

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, November 7, 2007. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review third 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 nine months ended September 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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Financial (\$)				
Petroleum and natural gas sales	4,339,265	3,974,412	18,397,561	7,293,405
Funds generated from operations	2,414,613	1,676,537	8,644,430	3,006,601
Per Share – Basic	0.016	0.012	0.056	0.023
Per Share – Diluted	0.015	0.012	0.053	0.022
Net Earnings (loss)	(676,499)	(1,954,289)	1,097,946	288,456
Per Share – Basic	(0.004)	(0.014)	0.007	0.002
Per Share – Diluted	(0.004)	(0.014)	0.007	0.002
Capital Expenditures (including acquisitions)	5,646,625	6,073,406	16,106,871	22,969,970
Working Capital	26,476,203	8,740,261	26,476,203	8,740,261
Total Assets	77,241,283	50,327,193	77,241,283	59,327,193
Shareholders' Equity	62,100,834	42,418,992	62,100,834	42,418,992
Weighted Average Common Shares Outstanding				
Basic	155,211,741	141,116,660	155,200,456	129,531,520
Diluted	160,919,586	145,333,504	161,983,726	133,654,510

Operations (units as noted)

Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	145	190	174	102
Natural Gas (mcf/d)	6,369	5,085	7,647	3,321
Total (boe/d)	1,206	1,037	1,449	655
Average Sales Price				
Crude Oil and Natural Gas Liquids (C\$/bbl)	71.93	73.28	66.93	66.83
Natural Gas (C\$/mcf)	5.70	6.24	7.25	5.97
Total (\$/boe)	38.74	41.66	46.33	40.79
Netback (\$/boe)				
Total Revenue	39.11	41.66	46.52	40.79
Royalties	9.51	12.52	11.38	11.30
Percent	24.31	30.04	24.46	27.71
Field Operating Expense	12.21	8.52	11.41	10.05
Operating Netback	17.39	20.62	23.73	19.44
Net Cash G&A	2.46	3.08	4.27	4.20
Cash Netback	14.93	17.54	19.46	15.24
Wells Drilled				
Gross	1.0	5.0	11.0	18.0
Net	0.33	2.7	6.82	9.41

HIGHLIGHTS

- Concluded agreement to acquire a light oil resource-style play through the purchase of Magnus Energy Inc.
- Spud A-8 Nahanni well at Beaver River Field
- Completed and tested the A-7 and B-3 wells for the Mattson horizon
- Quarterly cash flow from operations increased to \$2.41 million from \$1.68 million in 2006
- Average daily production for the quarter increased 16% to 1,206 boe/d from 1,037 boe/d in 2006

THIRD QUARTER 2007 ACTIVITIES

Acquisition of Magnus Energy Inc.

During the third quarter, Questerre concluded an agreement to acquire Magnus Energy Inc. (“Magnus”), a junior exploration and production company. The acquisition closed on November 1, 2007.

Magnus’ principal asset is a 50% interest in over 80 square miles of land in the Antler area of southeast Saskatchewan. The acreage is prospective for light oil in the Bakken/Torquay formation at a depth of 1100m. It is proximate to the productive Sinclair and Daly fields in Manitoba where production from the Bakken is significant. Magnus’ other assets include current production of just over 120 boe/d, proved and probable reserves of 0.8 mmoeb and tax pools over \$25 million.

Questerre expects to participate in four wells in the Antler area prior to year-end with an active development and exploration program planned for 2008. The Company is evaluating the benefits of long-reach horizontal wells and selective fracture stimulation techniques to improve recoveries.

At the end of October, the transaction received the approval of over 90% of the voting Magnus shareholders and the Court of Queen’s Bench of Alberta. Magnus shareholders received 7,840,804 Shares representing 0.015316 of a Questerre share for each Magnus Class A share. Each Magnus Class B share was exchanged for 10 Magnus Class A shares prior to the exchange of Magnus Class A shares for Questerre shares. Upon closing, Magnus became a wholly owned subsidiary of Questerre.

Total consideration was \$6.7 million in net cash, the assumption of a working capital deficit of \$1.6 million and the issuance of 10.09 million shares at a deemed price of \$1.02 per Questerre share. Included in the consideration is the satisfaction of Magnus’ secured debt of \$17.4 million through a cash payment of \$15.4 million and the issuance of 2.25 million Questerre shares.

Questerre has also acquired Magnus’ obligation to incur flow-through expenditures of \$6.2 million by December 31, 2007 and \$3 million by December 31, 2008. Pursuant to a farm-in agreement between Magnus and Questerre’s wholly owned subsidiary, Questerre expects to satisfy the majority of the 2007 flow-through commitments through the A-8 drilling operation.

Beaver River Field, British Columbia

Questerre commenced a comprehensive work program at the Beaver River Field (“Beaver River”) in the third quarter of 2007.

The first phase involved the completion and testing of several intervals in the B-3 and A-7 wells for potential production from the Mattson horizon. The two wells were drilled in late 2006 and early 2007 to appraise the A-2 Mattson discovery well. Production from A-2 averaged 2.44 mmcf/d during the third quarter of 2007.

The Mattson is a 600-800m thick horizon of interbedded sandstone, siltstone and shale at a depth of approximately 1300 m. A preliminary assessment by Netherland Sewell & Associates Inc., an independent reservoir consultancy, indicates that the discovered resource for the Mattson shale interval is estimated at 495 Bcf – 750 Bcf per square mile. The assessment also indicates that development should initially focus on areas where pervasive natural fracturing and sand intervals are likely to enhance deliverability.

Questerre and its partner Transeuro evaluated three different fracture stimulation techniques to maximize recovery from the Mattson – nitrogen-based, CO₂-based and slick-water. The slick-water stimulation was most successful on the lower of two Mattson intervals in the A-7 well with initial flow rates of over 1.8 mmcf/d. The two nitrogen-based stimulations were least effective with no commercial flows of natural gas. The initial flow rates on the three CO₂ based stimulations ranged from 100 mcf/d to 1.8 mmcf/d. Further work is required to determine to what extent the stimulation design versus the nature of the interval stimulated influences the ultimate flow rates.

The A-7 well was drilled into a naturally fractured section of the Mattson. While the well was only cased to the upper Mattson, Management believes the open fracture system encountered by the well contributed to commercial flow rates in this upper interval. Based on the completion results, the tie-in to the gathering system was finalized in early October. The well is currently producing nearly 0.8 mmcf/d.

The B-3 well was not drilled in a fault block with an open fracture system. Despite several gas shows during drilling, the test results of 300 mcf/d were less than Management's expectations. Subject to further analysis and the results from the A-8 well, Questerre proposes to re-enter the B-3 well and target an adjacent fractured fault block where there was a 12 mmcf/d drill stem test by Amoco in the 1960s.

The second phase involves the drilling of the A-8 well to further assess the deeper Nahanni formation.

The Nahanni is a hydrothermally dolomitized sequence at a depth of approximately 3200m and gross pay thickness of 1,000m. Cumulative production is over 180 Bcf with an estimated 120 Bcf in possible reserves and a contingent resource of 540 Bcf. Improved recovery from the Nahanni is contingent upon identifying and proving new compartments.

Notwithstanding inclement weather, rig mobilization was completed on schedule in early August and the well spud on August 8, 2007. The primary target for the well is a structurally high undrilled Nahanni fault block. The well will also assess three shallower horizons including the Mattson, Mississippian Prophet and Besa River shales.

As of early November, the well is drilling at a depth of 2,900m and is on target to be completed prior to year-end.

St. Lawrence Lowlands, Quebec

Questerre's exploration activities in the Lowlands involved processing and interpreting seismic and aeromagnetic data.

In conjunction with its partner, Talisman Energy Inc. ("Talisman") the reprocessing of seismic data over two Questerre prospects assisted in outlining a 2-D seismic survey. Field work for this survey commenced early in the fourth quarter. Subject to weather and surface access, Talisman expects the data acquisition to be completed by the end of November.

The early interpretation of the high resolution aeromagnetic acquired over the St. Jean permits to the south supports Questerre's grassroots exploration concepts about this acreage. The acreage appears prospective for the Trenton-Black River at much shallower depths. Additional technical work is underway, including further processing and interpretation of seismic in this area to firm up a potential drilling location.

Southern and Central Alberta

In Vulcan, Southern Alberta, the Company was unable to commence the tie-in of two recently drilled wells due to capacity constraints in the gathering system. Current plans are to tie-in the wells to an alternate gathering system about six miles away. This work will commence in the fourth quarter and the wells are scheduled to be on production early in 2008. Questerre has identified at least three follow-on locations and expects to commence drilling early in the first quarter of next year.

Questerre participated in the drilling of the third well (0.33 net) under a recent participation and farm-in agreement with two industry partners. The well did not encounter commercial hydrocarbons and was plugged and abandoned. The partners have an option to drill one additional well under this agreement.

DRILLING ACTIVITIES

For the third quarter of 2007, the Company participated in the drilling and testing of one gross well (0.33 net) which was dry and abandoned.

PRODUCTION

Production for the third quarter of 2007 averaged 1,206 boe/d and for the nine months ended September 30, it averaged 1,449 boe/d. This equates to an increase of 16% over production of 1,037 boe/d for the third quarter of 2006 and a 121% increase over production of 655 boe/d for the first three quarters of 2006. By comparison, production in the second quarter was 1,443 boe/d or 16% higher.

The decrease in the Company's production of around 240 boe/d from the second quarter can be attributed to 200 boe/d in Alberta and 40 boe/d at Beaver River. Alberta production decreases of 200 boe/d were due to natural declines and fluctuating production from the Vulcan oil and gas pools. Vulcan production was negatively impacted by processing plant shutdowns and transient pressure studies.

The Company is in discussions with the operator at Vulcan to optimize and stabilize production. Production from the A-2 well at Beaver River declined due to higher than expected line pressure. Questerre is assessing wellhead compression to improve productivity.

Consistent with the prior quarters, Vulcan accounted for the majority of the Company's production in the third quarter. Vulcan represented 724 boe/d or around 60% of average daily production. For the same period in 2006, Vulcan accounted for 457 boe/d or 44% of Questerre's daily production. Production from the Company's other assets in Alberta accounted for 278 boe/d in the quarter as compared to 300 boe/d for the same period in 2006. The 7% decrease reflects natural declines and unsuccessful drilling results from the Westlock area in 2007.

For the first nine months of 2007, A-2 was the sole producing well at Beaver River. Production for the three months ended September 30, 2007 averaged 204 boe/d net to Questerre down 27% from 280 boe/d during the same period in 2006. While a portion of this decrease is attributable to the expected production profile of the well, Questerre anticipates production will improve with the installation of wellhead compression in early 2008.

Year to date, Questerre's production mix was 88% natural gas with 12% oil and natural gas liquids. The gas weighting increased marginally from 84% in 2006. Subject to the results of drilling in the Antler area during the fourth quarter, Questerre expects its oil weighting to increase to just under 20% by year-end.

The Company's production for the third quarter is close to 600 boe/d less than originally expected. Unsuccessful results from the B-3 well and the delays in drilling development wells in the Vulcan oil pool each account for roughly half this difference. Additionally, the Company did not spend \$10 million in capital and consequently did not add an estimated 500 boe/d in production. The Company has since used these funds to finance the acquisition of Magnus.

Due to delays in closing the Magnus acquisition, Questerre expects the development of the Antler assets will contribute to increased production in 2008 instead of 2007. For the remainder of this year, Questerre plans to drill the first horizontal well into the Vulcan oil pool this November. It also plans to participate in drilling four horizontal wells at Antler.

THIRD QUARTER 2007 FINANCIAL RESULTS

Revenue

For the three months ended September 30, 2007, Questerre reported petroleum and natural gas revenue of \$4.34 million. This compares to petroleum and natural gas revenue of \$3.97 million for the same period in 2006 and \$6.56 million for the preceding period in 2007.

Marginally higher natural gas volumes offset the lower realized prices in the third quarter of 2007 and resulted in a 9% increase in gross revenue compared to 2006. By comparison to the second quarter of 2007, the 16% decrease in production in the third quarter was compounded by a 21% decline in prices resulting in a 33% decrease in gross revenue.

Index natural gas prices over the third quarter of 2007 averaged \$5.16/mcf and declined nearly 23% during the quarter. The decline reflects the lower than expected hurricane activity, and decreased demand for Canadian production resulting in higher storage levels. Questerre does not expect natural gas prices to improve for the remainder of the year unless storage levels decrease significantly. Questerre realized natural gas prices of \$5.70/mcf during the quarter (2006: \$6.24/mcf), primarily reflecting the higher heat content of its gas production from Vulcan.

Oil prices were relatively stable during the quarter and the reference Edmonton Light price averaged \$79.84/barrel, increasing by 11% over the preceding quarter. Despite an increase in the benchmark WTI price, the strengthening Canadian dollar offset much of this increase. Questerre realized \$71.93/barrel during the quarter (2006: \$73.28) and \$66.93/barrel for the year to date (2006: \$66.83). The realized price in third quarter of 2007 was lower than 2006 reflecting lower Vulcan oil production in 2007.

Questerre's production will continue to be exposed to the spot market for all commodities.

Royalties

Questerre recorded royalty expense of \$1.05 million for the third quarter (2006: \$1.19 million) and \$4.50 million for the nine months ended September 30, 2007 (2006: \$2.02 million).

This resulted in an effective royalty rate as a percentage of revenue of 24.31% (2006: 30.04%) and 24.46% for the year to date (2006: 27.71%). The lower royalty rate in the third quarter of 2007 mainly reflects the lower natural gas prices and lower production, particularly from the Vulcan wells. Royalties as a percentage of revenue in Vulcan for the third quarter decreased from 45% in 2006 to 29% in 2007.

The New Royalty Framework (“NRF”) for Alberta was announced in the fourth quarter and is expected to become effective in 2009. The NRF is highly geared towards production rates and gas prices. Questerre anticipates that four high productivity wells in Vulcan could be affected by these new rates. However the amount of this impact will ultimately be determined by the actual regulations implemented, actual production rates and prices. Furthermore, the majority of the Company’s high impact projects are situated outside Alberta and will not be affected by the NRF.

Operating Costs

For the quarter ended September 30, 2007 operating expenses increased to \$1.35 million from \$0.81 million for the same period in 2006. By comparison, operating expenses for the quarter ended June 30, 2007 were \$1.47 million.

Operating expenses for the Company’s Alberta production totaled \$0.85 million in the third quarter of 2007 (2006: \$0.58 million). On a boe basis, this equates to \$9.27, an increase from \$8.27 in 2006 and marginally lower than \$9.61 per boe in the second quarter of 2007.

Consistent with the level of activity at Beaver River throughout 2007, operating expenses for the third quarter of 2007 were \$0.46 million, unchanged from \$0.45 million in the second quarter. By comparison, the lower level of activity during the third quarter of 2006 resulted in lower operating costs of \$0.24 million. Excluding transportation and processing charges of close to \$6.35/boe, Questerre expects net fixed operating expenses for Beaver River to average \$0.1 million per month for the remainder of the year.

General & Administrative Expenses

For the third quarter of 2007, Questerre recorded general and administrative expenses (“G&A”) of \$0.27 million, net of capitalized overhead and bad debt expense (2006: \$0.29 million) and \$1.69 million for the year to date (2006: \$0.75 million). The comparatively lower G&A for the third quarter reflects the increased overhead recovery of \$0.27 million (2006: \$0.1 million) for the Beaver River summer work program. On a boe basis, this equates to \$2.46 per boe as compared to \$4.52 in the preceding quarter and \$3.08 in the third quarter of 2006.

Questerre continues 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. These expenses represent amounts directly related to exploration and development activities.

(\$ thousands)	2007	2006
General & administrative expenses	2,360	1,534
Bad debt expense	200	–
Overhead capitalization	(871)	(781)
General & administrative expenses, net	1,689	753

Stock Based Compensation

Questerre recorded stock based compensation expense of \$0.36 million for the quarter ended September 30, 2007 (2006: \$0.33 million), unchanged from the prior quarter. The expense reflects the amortization of the costs associated with the fair value of the options granted to date. The Company did not grant any options during the third quarter of 2007. As at September 30, 2007, Questerre had 12.90 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 \$0.17 million during the quarter (2006: \$0.002 million) and \$0.72 million for the first nine months 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 September 30, 2007, the Company held marketable securities with a market value of \$2.38 million (2006: \$0.37 million).

Questerre recorded interest income of \$0.89 million for the nine months ended September 30, 2007 (2006: \$0.3 million) reflecting the increased cash balances held by the Company during the year.

Depletion, Depreciation and Accretion

Questerre recognized \$2.49 million in depletion and depreciation for the three months ended September 30, 2007 (2006: \$3.29 million) and \$8.36 million for the first nine months of 2007 (2006: \$4.69 million). On a boe basis, year to date depletion decreased by 19% to \$21.12 from \$26.20 in 2006. The decrease reflects the higher reserve base of the Company and the credit for the cost of the Beaver River assets sold to Transeuro during the second quarter. Quarter over quarter, the depletion rate in the third quarter of 2007 of \$22.46/boe was 17% higher than the rate in the second quarter of \$19.23/boe. Questerre does not include costs of \$14.46 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 \$1.78 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 \$4.50 million, with a present value of \$3.85 million at September 30, 2007. Accretion of asset retirement obligations in the third quarter was unchanged from the second at \$0.03 million.

Taxes

Consistent with the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the third 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 September 30, 2007 as there is a 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 \$1.10 million (\$0.01/share) for the first nine months of 2007 compared to \$0.29 million (\$0.00/share) in 2006. The net gain in 2007 represents the gain on the sale of a portion of its working interest 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 offset by the depletion expense.

Excluding these non-recurring amounts, Questerre had a net loss of \$0.68 million for the nine months ended September 30, 2007 (2006: (\$2.62 million)).

Funds generated from operations for the three months ended September 30, 2007 were \$2.41 million, a decrease of 24% from the preceding quarter of \$3.18 million and an improvement of 44% or over \$0.7 million for the third quarter of 2006. The increased cash flow in 2007 is attributable to higher production and resulting operating revenue coupled with lower net expenses.

CAPITAL EXPENDITURES

Questerre incurred capital expenditures of \$16.11 million in the first nine months of 2007 compared to \$22.97 million in 2006. \$8.15 million was incurred in British Columbia primarily for the drilling and testing of the B-3 well with \$6.01 million incurred in Central and Southern Alberta and \$0.71 million in Quebec.

(\$ thousands)	2007	2006
Capital Expenditures		
Alberta Properties (including acquisitions)	6,010	22,699
Beaver River Field, British Columbia	8,151	247
St. Lawrence Lowlands, Quebec	707	23
Other	1,239	—
Total	16,107	22,969

Capital expenditures of \$22.97 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 \$26.48 million at September 30, 2007 as compared to \$22.70 million at December 31, 2006. Current assets at September 30, 2007 consisted primarily of \$21.87 million in cash and \$9.65 million in receivables. Included in the receivables is \$2.6 million representing amounts due from Magnus under the farm-in agreement for the A-8 well. Questerre's current liabilities consisted mainly of trade payables and cash calls payable of \$11.29 million.

Questerre believes that its capital expenditure program for the remainder of this year of close to \$17 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. To date, the Company has not drawn down this facility.

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 September 30, 2007 and November 7, 2007, there were no Class B common voting shares or preferred shares outstanding. As at September 30, 2007 there were a total of 155,250,083 Common Shares outstanding and 12,903,753 stock options outstanding. In connection with the acquisition of Magnus, the Company issued 10,090,804 Common Shares subsequent to the end of the quarter resulting in 165,340,887 Common Shares outstanding at November 7, 2007.

The Company issued 42,500 Common Shares during the quarter on the exercise of stock options by an employee at an average exercise price of \$0.19 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 \$31,500. A total of \$94,500 was paid in 2007 and 2006 under this agreement.

The Company is obligated to make total payments under another operating lease of \$28,953 for the remainder of 2007 and \$115,812 in each of the following years: 2008, 2009 and 2010.

Subsequent to the end of the quarter, in connection with the acquisition of Magnus, the Company has acquired an obligation to incur qualifying Canadian Exploration Expenses ("CEE") of \$7.34 million by December 31, 2007 and \$3.0 million by December 31, 2008. Additionally, the Company has acquired a rental lease obligation of \$28,964 in 2007 and \$178,104 in each of 2008, 2009 and 2010.

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 September 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 deficiencies 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 deficiencies, based on the Company's mitigating procedures, the Chief Executive Officer and Chief Financial Officer have satisfied themselves that these deficiencies have not resulted in material errors on the financial statements. Furthermore, the Company has implemented compensating controls to address these deficiencies.

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.