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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 3, 2006. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review third 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 nine months ended September 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

- Talisman committed to drill exploration well in Quebec
- First well in Mattson development program spud at Beaver River
- Installation of central battery and gas compressor station completed in Vulcan
- Participated in the drilling of 5 (2.7 net) wells with an 80% success rate
- Daily production averaged 1,037 boe, up 63% from 635 boe in the second quarter
- Positive cash flow from operations of \$1.68 million, up 55% from \$1.08 million in the second quarter

St. Lawrence Lowlands, Quebec

In August, Talisman Energy Canada ("Talisman") exercised its option to drill a test well on the Company's acreage in the St Lawrence Lowlands in Quebec. The election follows the processing and interpretation of the 2-D seismic data acquired by Talisman over this land in early 2006.

After a review of the technical data and interpretations made by Talisman, Questerre elected to participate in the well. The Company will pay 10.5% of the well costs and retain a 17.5% working interest in the well. Questerre will also receive an overriding royalty on any production from the well.

The well, known as the Talisman Gentilly #1, well spud in early November. The well is expected to test multiple exploration targets including the fractured Utica shale, Trenton Black-River, Potsdam and PreCambrian basement to an estimated depth of 2,600m.

Talisman has the right to drill up to four wells to earn a majority interest in over 700,000 acres of land held by the Company.

Beaver River Field, British Columbia

Towards the end of the quarter Questerre reported the commencement of drilling operations of the A-7 well at the Beaver River Field. The A-7 well is the first in a multi-well development program for the shallow Besa River/Mattson horizon.

DRAFT

The A-7 well is being drilled at the crest of the structure approximately one kilometre away and up-dip of the A-2 well that has been on production since March 2006. Gross gas production from A-2 has increased from the initial test rate of 1.64 mmcf/d (273 boe/d) in February to a current rate of 3.4 mmcf/d (566 boe/d). The well has an estimated AOF between 5 mmcf/d (833 boe/d) to 6 mmcf/d (1,000 boe/d). Based on core analysis of a Beaver River well by an independent service firm, CBM Solutions Inc., the gas in place for the Besa River shale is estimated to range between 200 Bcf to 495 Bcf per section. Questerre believes that test results from the A-7 well will further corroborate these gas in place estimates.

The A-7 well was recently cased at the top of the Besa River/Mattson. Drilling will continue through this 800m thick target zone of interbedded sandstone, siltstone and shale over the next few weeks to a planned total depth of 2083m.

Plans are underway to commence drilling on the next Mattson/Besa River well in the program, the B-36-K/94-N-16 ("B-3") well. Lease construction for the B-3 well was completed late last month. The prospective intervals on both the A-7 and B-3 well will be fracture stimulated and tested when the hydraulic fracturing equipment can be mobilized in early 2007.

Vulcan, Southern Alberta

Questerre and its partner continued the development of their Mannville oil and gas pools in Vulcan, Southern Alberta. Questerre has a 50% interest in this pool.

The delineation drilling program for the gas pool, known as the Mannville G Pool, was completed with the drilling and casing of the 10-33 well. Questerre has a 28% interest in this well that will be production tested prior to year-end. To date, a total of five (2.28 net) wells have been drilled into the gas pool.

During the third quarter gas production in Vulcan was from two wells producing at restricted rates. The remaining gas wells will be tied-in and placed on production pending approval of the Good Production Practice ("GPP") application from the Alberta Energy & Utilities Board ("AEUB") expected later this year.

Two additional wells were drilled to complete the delineation of the Mannville oil pool in the quarter. The first well, the 8-20 well, encountered oil in the target horizon and is currently producing at 15 bopd (7.5 bopd net). The second well, the 11-30 well, successfully delineated the west edge of the pool and tested oil from an uphole zone. To date, a total of three (1.5 net) wells have been drilled into the oil pool.

Based on these results, Questerre and its partner initially plan to drill up to 4 infill locations in early 2007. The partners anticipate that with GPP application approval, this pool could be downspaced to 80-acre spacing resulting in additional locations next year.

Oil production from Vulcan during the third quarter was from three wells. These wells will be placed on restricted rates until approval of the GPP application for the oil pool. The GPP plan will include the test results of the four infill locations to maximize recovery from this pool. Questerre expects to receive approval of the GPP application for the oil pool in late 2007.

The construction and commissioning of the Vulcan central oil battery and gas compression facility was also completed at the end of the quarter.

The gas compression facility provides flexibility to deliver gas to a second gas plant in the area and removes the pipeline capacity constraints on Vulcan gas production. It also provides flexibility to develop shallow gas zones including the Horseshoe Canyon CBM and conserve solution gas from the oil pool. The facility utilization rate is dependant on a number of factors, including approval of a GPP application by the AEUB, additional oil and gas gathering pipelines to be constructed in the fourth quarter of 2006, and additional successful drilling in the oil pool. The licenced capacity of the oil battery is 1000 bbls per day and the licenced capacity of the gas compression facility is 15 mmcf per day.

DRAFT

Drilling Activities

During the quarter, the Company participated in the drilling of five gross (2.70 net) wells with two (1.0 net) wells cased as oil producers, two (0.98 net) cased as gas producers and one (0.72 net) unevaluated for a 80% success rate.

Subject to the approval of the GPP application for the gas pool in Vulcan, the Company expects production to increase to 1,600 boe per day prior to year-end.

	Third Quarter	Year to Date
Average Daily Production		
Gas (mcf)	5,085	3,321
Oil (bopd)	190	102
BOE	1,037	655
Average sales price		
Gas (\$/mcf)	\$ 6.24	\$ 5.97
Oil (\$/bbl)	\$ 73.28	\$ 66.83
BOE	\$ 44.49	\$ 40.64
Netback (\$/boe)		
Royalties	\$ 11.01	\$ 9.96
Percentage of revenue	30.04%	28.40%
Production Expense	\$ 8.68	\$ 10.09
Operating Netback	\$ 24.80	\$ 20.58
Net cash G&A	\$ 2.97	\$ 4.04
Cash netback	\$ 21.83	\$ 16.54

DRAFT

THIRD QUARTER 2006 FINANCIAL RESULTS

PRODUCTION

Daily production during the third quarter of 2006 averaged 1,037 boe per day. This represents an increase of 63% over production in the second quarter of 2006 (635 boe per day) and a 990% increase over production in the third quarter of 2005 (95 boe per day).

The increase during the third quarter reflects the higher production from the A-2 well at Beaver River and the commencement of production from Vulcan at the end of the second quarter. Furthermore, production from the Stride assets acquired effective May 1, 2006 is included for the entire third quarter as compared to only two-thirds of the second quarter.

Production during the third quarter of 2005 of 95 boe per day was primarily natural gas, with the Beaver River Field accounting for a third and the Company's minor properties in Alberta accounting for the remaining two thirds. For the corresponding period in 2006, production from Beaver River accounted for 27% of average daily production with the remainder from 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 82% of production over the quarter and 84% for the first nine months of the year.

REVENUE

Oil and gas revenue for the third quarter of 2006 increased 84% to \$3.97 million from \$2.16 million in the second quarter. The higher daily production benefited from higher realized prices of \$6.24 per mcf and \$73 per barrel during the 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 September 30, 2006, Questerre reported royalty expense of \$1.19 million as compared to \$0.42 million for the second quarter. This represents an effective royalty rate of 30% for the third quarter as compared to 19% for the second quarter. The significantly lower rate during the second quarter is attributed 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, the Company expects its royalty rate to stabilize around 30% for the remainder of this year.

OPERATING COSTS

The Company reported operating costs of \$0.81 million for the quarter ending September 30, 2006, a 55% increase over operating costs of \$0.52 million for the quarter ending June 30, 2006. On a boe basis, operating costs averaged \$8.68 in the third quarter, a marginal decrease from \$9.05 for the second quarter. Questerre expects its operating costs to trend between \$10-\$12 per boe for the remainder of this year.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses ("G&A") for the three months ending September 30, 2006 were \$0.29 million (2005: \$0.32 million) and \$0.75 million for the nine months ending September 30, 2006 (2005: \$0.64 million). The increased production during the quarter was largely responsible for the reduction in G&A, on a boe basis, to \$2.97 in the third quarter from \$4.26 in the second quarter.

The Company continues to capitalize 5% of its capital expenditures as G&A recovery. On a year to date basis, Questerre capitalized G&A of \$0.78 million (2005: \$0.21 million).

DRAFT

<i>(\$ thousands)</i>	For the nine months ended Sept 30	
	2006	2005
General & administrative expenses	1,534	850
Overhead recoveries	(781)	(212)
General & administrative expenses, net	753	638

STOCK BASED COMPENSATION

Questerre recorded stock based compensation expense of \$0.33 million for the third quarter of 2006 (2005: \$0.31 million) and \$0.93 million for the first nine months of 2006 (2005: \$0.50 million). During the quarter, a total of 935,000 options were granted at an exercise price of \$0.79 per share and 136,248 options were exercised at an average price of \$0.22 per share.

As at September 30, 2006, Questerre had 11.01 million options outstanding at a weighted average fair value of \$0.38 per option.

INTEREST EXPENSE

Interest expense on the Company's bank debt totaled \$0.005 million for the third quarter of 2006 (2005: \$0.01 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.

DEPLETION AND DEPRECIATION

Questerre recognized \$4.69 million in depletion and depreciation in the first nine months of 2006 compared to \$1.63 million for the first nine of 2005. The depletion for 2006 relates to the increased exploration activity and facility costs incurred during the quarter without a proportionate increase in the reserve base.

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 Questerre's 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 September 30, 2006.

TAXES

Consistent with the prior year, Questerre has sufficient tax pool deductions to offset its taxable income in the third 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 September 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 \$1.9 million in the third quarter of 2006 (2005: \$0.55 million) and a net loss of \$2.6 million for the first nine months of the year (2005: \$2.12 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.

DRAFT

The Company reported positive cash flow from operations largely due to the significant increase in production. During the quarter ended September 30, 2006, Questerre reported positive cash flow of \$1.68 million (2005: \$0.003 million), and \$3.06 million for the first nine months of the year (2005: 0.06 million).

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EXPENDITURES

Questerre incurred capital expenditures of \$24 million for the first nine months of 2006 as compared to \$8 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 \$10.96 million in Vulcan and \$3.8 million in Westlock, with \$6.8 million incurred as part of the acquisition of Stride.

In 2005, capital expenditures of \$8 million related to the costs of drilling and completion of wells in the Parkland and Vulcan areas of Alberta along with the acquisition of producing properties in Central Alberta.

Capital expenditures in 2006 were funded primarily through two equity issues completed during the year and cash flow from operations.

WORKING CAPITAL

Questerre reported working capital of \$8.84 million at September 30, 2006 as compared to \$12.18 million for the corresponding period in 2005. Current assets at September 30, 2006 consisted primarily of \$8.6 million in cash and \$4.1 million in receivables. The latter includes \$1.1 million representing amounts due under the insurance claim for the Field. Early in the fourth quarter, the Company received \$1.055 million as full and final settlement of the claim. The balance of the receivables primarily represents petroleum and natural gas revenue from the Company's Alberta properties and the Field.

Questerre's current liabilities consisted of trade payables of \$4.4 million and \$0.09 million representing the term bank loan that has been classified as a current liability.

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 September 30, 2006, there were no Class B common voting shares or preferred shares outstanding and there were a total of 141,122,584 Common Shares outstanding and 11,013,752 stock options outstanding.

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

DRAFT

notice. Questerre's commitment under this agreement for the remainder of 2006 is \$31,500. A total of \$94,500 was paid for each of the first nine months of 2006 and 2005 under this agreement.

The Company is responsible for principal payments on its bank loan in the amount of \$20,100 for the remainder of 2006 and \$73,700 in 2007. The Company has a \$100,000 restricted cash deposit against these obligations.

The Company has entered into a farm-in agreement with Apache Canada Ltd. ("Apache") covering 33 sections in the Westlock area of Alberta. Pursuant to the terms of the agreement, Questerre will fund an initial five well program to earn a majority interest in ten sections of Apache's land. The net costs of Questerre's commitments under this agreement are estimated at \$2.5 million and the wells must be drilled prior to July 2007. Should Questerre not fulfill its obligations, the Company will pay Apache \$0.1 million for each undrilled well.

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.

DRAFT

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.

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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

DRAFT

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 \$3.88 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.

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.