MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared at, and is dated, August 8, 2007. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review second quarter 2007 activities and results as compared to the same period in the prior year. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended June 30, 2007 and the audited consolidated financial statements for the year ended December 31, 2006.

This MD&A contains forward-looking statements. Management's assessment of future plans and operations, production estimates, drilling inventory and wells to be drilled, timing of drilling and tie in of wells, productive capacity of new wells, capital expenditures and the timing thereof, may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, the timing and length of plant turnarounds and the impact of such turnarounds and the timing thereof, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, the Company's actual results could differ materially from those expressed in, or implied by, the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this MD&A are made as at the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

This document contains the terms "funds generated from operations" and "netbacks" which are non-GAAP terms. The Company uses these measures to help evaluate its performance. The Company considers netbacks a key measure as it demonstrates its profitability relative to current commodity prices. The Company considers funds generated from operations a key measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds generated from operations should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Questerre's performance. Questerre's determination of funds generated from operations may not be comparable to that reported by other companies. The reconciliation between net income and funds generated from operations can be found in the consolidated statements of cash flows in the consolidated financial statements.

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.

Item	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	**2007**	2006
Financial ($)				
Petroleum and natural gas sales	**6,555,860**	2,158,396	**14,058,296**	3,318,993
Funds generated from operations	**3,183,088**	1,083,075	**6,229,817**	1,330,063
Per Share – Basic	**0.021**	0.008	**0.040**	0.011
Per Share – Diluted	**0.020**	0.008	**0.038**	0.010
Net Earnings (loss)	**980,543**	2,842,727	**1,774,445**	2,242,745
Per Share – Basic	**0.006**	0.022	**0.011**	0.018
Per Share – Diluted	**0.006**	0.021	**0.011**	0.018
Capital Expenditures (including acquisitions)	**3,297,067**	10,345,506	**10,460,246**	16,896,564
Working Capital	**29,911,344**	13,092,540	**29,911,344**	13,092,540
Total Assets	**80,758,475**	52,606,238	**80,758,475**	52,606,238
Shareholders' Equity	**62,412,993**	44,077,413	**62,412,993**	44,077,413
Weighted Average Common Shares Outstanding				
Basic	**155,198,536**	129,681,964	**155,194,720**	123,642,940
Diluted	**161,897,966**	133,483,848	**162,174,451**	127,691,278
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**168**	87	**189**	58
Natural Gas (mcf/d)	**7,650**	3,286	**8,297**	2,443
Total (boe/d)	**1,443**	635	**1,572**	464
Average Sales Price				
Crude Oil and Natural Gas Liquids (C$/bbl)	**65.69**	67.08	**64.99**	67.08
Natural Gas (C$/mcf)	**7.96**	5.35	**7.86**	5.90
Total ($/boe)	**49.83**	36.86	**49.30**	39.25
Netback ($/boe)				
Total Revenue	**49.91**	37.39	**49.41**	39.45
Royalties	**10.61**	7.29	**12.11**	9.83
Percent	**21.26**	19.50	**24.51**	24.92
Field Operating Expense	**11.19**	9.06	**11.09**	11.71
Operating Netback	**28.11**	21.04	**26.21**	17.91
Net Cash G&A	**4.52**	4.27	**4.97**	5.46
Cash Netback	**23.59**	16.77	**21.24**	12.45
Wells Drilled				
Gross	**2.0**	6.0	**10.0**	13.0
Net	**0.98**	3.21	**6.49**	6.71

HIGHLIGHTS

- Quarterly cash flow from operations increased to $3.18 million from $1.08 million in 2006
- Average daily production for the quarter increased 127% to 1,443 boe/d from 635 boe/d in 2006
- $10 million received from Transeuro to complete earn-in obligations at the Beaver River Field
- Talisman commits to follow-on exploration in the St. Lawrence Lowlands
- Two wells drilled to test shale gas play on the Yamaska permits in the Lowlands

SECOND QUARTER 2007 ACTIVITIES

Beaver River Field, British Columbia

During spring breakup, Questerre focused on the planning for the upcoming summer work program at the Beaver River Field (the "Field").

The work program will involve evaluation of the shallow Mattson horizon with the completion and testing of the A-7 and B-3 wells and the spud of a new well, A-8, to test multiple horizons, particularly the deep Nahanni horizon.

The A-7 and B-3 wells were drilled in late 2006 and early 2007 respectively to appraise and delineate the A-2 discovery well. Production from the Mattson for the A-2 well averaged approximately 3.2 mmcf/d (533 boe/d) for the quarter. While neither well has access to the producing Mattson interval in the A-2 well, analysis of the drilling logs identified other prospective intervals in both wells.

In conjunction with its partner, Transeuro Energy Corp. ("Transeuro"), Questerre proposes to utilize two different stimulation techniques — a nitrogen-energized gelled water and an emulsified CO_2 — to determine which is more effective for this horizon. To assist in the evaluation of the Mattson, the partners have engaged Netherland Sewell & Associates Inc. ("Netherland Sewell") to prepare an independent report on the Mattson resource potential at the Field. Netherland Sewell is a Houston-based reservoir-engineering firm with extensive experience evaluating shale gas and other unconventional reservoirs.

The A-8 well will target a structurally high undrilled Nahanni fault block identified on the reprocessed 3-D seismic survey. In addition to the primary Nahanni target, the well has been designed to test three additional zones of interest including the Mattson, Mississippian fractured carbonate and the Devonian shale. Lease construction commenced early in the middle of the third quarter and the well is scheduled to spud this August.

In April 2007, Questerre received a cash payment of $10 million from Transeuro to complete its earn-in obligations at the Field. In consideration of this payment, Transeuro was released from its obligations to drill additional wells at its sole cost. Upon receipt of this payment, Questerre and Transeuro each hold a 50% interest in all producing and prospective horizons in the Field and the associated infrastructure.

St. Lawrence Lowlands, Quebec

In June 2007, Talisman Energy Inc. ("Talisman") elected to exercise its option to conduct additional exploration work on Questerre's acreage in the St. Lawrence Lowlands. Subject to Talisman completing its earning on the remaining acreage, Questerre will hold a net 21.25% working interest in addition to a gross overriding royalty ("GORR") on any production from Talisman.

Talisman has committed to acquiring an additional 2-D seismic survey. The seismic program will assist in evaluating and determining future exploration drilling locations on the remaining unearned land. The seismic acquisition program is scheduled to begin in the fall, subject to surface access, regulatory approval and equipment availability.

Talisman's election follows the further testing of the discovery well, Gentilly #1, in the second quarter. The well is now shut-in after the testing of several intervals within the Trenton Black-River formation. During the primary three-day clean-up period, the well initially flowed at rates between 4.5 mmcf/d and 9.5 mmcf/d. However, during additional testing, the final gas flow rates declined into the range of 340 mcf/d to 630 mcf/d with associated water inflows ranging from 5 bbls/d to 344 bbls/d. Lower rates of water production were noted in the uppermost tested interval.

Given the test results to date and the high costs associated with the long tie-in to the existing pipeline and distribution system, the Gentilly #1 well will be suspended, contingent on future area appraisal and development. The commerciality of the Gentilly area will require additional successful wells to warrant the necessary capital investment in equipment and infrastructure.

Towards the end of the quarter, Questerre's partner, Gastem Inc. ("Gastem"), spud two wells on the jointly held Yamaska licenses in the Lowlands. These licenses cover over 100,000 acres and lie adjacent to Questerre's farmout lands with Talisman. Questerre holds a 7.5% GORR convertible into a 20% working interest in these licenses.

The St. Francois du Lac No. 1 and St. Louis de Richelieu wells were drilled to evaluate the fractured Utica shale sequence. Both wells were completed on schedule and budget to a target depth of approximately 1700m. Gastem is presently evaluating the data gathered from these wells and plans to complete and test them later this year.

Gastem has entered into a farm-in agreement with a major US independent for these licenses. The agreement allows its partner to evaluate these wells, including testing and fracture stimulation of the Utica shales. The partner may commit to further exploration work of up to $10 million to earn a 60% working interest in these permits.

Southern and Central Alberta

In its core area of Vulcan, Southern Alberta, Questerre participated in the drilling of one (0.33 net) well in May 2007. The well is the second drilled under a recent participation and farm-in agreement with two industry partners. The partners elected to drill a third well in the third quarter and have an option to drill one additional well.

The first two wells were drilled for new Mannville exploration targets adjacent to Questerre's existing Mannville G Pool and tested early in the third quarter. One well flowed at 340 boe/d on an 18/64" choke during the last 24 hours of a three-day flow test. The second well flowed at 80 boe/d on a 24/64" choke during the last 24 hours of a three-day flow test. Questerre and its partners are evaluating tie-in options to the local gathering system for these wells.

The Company drilled one (0.65 net) well in the Westlock area targeting a new Mannville exploration play. As of the date of this report, testing of this well is underway.

DRILLING ACTIVITIES

For the second quarter of 2007, the Company participated in the drilling and testing of two (0.98 net) wells resulting in one (0.33 net) gas well and one (0.65 net) unevaluated well for a 50% success rate.

PRODUCTION

Questerre's daily production averaged 1,443 boe/d during the second quarter of 2007 and 1,572 boe/d for the first six months of the year. This represents a 127% increase over production of 635 boe/d for the three months ended June 30, 2006 and 238% increase over production of 464 boe/d for the six months ended June 30, 2006. In comparison to average daily production of 1,702 boe/d in the first quarter of 2007, production in the second quarter decreased 15%.

The decrease in production over the preceding quarter is due to natural declines as well as power outages and capacity constraints. In Vulcan, approximately 20 boe/d of oil production over the quarter was shut in due to a power outage and pressure survey of the oil pool. At the Field, higher than expected line pressure in the Spectra Energy pipeline and the absence of boost compression has resulted in lower production than expected from the A-2 well.

The Company's assets in Vulcan represent the majority of Questerre's production in 2007. During the second quarter of 2007, Vulcan accounted for 917 boe/d or approximately 64% of the average daily production. By comparison in 2006, Vulcan contributed 211 boe/d or 33% of the Company's average daily production. Vulcan production increased dramatically in 2007 when the Company received approval from the Alberta Energy and Utilities Board for its Good Production Practice ("GPP") plan for the Mannville G Pool. Production from the Company's other assets in Alberta, grew to 259 boe/d in the second quarter of 2007 from 196 boe/d for the same period in 2006. Due to the higher production from Vulcan, this production only contributes 18% of total volumes in 2007 as compared to 31% in 2006.

Production from the Beaver River Field is attributable in its entirety to the A-2 well. The A-2 well was an Amoco well that was recompleted by Transeuro in 2005 and placed on production at the end of the first quarter of 2006. Cumulative production from the A-2 well from the Mattson is approximately 1.5 Bcf. During the second quarter of 2007, production from the Field averaged 267 boe/d or just under 20% of daily production. For the same period in 2006, production from this well averaged 185 boe/d or 29% of daily production.

The Company's gas weighting remained at 88% for the first half of 2007 and increased slightly from 86% during the first half of 2006. Excluding 48 boe/d of 25° API oil production from the Grand Forks area, Questerre's oil production is light oil and associated natural gas liquids from the Vulcan area.

Questerre anticipates the successful wells in Vulcan will be tied-in and placed on production early in the fourth quarter. Subject to the test results from the A-7 and B-3 wells at the Field, Questerre expects these will be tied-in to the local gathering system later this year.

SECOND QUARTER 2007 FINANCIAL RESULTS

Revenue

For the three months ended June 30, 2007, Questerre reported petroleum and natural gas revenue of $6.55 million. This compares to petroleum and natural gas revenue of $2.16 million for the same period in 2006 and $7.5 million for the preceding period in 2007.

Increased natural gas production during the second quarter of 2007 benefited from higher prices than prices during the same period in 2006. By comparison to the prior period in 2007, decreased gas production in the second quarter was, by and large, offset by marginally higher realized prices.

Index natural gas prices over the second quarter of 2007 averaged $7.02/mcf and declined approximately 14% during the quarter. The decline reflects the record storage levels and the increased US gas production that appears to have compensated for any declines in Canadian gas production. Questerre realized natural gas prices of $7.96/mcf during the quarter (2006: $5.35/mcf), primarily reflecting the higher heat content of its gas production from Vulcan.

Conversely, oil prices remained relatively buoyant during the quarter and the Edmonton Light reference price averaged $71.87/barrel and increased by 3%. The pricing reflects perceived threats to international supply and the limited excess supply capacity. On average, Questerre realized prices of $65.69/barrel during the quarter (2006: $67.08). The realized pricing mainly reflects the premium for its Vulcan oil production offset by the discount for the Company's heavier oil production from the Grand Forks area.

Questerre does not utilize any hedging or fixed price contracts on its production.

Royalties

Questerre recorded royalty expense of $1.39 million for the second quarter (2006: 0.42 million) and $3.45 million for the six months ended June 30, 2007 (2006: $0.83 million).

This resulted in an effective royalty rate as a percentage of revenue of 21.26% (2006: 19.50%) and 24.51% for the year to date (2006: 24.92%). This rate is lower than the 27.36% realized in the first quarter of 2007 mainly due to a one-time adjustment for crown royalty credits for 2006 operating costs in Alberta recorded in the second quarter of 2007.

In the second quarter of 2007, royalties on Field production increased marginally to 18.5% from 17.66% in the first quarter. For the second quarter of 2006, the Company qualified for a $0.1 million summer drilling royalty credit, resulting in minimal royalties payable. Questerre expects its royalty rate on Field production to increase in 2008 as new wells will attract a higher base rate.

Operating Costs

For the quarter ended June 30, 2007 operating expenses increased to $1.47 million from $0.52 million for the same period in 2006. By comparison, operating expenses for the quarter ended March 31, 2007 were $1.69 million.

Operating expenses for the Company's Alberta production totaled $1.03 million in the second quarter of 2007 (2006: $0.35 million). On a boe basis, this equates to $9.61 or a decrease of 12% from $10.94 in 2006 and on par with $9.88 per boe in the first three months of 2007.

Consistent with the increased volumes and activity at the Field, operating expenses for the second quarter of 2007 were $0.44 million, unchanged from $0.45 million in the first quarter. By comparison, the lower production volumes and operations during the second quarter of 2006 resulted in lower operating costs of $0.17 million. Excluding transportation and processing charges of approximately $6.30/boe, Questerre expects net fixed Field operating expenses to average $0.1 million per month for the remainder of the year.

General & Administrative Expenses

In 2007, Questerre recorded general and administrative expenses ("G&A") of $0.59 million, net of capitalized overhead and bad debt expense for the quarter (2006: $0.25 million) and $1.42 million for the year to date (2006: $0.46 million). Despite the higher production volumes, the higher gross expenses due to increased staffing in 2007 saw G&A expenses per boe for the second quarter increase to $4.52 from $4.27 in 2006, but decrease on a quarter over quarter basis from $5.36 in the first quarter of 2007.

For the six months ended June 30, 2007, Questerre continued to capitalize overhead expenses equal to 5% of its capital expenditures for the year, up to a maximum of 50% of gross general and administrative expenses.

($ thousands)	**2007**	2006
General & administrative expenses	**1,702**	996
Bad debt expense	**200**	–
Overhead capitalization	**(487)**	(537)
General & administrative expenses, net	**1,415**	459

Stock Based Compensation

Questerre recorded stock based compensation expense of $0.36 million for the quarter ended June 30, 2007 (2006: $0.30 million), an increase of 10% from the prior quarter of $0.33 million. The expense relates to the options granted in prior years and during the quarter. As at June 30, 2007, Questerre had 12.95 million options outstanding at a weighted average exercise price of $0.60 per option.

Other Income and Expenses

Questerre realized a gain on the disposition of marketable securities of $0.21 million during the quarter (2006: ($0.01 million)) and $0.55 million for the first half of 2007 (2006: ($0.02 million)). The Company's marketable securities portfolio represents investments in junior exploration and production companies.

In accordance with the new accounting guidelines, the Company has classified these securities as held for trading and marks these securities to market value every quarter. This 'mark to market' adjustment is recorded as an unrealized gain or loss on the income statement. At June 30, 2007, the Company held marketable securities with a market value of $2.79 million (2006: $0.34 million).

The results for the six months include an adjustment to the valuation of share purchase warrants included in the marketable securities portfolio that relates to the opening transition reflecting new accounting policies adopted in 2007 (See Note 2 to Financial Statements) and the results of the first quarter of 2007. Based on the difference between a Black-Scholes pricing model now being used and a valuation used by the Company in the first quarter, the Company increased its unrealized gains on marketable securities for the three months ended March 31, 2007 by $313,936 and the opening deficit for the change in accounting policies by $75,961.

The payment of $10 million received from Transeuro to complete its earn-in obligations was classified as proceeds on the sale of a portion of the Company's interest in the Field. Utilizing a cost base of $8.50 million, Questerre realized a gain of $1.50 million in the second quarter of 2007 for this transaction.

Depletion, Depreciation and Accretion

Questerre recognized $2.53 million in depletion and depreciation for the three months ended June 30, 2007 (2006: $0.82 million) and $5.87 million for the first six months of 2007 (2006: $1.40 million). On a boe basis, year to date depletion increased by 24% to $20.61 from $16.60 in 2006. The increase reflects the higher depletable base of the Company due to the capital spending over the last eighteen months, offset by the credit for the cost of the Beaver River assets sold to Transeuro. Quarter over quarter, the depletion rate in the second quarter of 2007 of $19.23/boe was approximately 12% lower than the rate in the first quarter of $21.80/boe.

Questerre does not include costs of $12.68 million (2006: 4.78 million) relating to unproved properties in the calculation of depletion or in costs subject to the ceiling test calculation. During the quarter, the Company incurred expenditures of $2.99 million on drilling, land acquisition and seismic relating to unproved properties.

The Company estimates its total undiscounted future liability for asset retirement obligations to be approximately $4.49 million, with a present value of $3.80 million at June 30, 2007. Accretion of asset retirement obligations in the second quarter was unchanged from the first at $0.03 million.

Taxes

Consistent with the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the second quarter of 2007 resulting in no current income taxes payable for the quarter. In addition, the Company's tax assets exceed tax liabilities. No tax asset is recognized at June 30, 2007 as there is a very low probability that the Company will be able to realize the value of the tax assets in the future.

Net Earnings and Cash Flow

Questerre recorded net earnings of $1.77 million ($0.01/share) for the first half of 2007 compared to $2.24 million ($0.02/share) in 2006. The net gain in 2007 represents the gain on the sale of a portion of its working interest in the Field to Transeuro. In 2006, the earnings represents a future tax recovery to offset the deferred tax liability associated with a flow-through share issuance renounced that year.

Excluding these non recurring amounts, Questerre had earnings of $0.27 million for the six months ended June 30, 2007 and a loss of $0.66 million for the same period in 2006.

Funds generated from operations for the three months ended June 30, 2007 were $3.18 million, a minor improvement over the preceding quarter of $3.05 million and a significant improvement over $1.08 million for the second quarter of 2006. The improved cash flow can be attributed to higher daily production volumes and improved natural gas prices.

CAPITAL EXPENDITURES

Questerre incurred capital expenditures of $10.46 million in the first half of 2007 compared to $16.90 million in 2006. Approximately $5.11 million was incurred in British Columbia for the drilling of the B-3 well with $4.68 million incurred in Central and Southern Alberta and the balance in Quebec.

($ thousands)	**2007**	2006
Capital Expenditures		
Central and Southern Alberta	**4,675**	16,705
Beaver River Field, British Columbia	**5,113**	149
St. Lawrence Lowlands, Quebec	**672**	42
Total	**10,460**	16,896

Capital expenditures of $16.90 million in 2006 related mainly to the active drilling programs in Vulcan and Westlock and the acquisition of Stride.

CAPITALIZATION AND FINANCIAL RESOURCES

Questerre reported a working capital surplus of $29.91 million at June 30, 2007 as compared to $22.70 million at December 31, 2006. Current assets at June 30, 2007 consisted primarily of $35.54 million in cash and $5.39 million in receivables. Questerre's current liabilities consisted mainly of trade payables and cash calls payable of $14.45 million. The cash and equivalents at the end of the quarter includes the $10 million payment by Transeuro and an additional $7.7 million cash call from Transeuro for the Nahanni well.

Questerre believes that its capital expenditure program for the remainder of this year of approximately $24 million will continue to be financed by existing working capital and cash flow.

In August 2007, the Company entered into an agreement with a Canadian chartered bank for a $7.50 million credit facility. The credit facility bears interest at the bank's prime rate plus 0.50% and is payable on demand. The assets of the Company are pledged as security for the facility under a general security agreement.

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, 2007 and August 9, 2007, there were no Class B common voting shares or preferred shares outstanding and there were a total of 155,207,583 Common Shares outstanding and 12,946,253 stock options outstanding.

The Company issued 15,833 Common Shares during the quarter on the exercise of stock options by a former employee at an average exercise price of $0.25 per share.

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 2007 is $63,000. A total of $63,000 was paid in 2007 and 2006 under this agreement.

The Company is obligated to make total payments under another operating lease of $57,906 for the remainder of 2007 and $115,812 in each of the following years: 2008, 2009 and 2010.

In June 2006, the Company completed a private placement of 9,709,000 common shares issued on a flow-through basis at $1.03 per share for gross proceeds of $10 million. The flow-through shares require the Company to incur qualifying Canadian Exploration Expenses ("CEE") by December 31, 2007. As at June 30, 2007, the Company had spent approximately $9.82 million on CEE and had a remaining commitment of $0.18 million.

In June 2006, the Company entered into a farm-in agreement with a major independent oil and gas company (the "Farmor") in Central Alberta. The Company has an obligation to drill five wells and will pay the Farmor $0.1 million for each well it does not drill. As at June 30, 2007, the Company drilled four wells under the agreement and paid the Farmor $0.1 million for the last well. The Company has no further financial obligations under this agreement.

OFF-BALANCE SHEET ARRANGEMENTS

Questerre has no off-balance sheet arrangements.

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, 2006.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") section 3855, "Financial Instruments – Recognition and Measurement," section 3865, "Hedges," section 1530, "Comprehensive Income" and section 3861, "Financial Instruments – Disclosure and Presentation." These standards have been adopted retroactively without restatement. For a discussion of the change in accounting policies, refer to Note 2 to the Consolidated Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as at June 30, 2007 that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company is made known. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated can provide only reasonable, not absolute, assurance that objectives of the control system are met.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are able to certify the design of the Corporation's internal controls over financial reporting, but have identified the following weaknesses in the design of these internal controls.

As a small company, there is a potential for a lack of segregation of duties that may lead to inaccuracies in financial reporting. The Company has engaged knowledgeable and competent accounting staff to ensure quality financial reporting.

The Company endeavors to have written contracts in place with all its major vendors. Due to the nature of the oil and gas industry it may not be possible to do so in most cases. This increases the potential for a misunderstanding between the Company and these vendors with regards to their respective responsibilities, the goods and services to be provided, and the terms and conditions of the agreement. As a result, the cost estimates and accruals may potentially be misstated.

The Company is in the process of documenting its business processes and procedures. In 2007, Questerre expects to begin implementing policies and procedures that Management believes will provide additional comfort regarding the reliability of the Company's financial reporting for both internal and external purposes.

Notwithstanding these weaknesses, based on the Company's mitigating procedures, the Chief Executive Officer and Chief Financial Officer have satisfied themselves that these weaknesses have not resulted in material errors on the financial statements.

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.