

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, August 12, 2005. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review second 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 six months ended June 30, 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.

Vulcan Discovery

Questerre participated in a new Mannville pool discovery in the Vulcan area of Southern Alberta. The well initially tested 177 boe per day and was placed on a long term production test early in the third quarter. The well averaged 332 boe per day over three days of testing in July. It is currently shut in and will resume production in September once a gas pipeline is constructed. Additional facilities under construction include a multi-well battery.

Based on the initial test results and re-processing of a 3-D seismic survey, Questerre and its partner expanded their holdings prospective for this discovery to 8,320 acres during the quarter. Eight potential follow-up locations have been identified on this acreage. A drilling rig has been contracted through break-up for an initial three-well program with the first well scheduled to spud during the third quarter. Future wells will be based on the results from this initial program and the long-term production test results.

Acquisition of Producing Properties in Central Alberta

The Company entered into an agreement with Rupert's Crossing, an Investment Corporation ("Rupert's") to acquire its interest in certain producing properties and acreage in Central Alberta. Rupert's is a private investment holding company controlled by the President and Chief Executive Officer of Questerre. The acquisition included five producing wells and 8,320 acres (2,432 acres net). Current production from these wells is approximately 50 boe per day.

The purchase price for this acquisition of \$2.1 million was based on an evaluation of these assets prepared by an independent reservoir engineering firm. The acquisition closed during the second quarter with an effective date of April 1, 2005.

Farm-out Agreement for Beaver River Field

During the quarter, the Company entered into a definitive farm-out agreement for the development of the Beaver River Field in British Columbia (the “Field”) with Ampac Petroleum Inc. (“Ampac”). Ampac is a private exploration and production company controlled by Jed Wood, a director of Questerre.

The agreement will target both the shallow Mattson and the deeper Nahanni formations. The first phase of the farmout will involve the re-entry and re-completion of four existing wells for the Mattson. The farmout agreement also includes two optional wells - one for a previously unidentified Mattson sand and the second to target a new compartment in the Nahanni.

Ampac will fund and operate the initial phase to earn a 50% interest in the four re-entry wells. By drilling the first option well, Ampac will earn 50% of the remaining rights in the Mattson. Ampac will earn a 50% interest in the Nahanni by drilling the second option well. The Company expects the first phase will commence in September.

Listing on Oslo Stock Exchange

Questerre completed a C\$10 million public offering and listed its Common Shares for trading on the Oslo Stock Exchange in Norway during the second quarter. A total of 30,000,000 Common Shares were issued at \$0.33 per Common Share under the offering primarily to retail and institutional investors in Norway.

DnB NOR Markets and Pareto Securities ASA acted as the Company’s advisors in connection with the offering. The advisors received a cash commission of 7% of the gross proceeds.

Drilling Activities

The Company participated in three wells in Alberta during the second quarter of 2005. All three wells (1.4 net wells) were cased as gas producers and will be tied-in during the third quarter. Stabilized production will ultimately depend on facility constraints. Activity was less than expected due to an unusually wet spring and flooding conditions in June.

SECOND QUARTER 2005 FINANCIAL RESULTS

Production

The Company’s existing production is primarily natural gas from the Beaver River Field (the “Field”) and its properties in Central Alberta.

Production averaged 148 boe per day for the three months ended June 30, 2005 (2004: 272 boe per day) and 123 boe per day for the first six months of 2005 (2004: 149 boe per day). The A-5 well at the Field accounted for just over 50% of this daily production. The remaining is attributable to the Company’s interest in producing properties in Central Alberta.

The decrease in comparison to the same period in 2004 can be attributed to the decline in production from the A-5 well. Production from this well averaged 247 boe per day over the second quarter in 2004 as compared to 76 boe per day in 2005.

Revenue

For the first six months of 2005, Questerre reported petroleum and natural gas revenue of \$0.97 million compared to \$1.08 million for the same period in 2004. The 10% decrease is due to the lower revenue from the A-5 well substantially offset by revenue from the recently acquired properties in Central Alberta. Furthermore, higher realized prices compensated for lower production volumes in 2005.

Royalties

The Company recorded royalty expense of \$0.15 million for the period ending June 30, 2005 (2004: \$0.11 million). The royalty expense in 2005 was offset by a recovery of Crown royalties of \$0.14 million accrued on Field production in 2004. The recovery reflected the Company's qualification during the first quarter for a royalty credit in the amount of \$0.75 million for the A-5 re-entry. To date the Company has utilized \$0.23 million of this credit.

Crown and gross overriding royalties on production from the Company's properties in Alberta decreased marginally as a percentage of gross revenue to 25% in 2005 from 26% in 2004.

Operating Costs

Operating expenses decreased to \$0.33 million for the second quarter of 2005 (2004: \$0.78 million) and \$0.53 million for the first half of 2005 (2004: \$0.95 million).

Excluding the operating expenses for the Company's properties in Alberta that average 11% of gross revenue in both years, operating costs for the Field were 47% lower in first six months of 2005 as compared to 2004. The decrease can be attributed to the lower gas processing and transmission fees for the Field and the delay of facility turnaround until the third quarter of year.

General and Administrative Expenses

In 2005, general and administrative expenses for the three months ending June 30 were \$0.07 million (2004: \$0.10 million) and \$0.31 million for the six months ended June 30. (2004: \$0.22 million). The higher costs in the current year relate to the increased activity in Central and Southern Alberta.

<i>(\$ thousands)</i>	2005	2004
General & administrative expenses	656	\$ 440
Bad debt expense	–	150
Overhead recoveries	(344)	(371)
General & administrative expenses, net	312	\$ 219

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 \$0.12 million in the second quarter of 2005 (2004: \$0.05 million) and \$0.19 million for the first six months of 2005 (2004: \$0.09 million).

Interest Expense

Interest expense on the Company's promissory note and bank debt totaled \$0.03 million for the second quarter of 2005 (2004: \$0.02 million). The increase in the principal amount of the promissory note from \$0.5 million in 2004 to \$0.6 million in 2005 accounts for the difference. On a year to date basis, interest expense increased from \$0.31 million for 2004 to \$0.46 million for 2005.

Depletion and Depreciation

Questerre recognized \$0.34 million in depletion and depreciation in the second quarter of 2005 (2004: 0.86 million) and \$1.42 million for the first two quarters of the year (2004: \$6.1 million).

Included in 2005 depletion is \$1.2 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 undeveloped at June 30, 2005.

Taxes

Consistent with the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the second 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 June 30, 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 \$1.57 million (\$0.02/share) in the first six months of 2005 compared to \$6.4 million (\$0.15/share) for the corresponding period in 2004. The loss reflected the writedown of costs of \$1.2 million associated with the unsuccessful well at Simonette, Alberta.

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures

Questerre incurred capital expenditures of \$6.1 million in the first six months of 2005 compared to \$6.3 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 and the acquisition in Central Alberta.

Substantially all of the capital spending in 2004 related to drilling, completion and tie-in of the A-5 re-entry at the Field.

(\$thousands)	Six Months Ended March 31,	
	2005	2004
Capital Expenditures		
Beaver River Project, BC	146	6,198
St. Lawrence Lowlands, Quebec	8	55
Alberta Properties	5,963	1
Total	6,117	6,254

Working Capital

Questerre reported a working capital surplus of \$6.5 million at June 30, 2005. Current assets at June 30, 2005 consisted primarily of \$7.39 million in cash and deposits and \$0.33 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 \$1.29 million and \$0.19 million representing the term bank loan that has been classified as a current liability.

The Company does not anticipate it will need to raise additional equity capital to fund further planned drilling in Southern and Central Alberta for the remainder of this year.

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 June 30, 2005, there were no Class B common voting shares or preferred shares outstanding and there were a total of 99,876,904 Common Shares outstanding and 6,445,000 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 completed two equity placements during the second quarter. In April 2005, the Company completed a placement of 3,215,000 Common Shares at \$0.32 per Common Share for gross proceeds of \$1 million. In June 2005, the Company completed a placement of 30,000,000 Common Shares at \$0.33 per Common Share for gross proceeds of \$10 million. A cash commission of 7% of the gross proceeds was paid on this placement.

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 \$69,000.

The Company is responsible for principal payments on its bank loan in the amount of \$40,200 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 entered into an agreement with Rupert's to acquire its interest in certain producing properties and acreage in Central Alberta. See "Acquisition of producing properties in Central Alberta".

The Company entered into a definitive farmout agreement for the development of the Beaver River Field with Ampac. See "Farm-out agreement for Beaver River Field".

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 and its assets in Central Alberta is \$1.9 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 six months ended June 30, 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