

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 10, 2006. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review second 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 six months ended June 30, 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 6 (3.21 net) wells with an 83% success rate
- Accelerated Beaver River development plans with a proposed five-well program
- Commenced concurrent production of oil and gas in Vulcan
- Concluded farm-in agreement with Apache Canada Ltd. over 33 sections in Westlock
- Completed \$10 million flow-through private placement
- Exited the quarter with over 1,000 boe of production, triple our exit rate for the first quarter
- Positive cash flow from operations of over \$1 million for the quarter, more than double the previous quarter

BEAVER RIVER FIELD, BRITISH COLUMBIA

In June, Questerre and its partner, Transeuro Energy Corp. ("Transeuro"), reached an agreement in principle to accelerate the development of the Beaver River Field.

Based on the production data from the A-2 well, Questerre and Transeuro, have agreed to develop the shallow Mattson/Besa River ("Mattson") sands as a tight gas resource play. The partners believe that new wells with modern drilling and completion techniques could result in better performance than the existing A-2 well, currently producing over 2.2 mmcf per day (366 boe per day).

The partners are planning a five-well program to include four new Mattson wells and one Nahanni infill development well. Transeuro will earn a 50% interest in the entire field and all associated infrastructure by funding the drilling, completion and testing of one Mattson well and one Nahanni well. The remaining three Mattson wells will be joint wells. Upon completion of the first two wells, Questerre and Transeuro will have a 50/50 interest in the entire field and infrastructure.

Field operations commenced in early August and the first Mattson well is expected to spud in September, subject to weather and equipment availability. Questerre anticipates this well will be completed and tested in early 2007. Operations on the Nahanni in-fill well are programmed to begin during the first half of 2007.

VULCAN, SOUTHERN ALBERTA

Questerre and its partner continued the development of their new Mannville G Pool (the "G Pool") in Vulcan, Southern Alberta. Questerre has a 50% interest in this pool.

The first well in the oil development program, the 7-29 well, was drilled at the end of the first quarter and tested in early June. During cleanup the well produced 125 (62 net) barrels of oil per day. The results from this well in conjunction with the results from the downdip 13-16 well indicate that the oil column could be larger than originally expected.

A total of nine oil locations have been identified for primarily infill drilling during the remainder of 2006. During the quarter, Questerre participated in the drilling of one (0.5 net) oil well. This well was placed on production early in the third quarter at an initial rate of 160 (80 net) boe per day. Two additional (1.0 net) oil wells were drilled in the third quarter and both have been cased as oil producers.

An analysis of the results from the 7-29 well indicated that the oil and gas pools within the G Pool are two separate pools. Concurrent production of oil and gas commenced shortly thereafter with three (1.5 net) wells commencing production of gas and associated liquids at an aggregate restricted rate of 400 (200 net) boe per day.

A total of four (2.0 net) wells have been drilled into the gas pool as of June 30, 2006. A fifth gas well was spud and cased early in the third quarter. Questerre has a 28% interest in this well that will be tested shortly. The Company expects one additional location will be drilled for this gas pool in 2007.

Questerre anticipates the remaining oil and gas wells will be placed on production once construction of the central battery and a gas plant is completed in early September. The gas plant will be tied in to two recently completed pipelines connected to third party processing plants.

WESTLOCK, CENTRAL ALBERTA

In late April the Company concluded its previously announced acquisition of Stride Energy Ltd. ("Stride"), a private exploration and production company with assets primarily in Westlock, Central Alberta. Total consideration for this acquisition was \$3 million in cash and 7,262,742 common shares of Questerre, net of working capital adjustments.

Questerre subsequently concluded a farm-in agreement with Apache Canada Ltd. ("Apache") covering 21,120 gross acres of land in Westlock. Pursuant to the terms of the farm-in agreement, Questerre will fund an initial five-well program to earn a majority working interest in ten sections of Apache's land. Questerre will have the option to drill additional wells to earn on additional land on the same terms. Questerre will be responsible for drilling, completion and tie-in operations. Questerre will operate the production and have access to Apache's facilities in the area.

During the quarter, Questerre participated in the drilling of five (2.71 net) wells in Westlock resulting in four (2.21 net) wells cased as gas producers and one (0.5 net) dry well. Subject to equipment availability and weather conditions, the successful wells will be completed and tied-in prior to year-end.

Over the balance of this year, Questerre plans to drill four to nine additional wells in this area both on its existing acreage as well lands under the farm-in agreement with Apache.

PRIVATE PLACEMENT

Questerre concluded a \$10 million private placement in June 2006. A total of 9,709,000 Common Shares (“Shares”) were issued, on a flow-through basis, at \$1.03 per Share. The Company paid a cash commission of 6% of the gross proceeds from the placement and granted the agents warrants to acquire 291,270 Shares at \$1.03 until December 28, 2007.

DRILLING ACTIVITIES

During the quarter, the Company participated in the drilling of six gross (3.21 net) wells with four (2.2 net) wells cased as gas producers, one (0.5 net) cased as an oil producer and one dry and abandoned (0.5 net) for an 83% success rate.

The Company currently has over 1,000 boe of production on-stream and over 300 boe of production shut-in. The majority of the shut-in production is in Vulcan and is expected to be on stream early in the fourth quarter.

second quarter 2006 financial results

PRODUCTION

Daily production during the second quarter of 2006 averaged 635 boe per day. This represents an increase of 117% over production in the first quarter of 2006 (292 boe per day) and a 329% increase over production in the second quarter of 2005 (148 boe per day). During the quarter, daily average production grew from 447 boe in April to 879 boe in June.

The commencement of gas production from Beaver River and Vulcan coupled with the acquisition of Stride accounted for the production growth over the second quarter. Production from the Stride assets was included effective May 1, 2006. For the last two months of the quarter ended June 30, 2006, production from the Stride assets averaged 172 boe per day with approximately 50 boe per day shut-in due to facility constraints. Questerre expects this shut-in production, primarily in Westlock, will be brought on-stream in the fourth quarter.

Production during the second quarter of 2005 of 148 boe per day was primarily natural gas, split equally between the Beaver River Field and the Company’s minority interests in Alberta. For the corresponding period in 2006, production from Beaver River accounted for 29% of average daily production with the remainder from its operated and non-operated assets in Southern and Central Alberta.

The Company continues to maintain its focus on natural gas, with gas production accounting for 86% of production over the quarter and 88% for the first half of the year.

REVENUE

Oil and gas revenue for the second quarter of 2006 increased 86% to \$2.16 million from \$1.16 million in the first quarter. The increased revenue due to higher daily production was partially offset by lower realized gas prices that declined from \$7.00 per mcf in the first quarter of 2006 to \$5.84 per mcf in the second quarter. Questerre does not hedge any of its production and changes in realized prices are a reflection of market conditions.

ROYALTIES

For the three months ended June 30, 2006, Questerre reported royalty expense of \$0.42 million as compared to \$0.41 million for the first quarter. This represents an effective royalty rate of 19.4% for the second quarter as compared to 35% for the first quarter. The significantly lower rate during the second quarter is attributable to the lower royalty rate on production from the Stride assets and a \$0.1 million royalty credit on production from the Beaver River Field.

As the royalty credit has been completely utilized and production increases in Vulcan and Westlock, the Company expects its royalty rate to average between 25%-30% for the remainder of this year.

OPERATING COSTS

The Company reported operating costs of \$0.52 million for the quarter ending June 30, 2006, a 13% increase over operating costs of \$0.46 million for the quarter ending March 31, 2006. Excluding the normalized fixed operating expenses related to the Beaver River Field of \$0.17 million for the second quarter, operating costs for the Company's Alberta production averaged \$10.94 per boe. This represents a 7% increase in the operating costs for the first quarter of \$10.20 per boe.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses ("G&A") for the three months ending June 30, 2006 were \$0.25 million (2005: \$0.07 million) and \$0.46 million for the six months ending June 30, 2006 (2005: \$0.31 million). The increased production during the quarter was largely responsible for the reduction in G&A, on a boe basis, to \$4.26 in the second quarter from \$8.09 in the first quarter.

The Company continues to capitalize 5% of G&A expenditures of \$0.54 million for the year to date as overhead recovery (2005: \$0.34 million).

(\$ thousands)	For the six months ended June 30	
	2006	2005
General & administrative expenses	996	656
Overhead recoveries	(537)	(344)
General & administrative expenses, net	459	312

STOCK BASED COMPENSATION

Questerre recorded stock based compensation expense of \$0.30 million for the second quarter of 2006 (2005: \$0.12 million) and \$0.59 million for the first six months of 2006 (2005: \$0.19 million). The expense relates to the options granted in prior years and during the first quarter of 2006. No options were granted during the second quarter. As at June 30, 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 \$0.003 million for the second quarter of 2006 (2005: \$0.03 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 November 2005.

The Company reported interest income of \$0.06 million for the quarter (2005: \$0.003 million) The interest earned reflects the higher cash balances held by the Company during the second quarter of 2006 as compared to the same period in 2005.

DEPLETION AND DEPRECIATION

Questerre recognized \$1.40 million in depletion and depreciation in the first half of 2006 compared to \$1.42 million for the first half of 2005. The depletion for 2006 relates primarily to the Company's Alberta assets and translates to \$21.35 on a boe basis.

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.

Costs associated with its assets in the St. Lawrence Lowlands in Quebec and seismic costs associated with the Beaver River Field are excluded in the calculation of depletion and costs subject to the ceiling test calculation. The Quebec assets remained unproved at June 30, 2006.

TAXES

Consistent with the prior year, Questerre has sufficient tax pool deductions to offset its taxable income in the second quarter of 2006 resulting in no current income taxes payable for the quarter. The current taxes payable on the balance sheet relates to the Stride assets prior to the acquisition by Questerre. In addition, the Company's tax assets significantly exceed tax liabilities. No tax asset is recognized at June 30, 2006, as it is not certain that the Company will be able to realize the value of the tax assets in the future.

The Company's tax pool deductions allowed Questerre to record a \$2.96 million future tax recovery to offset the deferred tax liability associated with the flow-through share issuance completed in June.

NET LOSS AND CASH FLOW

Before income taxes, Questerre recorded a net loss of \$0.06 million in the second quarter of 2006 (2005: \$0.41 million) and a net loss of \$0.66 million for the first half of the year (2005: \$1.57 million). The net loss in 2006 is primarily due to the non-cash expenses of stock based compensation and depletion and depreciation. 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 largely due to the significant increase in production. During the quarter ended June 30, 2006, Questerre reported positive cash flow of \$1.08 million (2005: \$0.09 million), and \$1.38 million for the first half of the year (2005: 0.08 million).

liquidity and capital resources

CAPITAL EXPENDITURES

Questerre incurred capital expenditures of \$16.95 million for the first half of 2006 as compared to \$6.12 million for the same period in 2005.

The expenditures in 2006 relate primarily to the active drilling programs in Vulcan and Westlock and the acquisition of Stride Energy Ltd. The Company incurred expenditures of \$6.25 million in Vulcan and \$2.51 million in Westlock, with \$3 million in cash incurred as part of the acquisition of Stride.

In 2005, capital expenditures of \$6.1 million related to the costs of drilling and completion of wells in the Parkland, Vulcan and Simonette areas of Alberta along with the acquisition of producing properties in Central Alberta.

WORKING CAPITAL

Questerre reported working capital of \$13.09 million at June 30, 2006 as compared to \$6.5 million for the corresponding period in 2005. Current assets at June 30, 2006 consisted primarily of \$13.6 million in cash and \$4.2 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 \$5.17 million and \$0.11 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 \$10 million private placement completed in June 2006. Questerre anticipates the majority of its current working capital will finance further activities in Vulcan and Westlock.

Future capital commitments will continue to be financed primarily 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 June 30, 2006, there were no Class B common voting shares or preferred shares outstanding and there were a total of 140,986,336 Common Shares outstanding and 10,215,000 stock options outstanding.

The Company issued 7,262,742 Common Shares in connection with the acquisition of Stride Energy Ltd.

The Company completed an equity placement during the quarter through the issuance of 9,709,000 Common Shares, issued on a flow-through basis at \$1.03 per Common Share for gross proceeds of \$10 million.

CONTRACTUAL OBLIGATIONS

Questerre is party to an Office Rental Agreement with a related party for the provision of offices, office equipment and support personnel. Either party may terminate the agreement with six months written notice. Questerre's commitment under this agreement for the remainder of 2006 is \$63,000. A total of \$63,000 was paid for each of the first six months of 2006 and 2005 under this agreement.

The Company is responsible for principal payments on its bank loan in the amount of \$40,200 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 \$3.62 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. obligations.

GOODWILL

Goodwill is the excess purchase price over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized. However, goodwill impairment will be assessed annually at December 31, or as economic events dictate, by comparing the fair value of the net assets to its carrying value, including goodwill. If the fair value of the net assets is less than its carrying value, the fair value of the goodwill is compared with its carrying value to measure the amount of goodwill impairment loss.

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.