The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared at, and is dated, May 10, 2006. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review first quarter 2006 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, 2006 and the audited consolidated financial statements for the year ended December 31, 2005.

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. Except as required by securities legislation, 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.

HIGHLIGHTS

- Participated in the drilling of 7 (3.5 net) wells with an 86% success rate
- Established Westlock as a new core area through an agreement to acquire a private company with production and exploration acreage
- Proved commercial production from the Mattson sands at the Beaver River Field
- Commenced seismic acquisition program in the St. Lawrence Lowlands with Talisman Energy
- Tripled production and revenue with positive cash flow from operations

DRILLING ACTIVITIES

The Company participated in the drilling of seven gross wells (3.5 net wells) resulting in five gas wells, one oil well and one unevaluated well for an 86% success rate.

Based on the results of its first quarter drilling program and the acquisition of Stride, the Company currently has over 500 boe of production on stream and 1,000 boe of production shut-in. The shut-in production is entirely in Vulcan.

BEAVER RIVER FIELD, BRITISH COLUMBIA

The first three wells of the work program targeting the shallow Mattson sands were completed during the quarter at the Beaver River Field (the "Field").

The first well, A-2, was successfully re-entered, completed and stimulated. The well was tied-in to the local gathering system in late March and is currently on production at 2 mmcf per day (333 boe per day) with stabilized flowing pressure. The re-entry of the second well, B-2, confirmed the integrity of the casing to the deeper Nahanni formation. This well will be preserved as a re-entry candidate for the Nahanni instead of the shallower Mattson. The Company has accepted the work completed by its farm-in partner on the B-2 well as satisfying the minimum work requirements for this well.

The third well, A-6, was fracture stimulated during the quarter. The well initially flowed natural gas at commercial rates, but after the fracture stimulation it flowed at lower than commercial rates. It is currently shut-in for an extended pressure buildup to support a detailed evaluation of the data and determine why the stimulation resulted in lower flow rates.

Planning for operations on the fourth well and the first option well are underway by the Company's farm-in partner in anticipation of a possible summer work program.

VULCAN, SOUTHERN ALBERTA

Questerre participated for a 50% interest in seven wells in Vulcan during the first quarter, with the majority targeting its Mannville G Pool.

Three wells were drilled for the Mannville G Pool and all three wells encountered commercial hydrocarbons. Two of the wells were completed, stimulated and tested and the third will be stimulated and tested after breakup. The two tested wells flowed natural gas at rates ranging from 360 boe per day to 600 boe per day.

The Company also drilled two additional wells targeting separate Mannville pools in the Vulcan area. The first well extended an existing Mannville pool and will be tied in during the second quarter. The second well was cased and will be completed and tested after spring breakup. This second well remains unevaluated at this time.

In addition to the primary Mannville horizon in Vulcan, the Company participated in the drilling of two additional wells targeting the shallower Horseshoe Canyon coal bed methane horizon. Both wells encountered the target horizon and have been cased as gas wells. The wells will be completed, stimulated and tested later this year.

On behalf of Questerre, the operator expects to submit its proposed production plan for the G Pool at the end of the second quarter to the Energy and Utilities Board ("EUB"). Subject to approval of this production plan, the Company anticipates production will commence during the third quarter on a restricted basis to enhance overall recovery from the Pool.

Based on the drilling results to date and a 3-D seismic interpretation, Questerre and its partner have identified up to 3 additional locations for natural gas and up to 10 additional locations for oil. Questerre expects to participate in drilling these locations during the remainder of 2006.

WESTLOCK, CENTRAL ALBERTA

Questerre participated in the tie-in of a 100% well in the Westlock area early in the first quarter of 2006. The well is currently on production at 38 boe per day.

Corporate Acquisition

In April 2006, Questerre acquired a private exploration and production company, Stride Energy Ltd., with exploration acreage and production in the Westlock area. The purchase price for this company, excluding any working capital adjustments, was $3 million and 7,262,742 Common Shares.

Based on an independent reservoir engineering report (the "Report"), the Stride assets have been assigned proved and probable reserves of 652,000 barrels of oil equivalent at December 31, 2005. Current production is approximately 227 boe per day comprised of 850 mcf per day of gas and 85 barrels per day of oil.

The Stride assets include over approximately 16,640 (8,320 net) acres of land adjacent to the Company's existing acreage in this area. Questerre believes this acreage is highly prospective and expects to commence drilling on these lands by the summer of 2006.

GASTEM INVESTMENT

In January 2006, Questerre acquired a 10% interest in Gastem Inc., a junior exploration and production company, by subscribing for 1.46 million units of Gastem at $0.10 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of Gastem at $0.10 per share for two years from the date of the placement. The current market value of this investment is $0.41 million.

Gastem currently holds a land position of over 500,000 acres in Quebec, primarily in the St. Lawrence Lowlands and the Gaspe Peninsula. Questerre has a 50% interest in 311,000 acres of this land position through a farm-in agreement with Gastem.

PRIVATE PLACEMENT

Questerre concluded a $7.2 million private placement in February 2006. A total of 11 million shares were issued at $0.65 per Common Share to institutional investors. The Company paid a cash commission of 5% of the gross proceeds from this placement.

first quarter 2006 financial results

PRODUCTION

The Company's production during the first quarter of 2006 was primarily natural gas from its properties in Central and Southern Alberta. During the same period in 2005, the majority of production was attributable to natural gas from the Beaver River Field (the "Field").

Questerre recorded daily average production of 292 boe per day during the first three months of 2006. Production was split 90% natural gas and 10% oil. Production for the corresponding period in 2005 was 97 boe per day of natural gas and associated natural gas liquids. The increase in daily production in 2006 is the result of Questerre's efforts in 2005 to acquire and develop a portfolio of conventional assets in Alberta.

For the first quarter of 2006, production from Alberta accounted for 94% of production as compared to 25% in 2005. Approximately 35% of production during this quarter is allocated to a single well in the Vulcan area. The well was subsequently shut in during the second quarter pending approval of a production plan for the Mannville G Pool.

The Beaver River Field accounted for just over 6% of the average daily production during the quarter as there were no wells on production for the majority of the quarter. On March 22, 2006, the A-2 well was placed on production at a rate of 2 mmcf per day. Questerre has a 50% interest in this well.

REVENUE

For the three months ended March 31, 2006, Questerre reported petroleum and natural gas revenue of $1.16 million. This compares to petroleum and natural gas revenue of $0.34 million for the same period in 2005. While realized prices for natural gas in both periods averaged approximately $7 per mcf, the higher revenue in 2006 is attributable to the greater production volumes during the quarter.

ROYALTIES

Questerre recorded royalty expense of $0.41 million for the first quarter of 2006 for an effective royalty rate of 35%. For the same period in 2005, the royalty rate was 20% on production from Alberta. The Company did not record any royalty expense on production from the Field in 2005. The comparatively higher royalty rate in 2006 reflects the overriding royalties payable on production in Vulcan.

Excluding crown royalties of $0.02 million on production from Alberta, royalty expense in 2005 represents a recovery of crown royalties of $0.14 million accrued on Field production in 2004. The recovery reflected the Company's qualification in early 2005 for a royalty credit in the amount of $0.75 million for the A-5 re-entry.

OPERATING COSTS

For the first quarter of 2006, operating expenses increased 125% to $0.46 million from $0.20 million in the previous year. Operating expenses of $0.25 million attributable to production in Alberta represent $10.20 on a boe basis. The remainder of the operating expenses for the first quarter relate to the Field and the activities supporting the winter work program. Due to fixed nature of operating costs at the Field, the Company expects these to remain relatively constant throughout the year.

GENERAL AND ADMINISTRATIVE EXPENSES

In 2006, Questerre recorded general and administrative expenses of $0.21 million ($8.09 per boe) for the first quarter. Consistent with its previous practice, the Company capitalized 5% of capital expenditures of $6.1 million during the quarter as overhead recovery. On a per unit basis, Questerre does not anticipate this amount will increase in the future as additional production is brought on stream.

($ thousands)	**2006**	2005
General & administrative expenses	**520**	254
Overhead recoveries	**(307)**	–
General & administrative expenses, net	**213**	254

STOCK BASED COMPENSATION

Questerre recorded stock based compensation expense of $0.30 million for the quarter ended March 31, 2006 (2005: $0.08 million). The expense relates to the options granted in prior years and during the quarter. As at March 31, 2006, Questerre had 10.22 million options outstanding at a weighted average fair value of $0.26 per option.

INTEREST EXPENSE AND INCOME

Interest expense on the Company's bank debt totaled $0.004 million for the first quarter of 2006 (2005: $0.02 million). In 2005, the Company paid interest on its existing bank debt as well as a $0.6 million promissory note outstanding that bore interest at 8% per annum. The promissory note was cancelled on the conversion of the note at $0.30 per Common Share in 2005.

The Company reported interest income of $0.18 million for the quarter (2005: $0.005 million). The interest earned reflects the higher cash balances held by the Company during the first quarter of 2006 as compared to the same period in 2005.

DEPLETION AND DEPRECIATION

Questerre recognized $0.58 million in depletion and depreciation in the first quarter of 2006 compared to $1.07 million in 2005. This translates to $22.12 per boe in 2006. Included in 2005 depletion is a $1.00 million writedown, representing the Company's share of drilling costs of an unsuccessful well in the Simonette area of Alberta.

Questerre does not include costs associated with its assets in the St. Lawrence Lowlands of Quebec nor seismic costs associated with the Field in the calculation of depletion or in costs subject to the ceiling test calculation. The Quebec assets remained unproved at March 31, 2006.

TAXES

Consistent with the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the first quarter of 2006 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, 2006, 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 $0.60 million ($0.01/share) in the first quarter of 2006 compared to a net loss of $1.16 million ($0.02/share) in the first quarter of 2005. The net loss in 2006 is primarily due to the non-cash expenses of depletion and stock based compensation expense that totaled $0.88 million. The loss for the corresponding period in 2005 reflected the writedown of costs associated with the unsuccessful well at Simonette, Alberta.

The Company reported positive cash flow from operations during the quarter of $0.29 million (2005: $0.01 million loss), reflecting the higher production volumes in 2006.

liquidity and capital resources

CAPITAL EXPENDITURES

Questerre incurred capital expenditures of $6.6 million in the first quarter of 2006 compared to $2.46 million in 2005. Approximately $6.2 million relates to drilling and completion activities in Southern and Central Alberta with over $4.2 million spent in Vulcan alone. $0.32 million was incurred in the tie-in of the A-2 well at the Field with the remainder incurred in Quebec.

In 2005, capital expenditures related to the costs of drilling and completion of wells in the Parkland, Vulcan and Simonette areas of Alberta.

WORKING CAPITAL

Questerre reported working capital of $10.3 million at March 31, 2006 as compared to $0.37 million for the corresponding period in 2005. Current assets at March 31, 2006 consisted primarily of $11.3 million in cash and $2.03 million in receivables. $1.1 million in receivables represents amounts due under the insurance claim for the Field. The balance primarily represents natural gas revenue from the Company's Alberta properties and the Field.

Questerre's current liabilities consisted of trade payables of $3.99 million and $0.13 million representing the term bank loan that has been classified as a current liability.

The improved working capital position at the end of the quarter reflects the proceeds from the private placement completed in February 2006 for gross proceeds of $7.15 million. Post the acquisition of Stride Energy, Questerre anticipates the majority of its current working capital will finance further activities in Vulcan and Westlock during the remainder of 2006.

Questerre believes that future capital commitments will continue to be financed by existing working capital, cash flow and equity placements.

SHARE CAPITAL

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

At March 31, 2006, there were no Class B common voting shares or preferred shares outstanding and there were a total of 124,014,594 Common Shares outstanding and 10,215,000 stock options outstanding.

The Company completed an equity placement during the quarter through the issuance of 11 million Common Shares at $0.65 per Common Share for gross proceeds of $7.15 million.

Subsequent to the end of the quarter, the Company issued 7,262,742 Common Shares in connection with the acquisition of Stride Energy Ltd.

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 2006 is $94,500. A total of $31,500 was paid in 2006 and 2005 under this agreement. The Company is responsible for principal payments on its bank loan in the amount of $60,300 for the remainder of 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.

control certification

Questerre has designed disclosure controls and procedures to provide reasonable assurance that material information related to Questerre is included in the Company's annual and interim filings.

business environment and risk

The business risks Questerre is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Questerre's operations. Geological and engineering risks, the uncertainty of discovering commercial quantities of reserves, commodity prices, access to capital, availability of equipment and personnel, competition and government regulations – all of these govern the business and influence the controls and management of the Company. These risks are managed by:

- Securing farm-in partners to mitigate the risks associated with developing its key properties;
- Attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company;
- Operating properties in order to identify and capitalize on opportunities;
- Maintaining a strong financial position; and
- Maintaining strict environmental, safety and health practices.

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, 2005. The following discussion outlines the accounting estimates that are critical to determining Questerre's financial results.

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. The following discussion outlines the accounting estimates that are critical to determining Questerre's financial results.

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 its assets is $2.73 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.