

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL DISTRICT OF CALGARY**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, as amended  
AND IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*,  
R.S.A. 2000, c. B-9**

**AND IN THE MATTER OF  
QUESTERRE BEAVER RIVER INC. AND  
QUESTERRE ENERGY CORPORATION**

**INFORMATION CIRCULAR  
DATED AUGUST 4, 2004 PROVIDED BY  
QUESTERRE ENERGY CORPORATION ("QEC") AND  
QUESTERRE BEAVER RIVER INC. ("QBR") WITH RESPECT TO THE  
QEC AND QBR PLANS OF COMPROMISE AND ARRANGEMENT**

**To: The Creditors of QBR and QEC (QBR and QEC sometimes collectively referred to as "Questerre" or the "Company")**

I would like to sincerely apologize to our suppliers and creditors. In good faith the vast majority of you provided, either directly or indirectly, valuable equipment and services for our drilling operations at the Beaver River Field (the "Field") in British Columbia and you deserve to be paid. In fact, many of you went out of your way to provide extra attention to help our Company succeed. I would like to find a way to provide a full recovery of the amounts you are owed. To this end, we would like to submit for your consideration plans of arrangement with respect to QBR and QEC. You will note that the consideration offered to creditors is identical under each plan.

Our proposed plan of arrangement is comprised of both cash and equity in the form of common shares of QEC. The cash component exceeds the maximum realizable value of our assets. The equity component, we believe, with one drilling success, has the potential to recover more than your debt. Should you choose to maximize your immediate cash recovery under the plans, we have arranged for a buyer to purchase your common shares at current market prices.

The success of our Company has always hinged on the development of its main asset, the Beaver River Field. Prior to the recent drilling operations, we invested just under \$20 million in this Field. This capital, provided by private equity and partly by reinvested cash flow, funded the implementation of a secondary recovery scheme and more importantly the extensive technical

work that formed the basis of a new field interpretation. This interpretation is based on our theory of compartmentalization - that most of the remaining recoverable natural gas in the Field is contained within undrilled sections or compartments.

This theory of compartmentalization was supported by a 3-D seismic survey completed over the Field in 2002 at a cost of \$3.5 million. The survey also identified attic or updip gas - gas existing above the highest producing well in the Field. While drilling a well for new compartments could be very lucrative - initial production from these wells average 5,000 boepd - it has the potential to be technically and operationally risky. To mitigate these risks we chose to pursue the apparently 'lower risk' target, the attic gas, and planned to utilize the cash flow from this well to fund a new compartment well. To further reduce our costs, we chose to re-enter an existing well bore, the A-5 well, and directionally drill this attic gas well (the "A-5 re-entry").

Until recently, our Company did not have in-house drilling expertise. Recognizing this, we utilized well-established consultants and contractors in the industry to provide us with requisite planning, management and support services for the A-5 re-entry. In addition, we contracted one of the largest geophysical companies in North America to process our 3-D seismic survey and ensure that it was free of velocity anomalies and anisotropic effects. Unfortunately this check did not detect a velocity problem that existed in the data. This velocity problem created a false updip structure on the survey. Our actual result was that the well did not encounter any updip structure and intersected the reservoir at the same subsea depth as the old well.

We also engaged, well in advance of our spud date, an experienced drilling consultant to plan and manage the drilling of this well. The cost estimate for this well prepared by this consultant was \$5.3 million based on a multi well program and \$6.5 million based on a single well program. Through our public offering coupled with additional sources of financing, we had access to sufficient financial resources to fund this well even if it cost twice the original estimate. A total of \$11.5 million cash, net of financing and administration costs, has been paid for this drilling program, with \$2.7 million provided by a major shareholder of the Company. I personally invested \$1 million in the Company at \$1.30 per common share less than two weeks prior to the announcement of the well results.

Contrary to the estimates prepared, the total project costs, including completion, testing and tie-in costs, are over \$19 million, or almost three times the original cost estimate. Of these \$12 million in cost overruns only about \$2 million is attributed to unexpected drilling problems. The remainder of the overruns were unrelated to drilling conditions - delays in rig mobilization, the unnecessary removal and then replacement of an intermediate casing string and an inflexible directional drilling program. To our shareholders and creditors we are accountable for the results of these cost overruns.

In retrospect, we believe that we placed too high a reliance on the advice and expertise of our consultants and contractors. In future, we will have greater in house expertise to protect the interests of our shareholders and creditors.

As a result of these overruns on the A-5 re-entry, over \$9 million remains outstanding to our unsecured trade creditors. To allow us to properly evaluate our financial position and available

strategic alternatives in an orderly manner, on April 1, 2004, QBR applied for and was granted protection under the Companies' Creditors Arrangement Act ("CCAA").

Our strategic alternatives were as follows:

- utilize the revenue from the A-5 well to settle creditor claims through a payment plan;
- abandon the Beaver River Field and liquidate the asset;
- continue development to realize new compartment potential by settling creditor claims through an equity interest in the Field and a cash payment.

The A-5 well tested at 3 mmcf/d of raw gas and 6,000 barrels of associated formation water. Based on prevailing natural gas prices and utilizing a Crown royalty deferral program, monthly net operating revenue from the well was initially estimated at \$0.30 million. However production from the well has steadily declined to its current level of 750 mcf/d of raw gas and 4,400 barrels of associated formation water. Based on the production history to date, we are unable to predict future production from the well with any certainty. At current natural gas prices, this well is operating on a 'break-even' basis. Thus this approach will not generate any cash payments to trade creditors.

The abandonment of the project and liquidation of the asset initially appeared to have some merit. We have been unable to re-establish commercial production at the Field. Neither have we been able to attract a farm-in partner to date, due, in no small part to the industry perception about the project. Based on the analysis prepared by our Monitor, Ernst & Young Inc., the liquidation of this Field and our ancillary equipment and facilities would finance a portion of the abandonment expense. Therefore, for trade creditors this would not generate any cash payment.

In our opinion, the third alternative offers the best opportunity for creditors and other stakeholders to realize a return on their investment in the Company.

Notwithstanding the results of the A-5 re-entry, we continue to believe in the Field's potential, particularly the undrilled compartments. Our independent reservoir engineers continue to assign gross possible reserves of 120 Bcf to these undrilled compartments. To test this potential a new compartment well needs to be drilled.

We have made some early progress on this front. In early May, we commenced reprocessing our seismic data to correct the velocity anomalies and better image the reservoir. This is currently on schedule to be completed by the third quarter of 2004. We are encouraged by a preliminary review of this newly processed data that continues to provide support for our theory of compartments in the Field.

Our proposed plans of arrangement to settle outstanding claims is based on the third alternative. Through the issuance of escrowed common shares in QEC, creditors will acquire an indirect equity interest in the Field. We believe the common shares allow creditors to participate in the upside potential of the Beaver River Field as well as other existing and future projects. For those

creditors not interested in holding common shares, we have arranged for a liquidity option – the ability to liquidate these shares immediately for cash. Creditors will also receive a cash settlement in excess of a liquidation value.

The number of common shares of QEC to be issued in connection with the plans of arrangement was carefully deliberated. We believe that creditors should receive a sufficient number to grant them a meaningful interest in the Company. Management is of the opinion that the shares offered under the plans have the potential to recover the entire amounts outstanding. We also believe that the current market value of the common shares reflects uncertainty relating to creditor claims.

The common shares of QEC traded around \$0.40 after the announcement of the well results and our working capital deficiency. This trading range represents, in our opinion, a discount to our fair market asset value based on the well results. Even after the CCAA filing, the common shares traded in the \$0.35 range. This discounted value was further supported by financing offers from two brokerage firms at \$0.35 per share. Only after it became apparent that the settlement of creditor amounts was more problematic than expected did the common shares trade at the \$0.10 level. We believe there is a reasonable potential for the shares to trade at substantially higher levels should the creditor claims be resolved.

The value of the Company's assets, and ultimately the common shares, is entirely dependent on our ability to raise financing to drill exploration wells at the Beaver River Field and in the St. Lawrence Lowlands in Quebec. Based on our current capital structure, a number of parties that include existing shareholders have indicated their interest and willingness to be part of financing our Company. This financing or some alternative is essential to the success of this plan of restructuring.

Based on discussions with these parties, we believe that any drastic change in share capitalization could endanger our ability to complete an equity financing. For instance, the issuance of an inordinate number of common shares under these plans would have a high likelihood of a significant reverse split of the common shares. This reverse split would not only alienate existing parties interested in financing the Company, it may further alienate the creditors.

Accordingly, we rejected the option of dramatically altering the share capitalization by issuing a disproportionate number of common shares. While the creditors would own a substantially larger percentage of the Company under this approach, the Company and the shares would be worth substantially less due to our inability to finance.

We, therefore, recommend that you accept this plan of arrangement as it has the best potential to realize the maximum value for creditors.

As part of the plans, creditors of both QBR and QEC will have the option of accepting a cash payment equal in value to the lesser of their entire claim or \$2,000. Alternatively, they can elect to receive a combination of cash and escrowed common shares, on the basis of one common share of QEC and five cents per dollar of claim outstanding.

In the event that creditors prefer cash instead of a common share of QEC, the plans include a liquidity option. Should such creditors elect to exercise the liquidity option, they will receive an additional seven cents to forego each common share they would have received under the plans, for a total payment of 12 cents per dollar of claim outstanding. This translates into an amount more than four times the maximum liquidation value.

Based on the total claims outstanding, the acceptance of these plans will result in the issuance of 9.5 million escrowed common shares. On this basis, creditors will hold just under 18% of QEC. The common shares will be subject to an escrow, releasable in two equal installments on the four and eight-month anniversary of the date the plan receives final court approval. These escrow provisions are designed to facilitate an orderly market for the common shares and prevent any disruptions that could jeopardize a potential equity financing.

Given that creditors will have received an amount more than the liquidation value in cash, we believe the common shares to be issued on the acceptance of the plan is equitable to all stakeholders – the creditors and the shareholders. If accepted, it will give creditors a meaningful interest in the Beaver River Field and our other projects. More importantly it allows the Company the flexibility to raise additional equity capital to fund the development of these projects. Without this capital, we would not be able to advance any of these projects. Based on the financing offers we have received to date, we believe we have good prospects to raise additional equity capital in the near term.

To facilitate the filing of the plans of arrangement for the settlement of all creditor claims in connection with the A-5 re-entry, QEC joined QBR under CCAA protection in late June 2004. As both QBR and QEC are considered distinct entities, we are required to file two separate plans for the approval of the respective creditors. As noted above, the consideration under the plans is identical.

Each plan will be ratified by the approval of two thirds in dollar value and one half in number of the total creditors voting. Furthermore, the acceptance of the plans is contingent on the following:

- the approval of each plan by the respective trade creditors;
- QBR concluding an agreement to its satisfaction with the Ministry of Provincial Revenue in British Columbia regarding the payment of royalties at the Beaver River Field; and
- requisite regulatory approvals.

I believe that these plans provide you as creditors with the most viable option to recover the total amount of your claim. With success at the Beaver River Field or our exploration acreage in the St. Lawrence Lowlands in Quebec, you have the potential to recover amounts in excess of your claim. Our only other alternative is to liquidate our assets, in which case recoveries, if any, would be minimal. I urge you to vote in favor of these plans.

Please read the enclosed information carefully. Should you consider our plan acceptable, kindly complete the form attached to the plan instructing the Monitor or myself to vote in favor of the plan on your behalf.

I would like to thank you for your co-operation and continued support during these trying times.

Sincerely

A handwritten signature in black ink, appearing to read "Michael Binnion". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping underline.

Michael Binnion  
President and Chief Executive Officer  
Questerre Energy Corporation/Questerre Beaver River Inc.