaver River Field (the "Field") and its minority interests in non-operated properties in Alberta.

The Company reported raw natural gas production of approximately 83 boepd from the Field for the first quarter of 2005. This production is attributable to the A-5 re-entry, completed during the first quarter of 2004. There was no production from the Field during the first quarter of 2004 as the A-5 re-entry operation was still underway and the other producing well, B-2, was shut-in in 2003 due to water disposal constraints.

Production from the Company's non-operated properties in Alberta during the quarter decreased marginally to 24 boepd from 25 boepd during the same period in 2004.

Revenue

For the three months ended March 31, 2005, Questerre reported petroleum and natural gas revenue of \$0.36 million. This compares to petroleum and natural gas revenue of \$0.08 million for the same period in 2004. Revenue in 2005 is ascribed to production from the Field and the non-operated properties in Alberta. By comparison, revenue in 2004 is ascribed only to production from the non-operated properties in Alberta.

Royalties

The Company recorded a recovery of Crown royalties of \$0.14 million accrued on Field production in 2004. The recovery reflected the Company's qualification during the quarter for a royalty credit in the amount of \$0.75 million for the A-5 re-entry.

Crown and gross overriding royalties on production from the Company's minor properties in Alberta remained unchanged at \$0.02 million or 26% of gross revenue attributable to these properties.

Operating Costs

For the first quarter of 2005, operating expenses increased 22% to \$0.2 million in 2005 from \$0.17 million in 2004. The majority of the increase can be attributed to the gas processing and transmission fees for Field production in 2005 of \$0.05 million. Excluding this amount, operating costs remained relatively constant over the two periods due to the fixed nature of operating costs at the Field.

General and Administrative Expenses

In 2005, general and administrative expenses of \$0.25 million for the first quarter did not include bad debt expense or overhead recoveries associated with capital expenditures incurred. Exclusive of overhead recoveries and bad debt expense, general and administrative expenses decreased marginally to \$0.25 million in 2005 from \$0.27 million in 2004.

| <i>(\$ thousands)</i> | 2005 | 2004 |
|--|------|--------|
| General & administrative expenses | 254 | \$ 269 |
| Bad debt expense | - | 150 |
| Overhead recoveries | - | (299) |
| General & administrative expenses, net | 254 | \$ 120 |

Stock Based Compensation

Effective January 1, 2004 the Company adopted a new accounting standard for stock based compensation. This resulted in stock based compensation expense of \$0.08 million in 2005 (2004: \$0.05 million).

Interest Expense

Interest expense on the Company's promissory note and bank debt totaled \$0.02 million for the first quarter of 2005 (2004:\$0.01 million). The increase is attributable primarily to the issuance of the promissory note in 2004 that bears interest at 8% per annum.

Depletion and Depreciation

Questerre recognized \$1.07 million in depletion and depreciation in the first quarter of 2005 compared to \$5.24 million in 2004. Included in 2005 depletion is \$1.00 million, representing the Company's share of drilling costs of an unsuccessful well in the Simonette area of Alberta. 2004 depletion includes a \$5.18 million ceiling test write-down recorded by the Company on its Field assets. The write-down reflected the majority of costs incurred during the first quarter of 2004 to finish the drilling, completion and tie-in of the A-5 re-entry.

Questerre does not include costs associated with its assets in the St. Lawrence Lowlands of Quebec nor the costs associated with its exploration projects in the Parkland, Vulcan and Westlock areas of Alberta in the calculation of depletion or in costs subject to the ceiling test calculation. These properties remained unproved at March 31, 2005.

Taxes

Consistent with the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the first quarter of 2005 resulting in no current income taxes payable for the quarter. In addition, the Company's tax assets significantly exceed tax liabilities. No tax asset is recognized at March 31, 2005, as there is no certainty that the Company will be able to realize the value of the tax assets in the future.

Net Loss and Cash Flow

Questerre recorded a net loss of \$1.16 million (\$0.02/share) in the first quarter of 2005 compared to \$5.52 million (\$0.13/share) in the first quarter of 2004. The loss in the first quarter reflected the writedown of costs of \$1.00 million associated with the unsuccessful well at Simonette, Alberta.

Cash flow from operations for the quarter decreased from a loss of \$0.23 million in 2004 to a loss of \$0.01 million in 2005. The improvement can be attributed to the net revenue from Field production in 2005.

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures

Questerre incurred capital expenditures of \$2.46 million in the first quarter of 2005 compared to \$5.68 million in 2004. The expenditures in 2005 related to the costs of drilling and completion of wells in the Parkland, Vulcan and Simonette areas of Alberta. It also includes land acquisition costs of \$0.27 million in the Westlock area of Alberta. Substantially all of the first quarter 2004 capital spending related to drilling, completion and tie-in of the A-5 re-entry at the Field.

| (\$thousands) | Three Months Ended March 31, | |
|-------------------------------|------------------------------|-------|
| | 2005 | 2004 |
| Capital Expenditures | | |
| Beaver River Project, BC | 10 | 5,664 |
| St. Lawrence Lowlands, Quebec | – | 14 |
| Alberta Properties | 2,453 | 1 |
| Total | 2,463 | 5,679 |

Working Capital

Questerre reported a working capital surplus of \$0.37 million at March 31, 2005. Current assets at March 31, 2005 consisted primarily of \$0.43 million in cash and deposits and \$0.15 million in receivables. The receivables primarily represent natural gas revenue from the Field and the Company's non-operated Alberta properties.

Questerre's current liabilities consisted of trade payables of \$0.30 million and \$0.21 million representing the term bank loan that has been classified as a current liability.

The Company anticipates it will need to raise additional equity capital to fund further drilling, completion, and tie-in costs at its projects in the Parkland, Vulcan and Westlock areas of Alberta. To this end, the Company has completed a \$1.0 million private placement in the second quarter of 2005. It has also entered into a mandate agreement with a major Norwegian financial institution to complete a \$5-\$10 million equity offering through an initial public offering in Norway concurrent with the listing of the Company's shares on the Oslo Stock Exchange.

Share Capital

The Company is authorized to issue an unlimited number of Class A common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class B common voting shares and an unlimited number of preferred shares, issuable in one or more series.

At March 31, 2004, there were no Class B common voting shares or preferred shares outstanding and there were a total of 66,751,904 Common Shares outstanding and 3,445,000 stock options outstanding. An additional 2,000,000 Common Shares have been reserved for the conversion of the \$0.6 million promissory note. The Company did not complete any equity placements during the first quarter of 2005. In April 2005, the Company completed a private placement of 3.13 million shares for gross proceeds of \$1.0 million.

Contractual Obligations

Questerre is party to an Office Rental Agreement with a related party for the provision of offices, office equipment and support personnel. Either party may terminate the agreement with six months written notice. Questerre's commitment under this agreement for the remainder of 2005 is \$94,500.

The Company is responsible for principal payments on its bank loan in the amount of \$60,300 for the remainder of 2005, \$80,400 in 2006 and \$73,700 in 2007. The Company has a \$100,000 restricted cash deposit against these obligations.

Off-Balance Sheet Arrangements

Questerre has no off-balance sheet arrangements.

Related Party Transactions

The Company has entered into a purchase and sale agreement with Rupert's Crossing, an Investment Corporation ("Rupert's") to acquire its interest in five producing oil and gas wells in addition to 8,320 acres gross (2,432 acres net) of undeveloped land in Central Alberta. Rupert's is private investment holding company controlled by the President and Chief Executive Officer of Questerre.

Current production from these wells, net to Rupert's, is approximately 75 boe per day.

The purchase price for these assets is \$2.0 million and is based on an evaluation of these assets prepared by an independent reservoir engineering firm. The transaction was approved by an independent committee of the Board established for the purposes of evaluating this acquisition. The closing of this transaction is conditional upon to the successful completion of an equity placement by the Company in June 2005.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. A comprehensive discussion of the Company's significant accounting policies is contained in the notes to the audited consolidated financial statements at December 31, 2004. The following discussion outlines the accounting estimates that are critical to determining Questerre's financial results.

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Going Concern

Questerre's financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") and, accordingly, have been prepared using the same principles as those for a going concern.

Full Cost Accounting

Questerre follows the Canadian Institute of Chartered Accountants' ("CICA") guideline on full cost accounting to account for its oil and natural gas properties. Under this method, all costs associated with the acquisition of, exploration for and development of natural gas and crude oil reserves are capitalized and costs associated with production are expensed. The capitalized costs are depreciated, depleted and amortized using the unit-of-production method based on estimated proved reserves. Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depreciation, depletion and amortization ("DD&A"). A downward revision in a reserve estimate could result in a higher DD&A charge to earnings. In addition, if net capitalized costs are determined to be in excess of the calculated ceiling, which is based largely on reserve estimates, the excess must be written off as an expense charged against earnings.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned or if impairment has occurred. If reserves can be assigned, the cost of the properties would be included in the depletion calculation. If impairment has occurred, any write-down would be included in depletion and depreciation expense for the period.

Oil and Gas Reserves

Questerre's proved oil and gas reserves are evaluated and reported on by an independent petroleum engineering consultant. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to a number of uncertainties and various interpretations. These estimates are the basis for the determination of the fair market value and the estimated net revenue stream of these reserves. The

Company expects that its estimate of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and economics of recovery based on cash flow forecasts. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion and depreciation. A revision to the reserve estimate could result in a higher or lower DD&A charge to net earnings. Downward revisions to reserve estimates could also result in a write-down of oil and natural gas property, plant and equipment under the ceiling test.

Asset Retirement Obligation

The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The liability is recorded at fair value and is adjusted to its present value in subsequent periods and the amount of the accretion is charged to earnings in the period. The associated asset retirement costs are capitalized as part of the carrying amount of the related asset. The capitalized amount is depleted on a unit of production basis in accordance with the Company's depletion policies.

Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost also result in an increase or decrease to the asset retirement obligation. The Company's estimated undiscounted asset retirement cost for the Field is \$1.8 million.

Actual costs incurred upon settlement of the obligation are charged against the liability to the extent the liability is recorded. Any difference between actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which settlement occurs.

Determination of the original undiscounted retirement obligations and timing of these obligations are based on internal estimates using current costs and technology in accordance with existing legislation and industry practice. These estimates are subject to change over time and, as such, may impact the charge against income for asset retirement obligations.

Additional Information

Additional information relating to Questerre, including the Company's Annual Information Form can be obtained on SEDAR at www.sedar.com or on the Company's website at www.questerre.com.

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Questerre Energy Corporation for the three months ended March 31, 2005 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Corporation. These statements have not been reviewed by the Corporation's external auditors.



Michael Binnion
President and Chief Executive Officer



David Mallory
Interim Chief Financial Officer