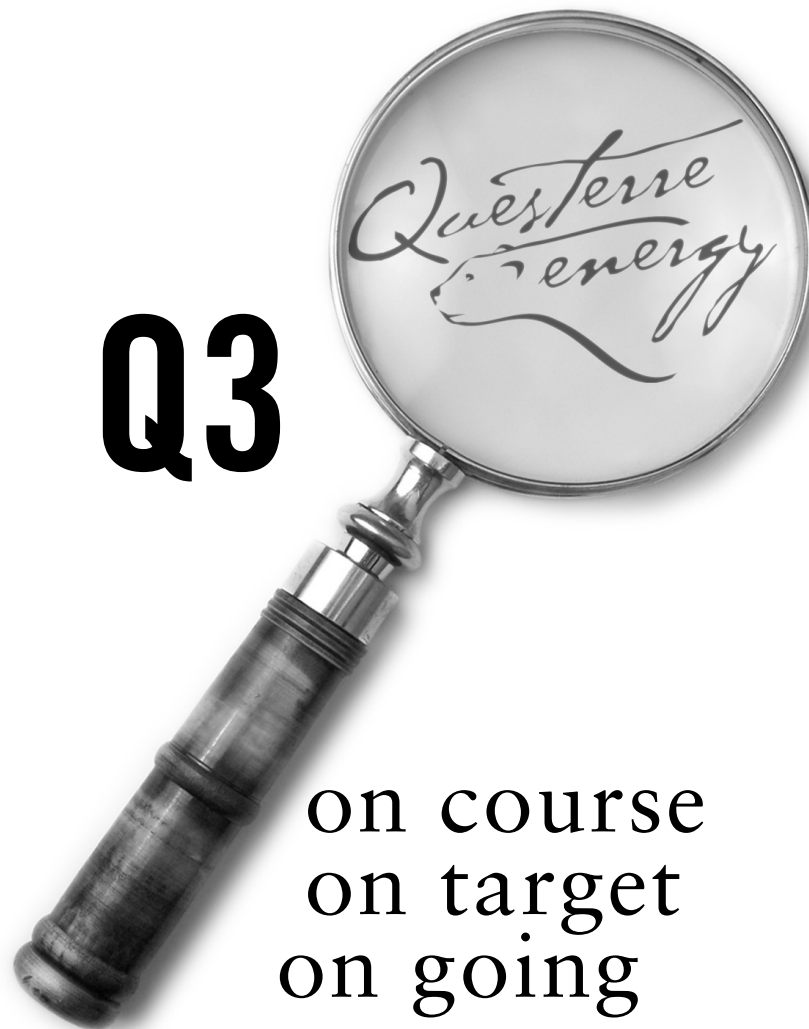


QUESTERRE ENERGY CORPORATION

Q3



on course
on target
on going

2005 QUARTERLY REPORT

PRESIDENT'S MESSAGE

I am pleased to report on our third quarter activities and outlook for the remainder of the year. The results to date have validated our business plan and, for the most part, we have already accomplished all of our year-end objectives.

Vulcan

Our new pool discovery in Vulcan has surpassed our initial expectations. Following the successful test of the discovery well early in the quarter, a three-well delineation program commenced in August. The first delineation well tested natural gas and encountered thicker and better quality reservoir than expected. The well flowed at a stabilized rate of over 740 boe per day on an 11/32-inch choke with a constrained maximum flow rate of over 1,300 boe per day. The second delineation well drilled to evaluate the thickness of the oil column did not encounter any commercial quantities of oil or formation water. It has been suspended pending an evaluation of uphole zones.

The third and final well in this delineation program will evaluate the size of the oil pool associated with the discovery well. An absent oil column in this well would support maximizing gas production from the pool. Should the well encounter an oil column, gas production will be conserved to maximize oil production.

The discovery well will be on-stream in the fourth quarter once a gas pipeline currently under construction is finished. Initial gas and oil production will be restricted pending approval from the EUB for Good Production Practice status for the pool.

Five additional drilling locations have been identified for the primary zone and we expect these will be drilled during the first and second quarters of 2006. We anticipate production from these lands could further increase should two uphole zones prove prospective. Of particular interest is the Horseshoe Canyon CBM play. This play appears to blanket our land and is the focus of EnCana's activity directly the north of our acreage.

Drumheller

In Drumheller we participated for a 20% interest in an eight-well development program with EOG Resources Canada, Inc., a US based independent. The program yielded eight gas wells. Based on the initial results, this program could triple our production in the area from 23 boe per day to over 70 boe per day. Subject to receipt of regulatory approval and tie-in during the fourth quarter, we understand these wells will be placed on production by year-end. We continue to monitor this area for further development opportunities.

Hector/Westlock

In these recently acquired areas, we participated for a 30% interest in an oil well that was placed on production at the end of the quarter. A previously announced gas well that tested at 230 boe per day (69 boe per day net) was also put on production. We are pleased with the growth in these areas where production has increased from 50 boe per day in June to over 120 boe per day at present. Due to inclement weather and surface access issues, we were unable to drill two additional wells in these areas in the quarter. We expect these two wells will be spud prior to year-end. Over the quarter we participated in a total of 11 gross wells (2.9 net). Nine were cased as gas producers, one as an oil producer and one suspended for a 90% success rate.

Beaver River Field

Despite weather related delays, operations progressed at the Field during the quarter. Following the fire at the end of June, our activities have focused on reconstruction of the workshop and staff quarters. This will be completed by year-end. Total expenditures are estimated to be well under the maximum of our insurance coverage.

The four-well program at the Beaver River Field began in August. The first well targeting the shallow Mattson sands was successfully re-entered and has been prepared for fracture stimulation.

On the second well, based on static gradient pressure analysis, we found less than 400 psi pressure depletion in the Nahanni, indicating the potential for further natural gas recovery. The integrity of this well bore down to the Nahanni was also established. Accordingly, we have agreed with our partner to evaluate this wellbore as a Nahanni candidate. As such this well will not be used to test the Mattson.

Operations are ongoing on the third well with the fourth scheduled for early 2006. To optimize productive capability, the Mattson wells will be fracture stimulated during the first quarter of 2006.

St. Lawrence Lowlands

Our extensive discussions with prospective farm-in partners for the St. Lawrence Lowlands came to fruition early in the fourth quarter. We executed a farm-in agreement with Talisman Energy Canada for our existing 711,000 acres in the Lowlands. Considered to be North America's leaders in the Trenton-Black River, our primary play, Talisman has been successful in the Appalachian Basin where production exceeds 19,000 boe per day.

Preliminary fieldwork on a 2-D seismic program by Talisman over two of our prospects is underway. Upon review of the seismic data, Talisman may drill up to four wells to earn on our acreage with the first well to be spud in 2006. Through a combination of a working interest, carried working interest and a royalty from Talisman, we will retain up to a 30-35% interest in this acreage.

Talisman's remarkable success in the Appalachian Basin and its activities in Quebec have strengthened our confidence in the Lowlands. To this end, we concluded a farm-in agreement with Gastem Inc. to acquire a 50% interest in an additional 312,000 acres. On trend with our existing acreage, we believe this land is prospective for several play types, including the Trenton Black-River.

Financial

We operated on a break-even basis for the third quarter, generating negative cash flow from operations of approximately \$0.02 million. On a year to date basis, cash flow from operations was positive at \$0.06 million. Our capital expenditures of \$1.9 million for the quarter and \$8 million to date relate primarily to our assets in Central and Southern Alberta. The Company's working capital position remains very strong at over \$12 million, allowing us to actively evaluate potential acquisitions and farm-in opportunities to further expand our portfolio.

We experienced delays in all aspects of drilling, completion, testing and tie-in of our wells during the quarter. In addition, due to delays with the fire and a mechanical problem with A-5, we have not had production from the A-5 well since July. We hope to complete a workover and bring this on in early 2006. In spite of this, with existing production of approximately 150 boe per day, 700 boe of tested production behind pipe or shut-in we have already established productive capability of over 500 boe per day. This exceeds our stated goal of 500 boe per day by year-end and well positions us to achieve our target of 1,000 boe per day by the end of 2006.



Michael Binnion
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared at, and is dated, November 11, 2005. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review third quarter 2005 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 nine months ended September 30, 2005 and the audited consolidated financial statements for the year ended December 31, 2004.

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. 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.

Vulcan Discovery

Questerre participated in a delineation program for its new Manville pool discovery in the Vulcan area of Southern Alberta.

Two wells in this program were drilled during the quarter. The first well flowed at a stabilized rate of over 740 boe per day. The second well did not encounter commercial hydrocarbons in the target formation. It is currently suspended pending an evaluation of prospective uphole formations.

The delineation program includes one additional well to further define the extent and nature of the pool. Subject to EUB approval of the development plan, Questerre expects production will commence in early 2006. To this end, a gas pipeline is under construction and will be completed prior to year-end.

Based on the preliminary results from this delineation program and a 3-D seismic survey, Questerre has identified five additional locations for the primary formation, with three additional locations for a potential secondary target.

Beaver River Field

Despite inclement weather, the summer work program at the Beaver River Field in British Columbia (the "Field") began in the third quarter.

The re-entry of the first well in the four-well Mattson program was successfully completed and the well is ready for fracture stimulation. An evaluation of the second well confirmed the integrity of the casing to the deeper Nahanni formation. This well will be evaluated as a re-entry candidate for the Nahanni instead of the shallower Mattson. Operations are presently underway on the third Mattson well. We expect this to be finalized by year-end with work commencing on the fourth well in early 2006.

To optimize productive capability, the Mattson wells will be fracture stimulated during the first quarter of 2006.

Operating activities were also focused on the reconstruction of the workshop and staff quarters following the fire in June. This work is scheduled to be completed by year-end.

St. Lawrence Lowlands

Questerre executed a definitive agreement with Talisman Energy Canada for its existing 711,000 acres in the St. Lawrence Lowlands.

At its sole cost Talisman will commence a 2-D seismic program over two Questerre prospects prior to December 2005, subject to receipt of regulatory approval. Based on the results of the program, Talisman has the right to drill up to four wells to earn on all the acreage.

Questerre and its partners may retain a 25% working interest in the acreage and receive a 5% gross overriding royalty from Talisman. The Company and its partners will be responsible for 15% of the drilling costs with Talisman funding all the remaining costs.

The Company expanded its land holdings in Quebec through a farm-in agreement with Gastem Inc. Pursuant to this agreement, Questerre will earn a 50% interest in over 311,000 acres by funding a prescribed work program.

Drilling Activities

Over the third quarter, Questerre participated in the drilling of 11 gross wells (2.9 net) in Alberta. Nine were cased as gas producers, one was cased as an oil well and the last is presently suspended for a 90% success rate. Currently regulatory and other approvals are being sought to tie these wells in and place them on production.

Private Placement

Questerre concluded an \$8.2 million private placement in early September. A total of 9,987,690 Common Shares were issued at \$0.82 per Common Share primarily to institutional and high net worth investors in Norway. DnB Nor Markets and Pareto Securities ASA were appointed as the Company's financial advisors and received a cash commission of 5% of the gross proceeds.

THIRD QUARTER 2005 FINANCIAL RESULTS

Production

The Company's existing production is primarily natural gas from its non-operated properties in Central Alberta. Production averaged 121 boe per day for the nine months ended September 30, 2005 (2004: 139 boe per day) and 95 boe per day for the quarter ended September 30, 2005 (2004: 116 boe per day). The decrease in daily production is attributable to the lower production from the A-5 well at the Field. The A-5 well accounted for approximately 80% of the Company's production for the first three quarters of 2004 and just over 40% in 2005. The well is currently shut-in due to downhole obstructions and a workover is being planned for early 2006.

The decrease in production from the A-5 well was offset by production from properties acquired by the Company effective April 2005. Production from these properties averaged 37 boe per day for the nine months ended September 30, 2005 and 63 boe per day for the three months ended September 30, 2005. Current production from these properties is 128 boe per day.

Based on the success of its drilling activities, the Company believes it has approximately 700 boe per day of tested production, either behind pipe or shut-in.

Revenue

With production from the A-5 well shut-in over the quarter, Questerre's petroleum and natural gas revenue for the three months ended September 30 decreased 16% to \$0.35 million from \$0.41 million for the same period in 2004.

The decline in production from this well also accounted for the decrease in year to date revenue to \$1.31 million from \$1.44 million in 2004. The 54% decrease in revenue from the A-5 well in 2005 was to a large extent offset by production from the acquired properties and higher realized prices in 2005.

Royalties

The Company recorded royalty expense of \$0.21 million for the nine months ending September 30, 2005 (2004: \$0.18 million). The royalties reflect Crown and overriding royalties for Questerre's production from Alberta. As a percentage of revenue, the royalty rate declined to 22% in 2005 from 26% in 2004.

The Company does not record Crown royalties on its production from the Field. Royalties on production are offset against a \$0.75 million royalty credit the Company received for the A-5 re-entry in early 2005. To date the Company has utilized \$0.23 million of this credit.

Operating Costs

Total operating expenses decreased substantially to \$0.05 million for the third quarter of the year (2004: \$0.35 million) and \$0.57 million for the nine months ended September 30, 2005 (2004: \$1.30 million).

The majority of the expenditures in the third quarter relate to the Company's assets in Central Alberta. These operating expenditures represent approximately 11% of gross revenue in 2005, down marginally from 13% in 2004.

The Company recorded minimal operating expenses for the Beaver River Field during the quarter as compared to the same period in 2004. With the A-5 well shut-in at the beginning of the quarter, field resources were directed to the reconstruction of operators' quarters and workshop after the fire on June 27, 2005. The Company expects to be reimbursed for these specific expenses under its insurance policy.

General and Administrative Expenses

Questerre reported general and administrative expenses ("G&A") of \$0.32 million in the third quarter of 2005 compared to \$0.19 million for the third quarter of 2004. The higher G&A during the quarter reflects the increased costs associated with the Company's listing on the Oslo Stock Exchange and the activity associated with the development of its assets in Central and Southern Alberta.

Excluding the bad debt expense and increased overhead recovery in 2004, gross G&A expenses of \$0.85 million for the first nine months of 2005 increased by just under 6% from the same period in 2004.

<i>(\$ thousands)</i>	2005	2004
General & administrative expenses	850	\$ 804
Bad debt expense	–	150
Overhead recoveries	(212)	(542)
General & administrative expenses, net	638	\$ 412

Stock Based Compensation

Effective January 1, 2004 the Company adopted a new accounting standard for stock based compensation resulting in a stock based compensation expense of \$0.31 million in the third quarter of 2005 (2004: \$0.02 million) and \$0.5 million for the nine months ended September 30, 2005 (2004: \$0.11 million). The expense during the quarter relates to the issuance of 2.22 million incentive stock options at an exercise price of \$0.82 per Common Share.

Interest Expense

Interest expense on the Company's promissory note and bank debt totalled \$0.01 million for the third quarter of 2005 (2004: \$0.02 million). The expense was offset by interest earned of \$0.01 million during the quarter. On a year to date basis, interest expense increased from \$0.05 million for the first nine months of 2004 to \$0.06 million for the same period in 2005 primarily due to the \$0.6 million promissory note. Interest earned during 2005 remained unchanged at \$0.02 million.

Depletion and Depreciation

Questerre recognized \$0.21 million in depletion and depreciation in the third quarter of 2005 (2004: 0.06 million) and \$1.63 million for the first nine months of 2005 (2004: \$6.2 million).

Included in 2005 depletion is \$1.3 million, representing the Company's share of drilling costs of an unsuccessful well in the Simonette area of Alberta. 2004 depletion includes a \$5.18 million ceiling test write-down recorded by the Company on its Field assets. The write-down in 2004 reflected the majority of costs incurred during the first quarter to finish the drilling, completion and tie-in of the A-5 re-entry.

Questerre does not include costs associated with its assets in the St. Lawrence Lowlands of Quebec nor the costs associated with its exploration projects in the Parkland, Vulcan and Westlock areas of Alberta in the calculation of depletion or in costs subject to the ceiling test calculation. These properties remained unproved at September 30, 2005.

Taxes

Consistent with the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the third quarter of 2005 resulting in no current income taxes payable for the quarter. In addition, the Company's tax assets significantly exceed tax liabilities. No tax asset is recognized at September 30, 2005, as there is no certainty that the Company will be able to realize the value of the tax assets in the future.

Net Loss and Cash Flow

Questerre recorded a net loss of \$2.1 million (\$0.03/share) for the nine months ending September 30, 2005 against net income of \$0.27 million (\$0.03/share) for the corresponding period in 2004. The loss in 2005 reflected the write-down of costs of \$1.3 million associated with the unsuccessful well at Simonette, Alberta and higher stock based compensation expense.

Cash flow from operations improved from a loss of \$1.06 million in 2004 to a gain of \$0.06 million in 2005. The improvement can be attributed to the lower depletion expense and absence of a gain on settlement of obligations in 2005 as compared to 2004.

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures

Questerre incurred capital expenditures of approximately \$8 million in the nine months ending September 30, 2005. Expenditures for the same period in 2004 totalled \$6.3 million. The expenditures in 2005 related to the costs of drilling and completing wells in Central and Southern Alberta and an acquisition of producing properties completed in the second quarter.

Substantially all of the capital spending in 2004 related to drilling, completion and tie-in of the A-5 re-entry at the Field.

(\$thousands)	Nine Months Ended September 30	
	2005	2004
Capital Expenditures		
Beaver River Project, BC	433	6,257
St. Lawrence Lowlands, Quebec	13	64
Alberta Properties	7,540	1
Total	7,986	6,322

Working Capital

Questerre reported a working capital surplus of \$12.18 million at September 30, 2005. Current assets at September 30, 2005 consisted primarily of \$12.31 million in cash and marketable securities and \$1.24 million in receivables. The majority of receivables represent amounts due under the insurance claim for the Field and a joint venture billing for a portion of the drilling costs of the Simonette well.

Questerre's current liabilities consisted of payables of \$1.81 million and \$0.17 million representing the term bank loan that has been classified as a current liability. The majority of the payables are joint venture billings due to partners on capital projects.

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, 2005, there were no Class B common voting shares or preferred shares outstanding and there were a total of 109,864,594 Common Shares outstanding and 8,665,000 stock options outstanding.

Subsequent to the end of the quarter, a total of 3,150,000 Common Shares were issued as follows:

- 2,000,000 Common Shares were issued on the conversion of the \$0.6 million promissory note;
- 300,000 Common Shares were issued to Terrenex Acquisition Corporation ("Terrenex"), a related party pursuant to the terms of the Liquidity Option Agreement; and
- 850,000 Common Shares were issued to employees pursuant to the Employee Retention Plan established in May 2004.

In September 2005, the Company completed a placement of 9,987,690 Common Shares at \$0.82 per Common Share for gross proceeds of \$8.2 million. A cash commission of 5% was paid on this placement.

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 2005 is \$31,500.

The Company is responsible for principal payments on its bank loan in the amount of \$20,100 for the remainder of 2005, \$80,400 in 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.

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, 2004. 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.

Going Concern

Questerre's financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") and, accordingly, have been prepared using the same principles as those for a going concern.

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 the Field and its assets in Central Alberta is \$1.9 million. Actual costs incurred upon settlement of the obligation are charged against the liability to the extent the liability is recorded. Any difference between actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which settlement occurs. Determination of the original undiscounted retirement obligations and timing of these obligations are based on internal estimates using current costs and technology in accordance with existing legislation and industry practice. These estimates are subject to change over time and, as such, may impact the charge against income for asset retirement obligations.

Additional Information

Additional information relating to Questerre, including the Company's Annual Information Form can be obtained on SEDAR at www.sedar.com or on the Company's website at www.questerre.com.

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Questerre Energy Corporation for the nine months ended September 30, 2005 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Corporation. These statements have not been reviewed by the Corporation's external auditors.



Michael Binnion
President and Chief Executive Officer



Jason D'Silva
Chief Financial Officer

Calgary, Alberta
November 11, 2005

CONSOLIDATED BALANCE SHEETS

	September 30 2005	December 31 2004
	(unaudited)	
Assets		
Current assets		
Cash & marketable securities	\$ 12,312,085	\$ 2,701,477
Accounts receivable	1,236,230	218,249
Inventory	167,925	141,373
Deposits and cash calls paid	347,504	502,522
	14,063,744	3,563,621
Restricted cash (note 4)	100,000	100,000
Petroleum and natural gas properties – net of accumulated depletion and depreciation (note 3)	12,499,878	6,140,058
	26,663,622	9,803,679
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,807,973	572,033
Bank loan (note 4)	174,200	234,500
	1,982,173	806,533
Promissory note payable (notes 5 and 9)	600,000	600,000
Asset retirement obligation (note 6)	1,898,458	1,848,503
	4,480,631	3,255,036
Shareholders' Equity		
Common shares (notes 7 and 9)	48,592,025	31,339,389
Contributed surplus (note 7)	541,817	41,952
Deficit	(26,950,851)	(24,832,698)
	22,182,991	6,548,643
	\$ 26,663,622	\$ 9,803,679

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors



Director



Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND DEFICIT

(unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2005	2004	2005	2004
Revenue				
Petroleum and natural gas, net of royalties	\$ 282,696	\$ 286,365	\$ 1,246,955	\$ 1,254,520
	282,696	286,365	1,246,955	1,254,520
Expenses				
Operating	46,047	348,576	573,276	1,297,743
General and administrative	318,806	192,231	637,646	411,567
Restructuring costs	—	285,699	—	572,350
Stock-based compensation (note 7)	308,920	18,503	499,865	112,901
Interest expense	10,514	18,019	56,201	49,086
Interest income	(14,120)	(5,897)	(23,248)	(17,606)
Gain on settlement of obligations	—	(7,356,552)	—	(7,648,510)
Depletion and depreciation	207,530	56,672	1,626,087	6,151,299
Foreign exchange (gain) loss	(54,674)	—	(54,674)	—
Accretion on asset retirement obligation (note 6)	8,437	30,753	49,955	60,437
	831,460	(6,411,996)	3,365,108	989,267
Net income (loss)	(548,764)	6,698,361	(2,118,153)	265,253
Deficit, beginning of period	(26,402,087)	(31,959,309)	(24,832,698)	(25,455,674)
Restatement for changes in accounting policies				
Stock-based compensation	—	—	—	(70,527)
Deficit, end of period	(26,950,851)	(25,260,948)	(26,950,851)	(25,260,948)
Net loss per share				
Basic and diluted	(0.01)	0.15	(0.03)	0.03

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating Activities				
Net Income (loss)	\$ (548,764)	\$ 6,698,361	\$ (2,118,153)	\$ 265,253
Items not affecting cash				
Depletion and depreciation	207,530	56,672	1,626,087	6,151,299
Accretion on asset retirement obligation	8,437	30,753	49,955	60,437
Gain on settlement of obligations	–	(7,356,552)	–	(7,648,510)
Stock-based compensation expense	308,920	18,503	499,865	112,901
	(23,877)	(552,263)	57,754	(1,058,620)
Net change in non-cash working capital	168,164	140,200	338,441	217,260
	144,287	(412,063)	396,195	(841,360)
Financing Activities				
Issue of common shares	8,177,086	1,443,454	19,173,838	2,189,023
Issue of flow-through shares	–	–	–	2,442,428
Share issue costs	(605,755)	–	(1,921,202)	(210,288)
Proceeds of promissory note	–	100,000	–	600,000
Repayment of bank loan	(20,100)	(20,100)	(60,300)	(60,300)
Net change in non-cash working capital	–	(1,443,454)	–	(1,443,454)
	7,551,231	79,900	17,192,336	3,517,409
Investing Activities				
Expenditures on petroleum and natural gas properties	(1,868,814)	(67,943)	(7,985,906)	(6,322,361)
Net change in non-cash working capital	(908,233)	(440,988)	7,983	2,338,589
	(2,777,047)	(508,931)	(7,977,923)	(3,983,772)
Increase (decrease) in cash and marketable securities	4,918,471	(841,094)	9,610,608	(1,307,723)
Beginning of period	7,393,614	1,211,982	2,701,477	1,678,611
End of period	\$ 12,312,085	\$ 370,888	\$ 12,312,085	\$ 370,888

See accompanying notes to consolidated financial statements.

During the three months ended September 30, 2005, the Company paid \$10,514 (2004 – \$18,019) of cash interest and \$Nil in cash taxes (2004 – \$Nil). During the nine months ended September 30, 2005, the Company paid \$56,201 (2004 – \$49,086) of cash interest and \$Nil in cash taxes (2004 – \$Nil).

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months ended September 30, 2005 (unaudited)

The interim consolidated financial statements include the accounts of Questerre Energy Corporation and its subsidiaries (“Questerre” or the “Company”) and have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. The interim consolidated financial statements are unaudited and have not been subject to review by the Company’s external auditors. The interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2004. Certain comparative figures have been reclassified to conform with the presentation adopted in the current year. The disclosure that follows is incremental to the disclosure included with the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s annual report for the year ended December 31, 2004.

1 Nature of Operations and Basis of Presentation

Questerre is primarily involved in the exploration and development of naturally fractured and hydrothermally dolomitized reservoirs. As at September 30, 2005, the Company has five primary projects - the Beaver River Field in British Columbia (the “Field”), the St. Lawrence Lowlands in Quebec, the Parkland and Vulcan areas in Southern Alberta and the Westlock and Hector areas of Central Alberta. Questerre also holds minority interests in producing, non-operated properties in Alberta. The St. Lawrence Lowlands and Southern Alberta projects remained unproved at September 30, 2005.

The Company’s efforts and resources are directed at developing a portfolio of projects and ultimately realizing the value of these projects. Due to the numerous risks inherent in these projects, there can be no assurance the Company will be successful. While the Company seeks to mitigate risks by securing joint venture partners and developing a stable production base, the Company’s success will, to a large extent, depend on its continued ability to finance the development of existing projects and the acquisition and development of new projects.

2 Corporate Restructuring

On April 1, 2004, Questerre Beaver River Inc. (“QBR”), a wholly owned subsidiary of Questerre, was granted an Order by the Court of Queen’s Bench of Alberta providing for creditor protection under the Companies’ Creditors Arrangement Act (“CCAA”). On June 22, 2004, Questerre also applied for and was granted an Order by the Court of Queen’s Bench of Alberta providing for creditor protection under CCAA.

QBR’s financial difficulty was the result of significant problems and cost overruns associated with a re-entry operation undertaken at the Field that is located approximately 100 miles northwest of Fort Nelson, British Columbia. QBR holds a 60% working interest and a 100% priority right to cash flow (subject to payouts) in the Field. QBR held a 100% working interest in the operation as a result of joint venture partners choosing to forego participation under penalty. The CCAA filing by Questerre was necessary due to claims advanced or threatened by certain parties that provided goods and services in connection with the re-entry operation and was intended to allow the Company to restructure its affairs while continuing operations on a normalized basis.

On August 9, 2004, the Company filed Plans of Compromise or Arrangement (the “Plans”) under the CCAA for the settlement of all outstanding claims. The Plans were approved by the requisite majority of unsecured creditors at meetings of creditors held on August 31, 2004 and sanctioned by the Court of Queen’s Bench of Alberta on September 9, 2004. Questerre and QBR subsequently emerged from Court protection under the CCAA on October 8, 2004.

Pursuant to the Plans proposed by Questerre and QBR, unsecured creditors received either the lesser of the amount of their claim or \$2,000. Alternatively, unsecured creditors elected to receive a cash dividend of \$0.05 plus one Common Share of Questerre for each dollar of their claims. The Common Shares of Questerre issued under the Plans are subject to a contractual escrow and released in two equal instalments on the fourth and eighth month anniversary of the date the Plans received final Court approval.

In addition to the proposed settlement, Questerre arranged for a liquidity option. Under this liquidity option, unsecured creditors received \$0.05 for each dollar of their claims, and also received an additional \$0.07 for each dollar of their claim in exchange for foregoing each Common Share they would have otherwise received. This resulted in a cash settlement of \$0.12 per dollar of claim outstanding.

The Common Shares that would otherwise have been issued to these unsecured creditors were issued to Terrenex Acquisition Corporation (“Terrenex”), a related party, pursuant to the terms of the Liquidity Option Agreement. In consideration, Terrenex established a fund to finance the liquidity option up to a maximum of \$668,500 and, subject to regulatory approval, was issued 300,000 Common Shares.

A total of \$0.56 million in cash and 9,623,012 Common Shares were issued on the implementation of these Plans. 6,756,102 Common Shares were issued to Terrenex pursuant to the Liquidity Option Agreement.

3 Capital Assets

	September 30 2005	December 31 2004
Petroleum and natural gas properties	48,061,423	\$ 40,075,517
Less: Accumulated depletion and depreciation	(35,561,545)	(33,935,459)
	12,499,878	\$ 6,140,058

During the nine months ended September 30, 2005, the company capitalized administrative overhead charges of \$0.2 million (year ended December 31, 2004 – \$0.3 million) relating to exploration and development activities in Southern Alberta.

The company incurred a ceiling test write-down of \$1.3 million for the nine months ended September 30, 2005 (September 30, 2004 – \$5.2 million). This arose from the Company’s share of drilling costs of an unsuccessful well in the Simonette area of Alberta during the first quarter. This amount is included in the depletion and depreciation provision on the income statement.

At September 30, 2005, petroleum and natural gas properties included \$8.0 million (December 31, 2004 – \$5.7 million) relating to unproved properties which have been excluded from the depletion and depreciation calculation. All costs associated with the Beaver River property, net of estimated salvage values, have been written down and included in depletion expense except \$3.0 million of geological and geophysical costs. These costs primarily relate to the 3-D seismic survey acquired over the Field in 2002. Management does not believe these assets are impaired as the data is a key component of the Company’s plan for future development of the Field.

Questerre does not include costs of \$1.9 million associated with its St. Lawrence Lowlands, Quebec acreage in the calculation of depletion or in costs subject to the ceiling test calculation. The Company also does not include costs of \$3.1 million relating to its exploration projects in the Parkland and Vulcan areas of Southern Alberta as these assets remain unproved at September 30, 2005.

4 Bank Indebtedness

In July 2002, the Company obtained a five-year, \$400,000 term loan with a Canadian bank. Under the terms of the loan, the Company must make monthly payments of \$6,700 principal plus interest until the loan is paid out. The interest rate under the loan is the bank's floating base rate plus 2.0% and the Company may lock in the rate at any time. The loan is secured by the first assignment to the bank of a \$100,000 Guaranteed Investment Certificate and by a General Security Agreement over the assets of the Company and QBR. Financial covenants include maintaining a minimum long-term debt to tangible equity ratio of 0.8 to 1.0 and maintaining a working capital ratio of at least 1.0 to 1.0. The Company was not in compliance with these financial covenants in the past and, therefore, the bank loan has been classified as a current liability.

5 Promissory Note Payable

The Company has issued a promissory note for \$0.6 million to Rupert's Crossing, an Investment Corporation ("Rupert's"). Rupert's is a private investment holding company controlled by the President and Chief Executive Officer of Questerre. The promissory note was issued in 2004 on the receipt of \$0.6 million in cash from Rupert's.

The promissory note is due November 14, 2006 and bears interest at 8% per annum, payable monthly. It is secured by a General Security Agreement over the assets of the Company and the hypothecation of the Company's exploration licenses in the St. Lawrence Lowlands in Quebec.

Pursuant to the terms of the note, the Company has the right to prepay the entire amount or any portion thereof with 30 days' notice in writing to Rupert's. Rupert's has been granted an option to convert the entire amount into Common Shares of the Company at a conversion rate of \$0.30 per Common Share.

In November 2005, following receipt of regulatory and shareholder approval of the conversion terms, Rupert's elected to convert its \$0.6 million promissory note. A total of 2,000,000 Common Shares were issued at a conversion price of \$0.30 per Common Share.

6 Asset Retirement Obligation

The total future asset retirement obligation was estimated by management based on Questerre's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company estimates its total asset retirement obligations to be \$1,923,503, at September 30, 2005. Questerre used a credit adjusted risk free rate of seven per cent and an inflation rate of 2 per cent to calculate the present value of the asset retirement obligation. The following table provides a reconciliation of the Company's total asset retirement obligation:

	September 30 2005	December 31 2004
Balance, beginning of period	1,848,503	\$ 848,134
Increase in estimate of obligation	48,539	909,179
Accretion expense	1,416	91,190
Balance, end of period	1,898,458	1,848,503

7 Share Capital

a) Authorized

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, 2005, there were no Class B common voting shares or preferred shares outstanding.

b) Issued and outstanding – Class A common shares

	Number	Amount
Common Shares		
Balance, December 31, 2004	66,751,904	\$ 31,339,389
Issued for cash	43,112,690	19,173,838
Share issue costs		(1,921,202)
Balance, September 30, 2005	109,864,594	48,592,025

c) Per Share Amounts

The following table summarizes the weighted average Common Shares used in calculating net loss per common share:

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Basic	102,482,388	45,576,112	83,573,950	44,597,493
Diluted	106,017,921	46,097,851	85,732,954	44,743,877

The reconciling item between the basic and diluted average common shares is stock options.

d) Stock Options

The Company has a stock option plan that provides for the issuance of options to its directors, officers and employees at or above market prices. The stock options granted under the plan vest evenly over a three-year period and expire five years from the date of grant.

The following table sets forth a reconciliation of the stock option plan activity for the nine months ended September 30, 2005:

	Number of Options	Weighted Avg. Exercise Price
Outstanding, December 31, 2004	3,365,000	\$ 0.16
Granted	5,470,000	\$ 0.59
Cancelled	(170,000)	\$ 0.10
Outstanding, September 30, 2005	8,665,000	\$ 0.43
Exercisable, September 30, 2005	1,075,833	\$ 0.17

The outstanding options have a range of exercise prices between \$0.10 per share and \$1.00 per Common Share, and a weighted average number of years to expiry of 4.5. The exercisable options have a range of exercise prices between \$0.10 and \$1.00 per Common Share and have a weighted average number of years to expiry of 4.0.

e) *Stock-based Compensation Costs*

The Company accounts for its stock based compensation plan using the fair value method. Under this method, compensation cost attributable to share options granted to employees or directors is measured at fair value at the grant date and expensed over the expected exercise time frame with a corresponding increase to contributed surplus.

The fair value of each option granted is estimated in the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk free interest rate (%)	3.0
Expected life (years)	3.0
Expected volatility (%)	90.0

f) *Contributed Surplus*

The following table sets forth a reconciliation of contributed surplus for the three months ended June 30, 2005:

Balance, December 31, 2004	\$	41,952
Stock based compensation expense		499,865
Balance, September 30, 2005	\$	541,817

8 Related Party Transactions

At September 30, 2005, Questerre had amounts owing to Terrenex totaling \$781 (December 31, 2004 – \$1,836). All the directors of Terrenex serve as directors or officers of Questerre.

Questerre incurred fees of \$94,500 for the nine months ended September 30, 2005 (2004 – \$94,500) to a company with common directors and officers. The transactions were in the normal course of business paid pursuant to an Office Rental Agreement for the provision of office space, office equipment and support personnel. The agreement may be terminated by either party with six months written notice.

In April 2005, the Company completed a private placement of 3,125,000 Common Shares for gross proceeds of \$1 million. A cash commission of \$0.06 million was paid on closing of the private placement. Terrenex subscribed for 2,815,000 Common Shares and Rupert's subscribed for 312,500 Common Shares.

In May 2005, the Company executed an agreement with Ampac Petroleum Inc., a private exploration and production company, pursuant to which Ampac would perform a specified work program to earn interest in the Field. Jed Wood, a director of the Company is the sole shareholder and director of Ampac.

In April 2005, the Company executed a purchase and sale agreement with Rupert's to acquire its interest in producing properties and exploration acreage in Central Alberta. The purchase price of \$2.1 million was based on an evaluation of the assets prepared by an independent reservoir engineering firm. The transaction was completed in September 2005.

9 Subsequent Events

In November 2005, upon receipt of regulatory and shareholder approval, the Company issued a total of 3,150,000 Common Shares as follows:

- 2,000,000 Common Shares were issued on the conversion of the \$0.6 million promissory note due to Rupert's at a conversion rate of \$0.30 per Common Share. The conversion rate was established in November 2004. See Note 5.
- 300,000 Common Shares were issued to Terrenex pursuant to the Liquidity Option Agreement. See Note 2.
- 850,000 Common Shares were issued employees pursuant to the Employee Retention Plan established in May 2004.

CORPORATE INFORMATION

Directors

Les Beddoes, Jr.
Michael Binnion
Russ Hammond
Tom Landry, Jr.
David Mallory
Peder Paus
Jed Wood

Officers

Michael Binnion
President and Chief
Executive Officer

John Brodylo
VP Exploration

Jason D'Silva
VP Finance

Maria Rees
Corporate Secretary
and Controller

Bankers

Royal Bank of Canada
335 Eighth Avenue SW
Calgary, Alberta
T2P 1C9

Legal Counsel

Borden Ladner Gervais LLP
1000, 400 Third Avenue SW
Calgary, Alberta
T2P 4H2

Transfer Agent

Computershare Trust
Company of Canada
600, 530 Eighth Avenue SW
Calgary, Alberta
T2P 3S8

DnB NOR Bank ASA
Stranden 1, Aker Brygge
N0021 Oslo, Norway

Auditors

PricewaterhouseCoopers LLP
3100, 111 Fifth Avenue SW
Calgary, Alberta
T2P 5L3

Independent Reservoir Engineers

McDaniel & Associates
Consultants Ltd.
2200, 255 Fifth Avenue SW
Calgary, Alberta
T2P 3G6

Head Office

1580 Guinness House
727 Seventh Avenue SW
Calgary, Alberta T2P 0Z5
Telephone: (403) 777-1185
Facsimile: (403) 777-1578
Web: www.questerre.com
Email: info@questerre.com

Stock Information

Toronto Stock Exchange
Oslo Stock Exchange
Common Shares: QEC



**Questerre Energy
Corporation**

1580 Guinness House
727 Seventh Avenue SW
Calgary, Alberta T2P 0Z5
Telephone: (403) 777-1185
Facsimile: (403) 777-1578
Web: www.questerre.com
Email: info@questerre.com

