MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared on November 11, 2008. This MD&A is provided by Management of Questerre Energy Corporation ("Questerre" or the "Company") to review third quarter 2008 activities and results as compared to the same period in the prior year. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the nine months ended September 30, 2008 and the audited consolidated financial statements for the year ended December 31, 2007.

Questerre is a junior oil & gas company involved in the exploration and development of scalable high-impact projects. To mitigate the risks associated with these projects, the Company has secured partners to assist in their development. To further diversify risk, the Company continues to develop a portfolio of conventional exploration and production assets.

The Company's common shares are listed on the Toronto Stock Exchange and Oslo Stock Exchange under the symbol "QEC".

Forward Looking Statements

This MD&A contains forward-looking statements. Management's assessment of future plans and operations, production estimates, drilling inventory and wells to be drilled, timing of drilling and tie in of wells, productive capacity of new wells, capital expenditures and the timing thereof, may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, the timing and length of plant turnarounds and the impact of such turnarounds and the timing thereof, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, the Company's actual results could differ materially from those expressed in, or implied by, the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this MD&A are made as at the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-GAAP Terms

This document contains the terms "cash flow from operations", "netbacks", "working capital" and "average sales price" which are non-GAAP terms. The Company uses these measures to help evaluate its performance. The Company considers netbacks a key measure as it demonstrates its profitability relative to current commodity prices and its ability to generate cash flow to fund future growth through capital investment and repay any debt outstanding. As an indicator of Questerre's performance, cash flow from operations should not be considered as an alternative to, or more meaningful than, cash flows from operating activities as determined in accordance with Canadian GAAP. Questerre's determination of cash flow from operations may not be comparable to that reported by other companies.

Cash Flow from Operations Reconciliation

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Cash flows from operating activities	**$ 6,019,866**	$ 2,241,527	**$ 15,859,374**	$ 5,585,673
Net change in non-cash working capital	**(608,312)**	173,086	**(1,369,868)**	3,058,757
Cash flow from operations	**$ 5,411,554**	$ 2,414,613	**$ 14,489,506**	$ 8,644,430

BOE Conversions

Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead.

SELECT INFORMATION

As at/for the period ended September 30	Three Months Ended		Nine Months Ended	
	2008	2007	**2008**	2007
Financial ($)				
Petroleum and Natural Gas Sales	**8,892,160**	4,339,265	**25,161,344**	18,397,561
Cash Flow from Operations	**5,411,554**	2,414,613	**14,489,506**	8,644,430
Per share - Basic	**0.03**	0.02	**0.08**	0.06
Per share - Diluted	**0.03**	0.02	**0.08**	0.05
Net Earnings (Loss)	**292,647**	(676,499)	**(1,725,238)**	1,097,946
Per share - Basic	**–**	–	**(0.01)**	0.01
Per share - Diluted	**–**	–	**(0.01)**	0.01
Capital Expenditures, net of acquisitions and dispositions	**7,352,744**	5,646,625	**28,113,879**	16,106,871
Working Capital Surplus	**67,826,776**	26,476,203	**67,826,776**	26,476,203
Total Assets	**162,756,977**	77,241,283	**162,756,977**	77,241,283
Shareholders' Equity	**145,328,700**	62,100,834	**145,328,700**	62,100,834
Common Shares Outstanding	**197,290,420**	155,250,083	**197,290,420**	155,250,083
Weighted average - basic	**197,250,522**	155,211,741	**182,806,201**	155,200,456
Weighted average - diluted	**208,686,342**	160,919,586	**192,042,814**	161,983,726
Operations (units as noted)				
Average Production				
Crude Oil and Natural Gas Liquids (bbls/d)	**502**	145	**372**	174
Natural Gas (mcf/d)	**4,744**	6,369	**5,382**	7,647
Total (boe/d)	**1,292**	1,206	**1,269**	1,449
Average Sales Price				
Crude Oil and Natural Gas Liquids ($/bbl)	**116.45**	71.93	**112.55**	66.93
Natural Gas ($/mcf)	**8.05**	5.70	**9.26**	7.25
Total ($/boe)	**74.74**	38.74	**72.28**	46.33
Netback ($/boe)				
Total Revenue	**74.80**	39.11	**72.34**	46.52
Royalties	**12.71**	9.51	**12.30**	11.38
Percentage	**17**	24	**17**	24
Field Operating Expense	**13.58**	12.21	**13.86**	11.41
Operating Netback	**48.51**	17.39	**46.18**	23.73
Net Cash G&A	**8.93**	2.46	**6.39**	4.27
Cash Netback	**39.58**	14.93	**39.79**	19.46
Wells Drilled				
Gross	**3.00**	1.00	**11.00**	11.00
Net	**2.30**	0.33	**6.80**	6.82

HIGHLIGHTS

- Successful Utica shale production test in the St. Lawrence Lowlands, Quebec
- Expanded pilot programs commenced in the Lowlands with 4 wells spud during the quarter
- Liard shale well tests at over 10 mmcf/d at Beaver River Field, British Columbia
- Antler, Saskatchewan development program underway with drilling of 2 wells and stimulation of 5 wells in the third quarter
- Quarterly cash flow from operations increased over 124% to $5.41 million from $2.41 million in the third quarter of 2007
- Increased oil production contributed to improved operating netbacks of $48.51 per boe from $17.39 per boe in the prior year

THIRD QUARTER 2008 ACTIVITIES

St. Lawrence Lowlands, Quebec

The shale gas appraisal programs by Questerre's partners Forest Oil ("Forest") and Talisman Energy Canada ("Talisman") commenced in the third quarter.

Forest's program consisted of 2 horizontal wells focused on the Utica shale. The first was a re-entry of the St. Louis de Richelieu well and involved directionally drilling a 600m horizontal leg into the target formation. The second well, St. Francois du Lac 1H, was drilled from surface and followed a similar well path. This is adjacent to the vertical well, St. Francois du Lac, which tested at rates of up to 1 mmcf/d from the Utica earlier this year.

Completion operations on these wells began in the fourth quarter with the stimulation of the St. Louis de Richelieu 1H well. These will include a four-stage hydraulic fracture stimulation per well. Based on the current schedule, the operator, Forest, plans to release preliminary test results from both of these wells by year-end.

Talisman's program began this summer with the re-completion of the vertical Gentilly #1 well to evaluate the Utica as well as the shallower Lorraine shale formation. Following a 250 ton slick water fracture stimulation of a single interval in the Utica, the well flowed at a stabilized rate of over 800 mcf/d on an 18-day test. Stimulation and testing of two intervals in the Lorraine is ongoing. Questerre plans to report on final flow-rates from this well during the fourth quarter of this year.

Talisman also spud La Visitation, the second of 4 earning wells on Questerre's acreage. In addition to the Utica, these earning wells will test the Lorraine and the deeper Trenton Black-River formation. St. David, the third well is scheduled to spud late in the fourth quarter with the fourth well in early 2009.

During the quarter, Questerre spud St. Jean sur Richelieu well to evaluate the Utica potential to the south where the interval is significantly shallower. The vertical well was successfully drilled to a target depth of approximately 500m. Subject to detailed core analysis, Questerre plans to stimulate this well during the first quarter of 2009.

Northeast British Columbia

Greater Sierra

The initial interpretation of the 3-D seismic survey acquired at Greater Sierra this winter was completed in the third quarter. Numerous prospects were identified in the primary Jean Marie formation as well as multiple leads in the deeper Keg River and Slave Point formations.

In light of current natural gas prices and the significant infrastructure costs associated with drilling the principal locations, Questerre and the operator plan to scale down their proposed 8-12 well program this winter. Contingent upon rig availability, Questerre is in discussions with the operator, EnCana Corporation, to drill between 1-2 wells this winter proximate to existing infrastructure.

Beaver River Field

The Beaver River Field summer work program was designed to assess mechanical rock properties and identify prospective intervals for the deepest of three shale horizons.

Following a minor stimulation of the A-5 well, it flowed sweet natural gas at a stabilized rate of 10 mmcf/d over a three day test. The tested interval was a dolomitic sequence above a thick organic-rich shale interval. The well is being tied-in and will be placed on a long term production test to determine the contribution, if any, from the shale interval.

Upon completion of the tie-in, the well will be placed on production in late November at restricted rates. The high flowing pressure associated with this well is likely to reduce production from the lower pressure wells, A-2 and A-7, limiting the overall production gains.

Contingent upon results, Questerre and its partner have identified up to three additional recompletion candidates to further evaluate this shale interval.

Antler, Saskatchewan

Unseasonably wet weather hampered the expanded summer program in Antler, Saskatchewan. During the quarter, Questerre participated in the drilling of 2 (1.5 net) horizontal wells and the stimulation of 5 (2.5 net) existing horizontal wells.

The early results from the stimulated wells are consistent with the production profile of the 2 wells fractured this winter and as reported by other operators in the area. Questerre expects the stage fracture stimulation of horizontal wells will ultimately enhance recovery of the oil in place by an additional 4% to 12%. With production rates 2 to 4 times an unstimulated horizontal well, Questerre anticipates these fracs will play an important role in expanding the current boundaries of the existing pool.

Subject to rig availability, the Company plans to drill an additional 7 (5.0 net) wells in the fourth quarter and stimulate these in addition to 2 existing wells. This activity is expected to continue into 2009 with a proposed drilling program for up to 30 additional wells.

Southern and Central Alberta

Planned development drilling at the Company's oil pool in Vulcan, Southern Alberta was delayed in the third quarter due to facility constraints.

The first horizontal well for the oil pool was tied in to the gathering system and placed on production at an initial regulatory restricted rate of 300 boe/d. The high gas to oil ratio of this horizontal well and the adjacent vertical well exceeded the capacity of the low pressure gas gathering system and compressor. The operator, Compton Petroleum, has initiated the regulatory approval process to install a larger separator and compressor to alleviate this constraint. The facility should be operational by the first quarter of next year. In the interim, the operator is optimizing wellhead facilities to maximize production.

Drilling Activities

During the quarter, Questerre participated in the drilling of 3 (2.3 net) wells, with 2 (1.5 net) wells cased and completed as oil wells and 1 (0.8 net) cased as a potential gas producer.

Corporate

Restructuring

On June 18, 2008, a wholly owned subsidiary of Questerre, Magnus Energy Inc. ("Magnus") and its subsidiary, Magnus One Energy Corp. ("Magnus One"), sought protection under the Bankruptcy and Insolvency Act. Questerre acquired Magnus in November 2007. The filing was precipitated by unsecured creditors rejecting an informal settlement proposal that was made prior to Questerre acquiring Magnus.

In the third quarter, Magnus and Magnus One submitted a proposal to its unsecured and secured creditors to settle amounts outstanding. This formal proposal was made on a similar basis as the informal proposal. At a meeting of creditors held on September 30, 2008, the proposal was approved by the majority of voting creditors. Subject to final regulatory approval, Magnus and Magnus One expect these proposals to be implemented prior to year-end. No adjustment has been made to the consolidated financial statements pending the completion of this reorganization.

PRODUCTION

During the third quarter of 2008, Questerre's daily production averaged 1,292 boe/d. This represents a marginal increase over production in the preceding quarter of 1,241 boe/d and 1,206 boe/d in the third quarter of 2007. On a year to date basis, daily volumes in 2007 were 1,449 boe/d or 14% higher than the current year volumes of 1,269 boe/d.

Oil accounted for an increasing proportion of Questerre's production in 2008 as the Company focused capital on the development of its assets in Antler, Saskatchewan. Light oil and natural gas liquids grew to almost 39% of production in the quarter from 12% during the same period in the previous year and approximately 25% in the second quarter of 2008. Also contributing to the increased volumes in the third quarter was production from the Vulcan oil pool in Southern Alberta. With additional drilling in Antler ongoing, Questerre expects oil to represent approximately 50% of its product mix by year-end.

Consistent with the second quarter of this year, the Company's Alberta assets added just over one-half of total production or 689 boe/d in the third quarter (2007: 1,002 boe/d) with Vulcan still the largest component at 499 boe/d (2007: 724 boe/d). The decrease on an absolute and relative basis largely reflects the comparatively short reserve life of the Vulcan natural gas pool muted by the additions from the oil pool in the second quarter of 2008. Planned dispositions of approximately 100 boe/d coupled with projected growth in other areas will likely result in Alberta accounting for less than 40% of total production by year-end.

British Columbia contributed 296 boe/d during the quarter (2007: 204 boe/d), 25% lower than the average production in the prior quarter of 396 boe/d. This difference was split between the two producing areas - Greater Sierra and Beaver River. The natural production profile of the 2 wells drilled this winter at Greater Sierra saw production average 87 boe/d in the quarter from 141 boe/d in the second quarter. To conserve gas during a period of low prices, the A-2 and A-7 wells at Beaver River were shut-in during September and October resulting in average volumes of 209 boe/d in the quarter from 255 boe/d in the previous period. Volumes from Beaver River are anticipated to increase when the A-5 well is on-stream in the fourth quarter.

The Company's active drilling and stimulation program in Antler saw production increase to 307 boe/d during the third quarter from 203 boe/d in the second quarter despite weather related delays. Net of flush production from new wells, further increases are expected with the planned drilling of 7 additional wells and stimulation of 2 existing wells in the last quarter of this year.

THIRD QUARTER 2008 FINANCIAL RESULTS

Revenue

Petroleum and natural gas revenue for the quarter ended September 30, 2008 was $8.89 million (2007: $4.34 million) and $25.16 million for the first nine months of this year (2007: $18.40 million).

For the third quarter 2008, marginally higher production levels, improved oil weighting and commodity prices were responsible for the over 100% increase in revenue from the prior year quarter. Conversely lower commodity prices offset by the increase in production volumes were responsible for the negligible decrease in revenue from the prior quarter of $9.04 million.

In the third quarter, natural gas prices declined significantly with the benchmark AECO price averaging $7.73/mcf down from $10.22/mcf in the second quarter and $8.58/mcf year to date. Growing concerns about oversupply from US unconventional gas sources and a slowing North American economy coupled with a less active hurricane season and increasing storage levels were among the more significant contributors to this decline.

Questerre continued to realize natural gas prices at a premium to the index with an average sales price of $8.05/mcf in the quarter and $9.26/mcf year-to-date. The premium this quarter was partially tempered by the increasing spread between the Station 2 price for BC production and AECO over the summer months.

Crude oil prices experienced a similar decline in the third quarter due to pessimism about demand from emerging economies, the downturn of global credit markets and rising inventories. The decline of the reference Edmonton Light price from $126/bbl in the second quarter to $122/bbl in the third quarter was softened by the change in the exchange rate against the US dollar. Questerre saw a similar decline in its net sales price from $123/bbl in the second quarter to $117/bbl in the third quarter.

Revenue was augmented by a realized gain on risk management activities during the quarter. Questerre realized a gain of $0.20 million for the quarter and a loss of $0.02 million for the nine months ended September 30, 2008. The amounts derive from a contract for 2,000 GJ/day of production at $8.45/GJ from April 1 to October 31, 2008.

Royalties

Questerre recorded royalty expense of $1.51 million for the third quarter (2007: $1.05 million) and $4.28 million for the first three quarters of 2008 (2007: $4.50 million). This resulted in an effective royalty rate of 17% for both periods as compared to just over 24% for the same periods in 2007. On a quarter over quarter basis, royalties in the second quarter of 2008 were the same at 17%.

Royalties incurred on production in Alberta increased to 26% in the third quarter from 20% in the second quarter. The increase is attributable to the higher Crown royalty payable on production from the oil pool in Vulcan. For the third quarter of 2007, Alberta royalties as a percentage of revenue were slightly lower at 24% primarily for production from the gas pool in Vulcan.

The realized royalty rate in British Columbia decreased from 23% in the second quarter to 20% in the third quarter of 2008. In mid-2009, Questerre expects its recently drilled wells in Greater Sierra to qualify for lower Crown rates of approximately 13% under the ultra marginal gas well royalty program. The rate is expected to decrease further as the Company utilizes a $0.50 million credit to reduce Crown royalties on production from the A-5 well.

With approximately 40% of its revenue from Antler, Saskatchewan, Questerre's effective royalty rate benefits from the Crown royalty incentives in the province. Horizontal wells attract a rate of 2.5% on the first 100,000 barrels of production. Combined with freehold and overriding royalties, royalties as a percentage of production during the third quarter were 5%, essentially unchanged from the previous quarter. The rate is likely to increase in the coming year as more wells are drilled on freehold acreage which attracts a rate of approximately 18%.

Operating Expenses

Aggregate operating expenses for the three months ended September 30, 2008 increased 19% to $1.61 million from $1.35 million in the same period in 2007. For the nine months ended September 30, 2008, these costs increased almost 7% to $4.82 million from $4.51 million in 2008. Compared to the preceding quarter, operating expenses in the third quarter were 10% lower than $1.78 million in the second quarter.

On a boe basis, operating expenses in the third quarter were $13.58 per boe (2007: $12.21 per boe) and $13.86 per boe for the year-to-date (2007: $11.41 per boe). The increase reflects the generally higher costs in 2008 and the relatively fixed proportion of operating costs in its core areas of Vulcan, Beaver River and Antler.

General and Administrative Expenses

For the third quarter of 2008, Questerre recorded general and administrative expenses ("G&A"), net of capitalized overhead and recoveries, of $1.06 million (2007: $0.27 million) and $2.23 million for the first nine months of 2008 (2007: $1.69 million).

Gross expenses increased by 27% to $3.71 million in the current year from $2.91 million in the prior year. Quarter over quarter saw a smaller increase of 25% to $1.43 million in the third quarter from $1.14 million in the second quarter. The increased costs in the current year relate to salary and consulting expense to develop the Company's assets and evaluate acquisition opportunities. Furthermore, increased rental expense was incurred for the expanded lease premises acquired through Magnus in late 2007.

The Company continues to capitalize G&A equal to 5% of its capital expenditures for the year with a maximum of 50% of gross expenses. These expenses represent amounts directly related to exploration and development activities. For the nine months ended September 30, 2008, Questerre capitalized $1.35 million and recorded overhead recoveries of $0.13 million for capital projects it operated. For the same period in 2007, Questerre capitalized $0.87 million and reported overhead recoveries of $0.55 million primarily for the work program conducted at Beaver River.

On a per unit basis, the higher gross costs and lower production volumes translated to G&A per boe of $8.94 in the third quarter (2007: $2.46) and $6.40 for the year to date (2007: $4.27).

Nine months ended ($ thousands)	**2008**	2007
General and administrative expenses	**3,705**	2,911
Bad debt expense	**–**	200
Capitalized expenses and overhead recoveries	**(1,480)**	(1,423)
General and administrative expenses, net	**2,225**	1,688

Stock-Based Compensation

Stock-based compensation expense was $1.85 million for the nine months ended September 30, 2008 (2007: $1.05 million) and $1.00 million for the quarter (2007: $0.36 million).

The significantly higher expense is due to options granted in the current year, with 86% of the expense in the quarter and 73% of the expense in the nine months due to option grants during the year. The remainder relates to option grants in the preceding three years. To date, a total of 8,635,000 options with a weighted average exercise price of $1.81 per share and a weighted average fair value of $1.27 have been granted in 2008.

Other Income and Expense

The net proceeds of the $75 million equity offering completed by Questerre in June earned interest income of $0.51 million in the quarter and $0.90 million for the year. The proceeds are invested in Guaranteed Investment Certificates issued by Canadian chartered banks with a maturity of less than one year.

Interest expense of $0.13 million was incurred by the Company under its term credit facility during the year. The outstanding balance was paid down in the second quarter from the proceeds of the equity offering. As at September 30, 2008, Questerre did not have any amounts outstanding under this facility and does not expect to for the remainder of this year.

Depletion, Depreciation and Accretion Expense

Questerre recognized $4.70 million in depletion, depreciation and accretion expense ("DD&A") for the three months ended September 30, 2008 (2007: $2.52 million) and $13.26 million for the first nine months of 2008 (2007: $8.45 million).

The third quarter per boe rate of $39.58 is in line with the second quarter rate of $38.51 but significantly higher than the rate in the third quarter of 2007 of $22.74. Unsuccessful drilling results from Beaver River in 2007 contributed to a significantly higher depletion base in 2008 offset by the additions for wells drilled in Antler during the year.

At September 30, 2008, Questerre excludes costs of $20.29 million (December 31, 2007: $11.90 million) relating to unproved properties in the calculation of depletion.

The Company estimates its total undiscounted future asset retirement obligations to be approximately $6.10 million with a present value at September 30, 2008 of $4.63 million.

Taxes

As in the prior year, Questerre had sufficient tax pool deductions to offset taxable income in the third quarter of 2008 resulting in no income taxes payable for the quarter. For the nine months ended September 30, 2008, Questerre recorded a future tax expense of $0.64 million.

Net Earnings and Cash Flow

Questerre reported net earnings of $0.29 million for the third quarter of 2008 and a net loss of $1.73 million for the first nine months of the year. For the corresponding periods in 2007, Questerre realized a net loss of $0.68 million for the quarter and net earnings of $1.10 million for the nine months.

In 2008, the increased oil production leveraged higher commodity prices to generate positive net earnings for the quarter aided by the unrealized gain on risk management activities of $0.87 million. For the year to date, the loss on marketable securities and higher depletion expense contributed to the net loss for the period. In 2007, the net earnings for the year is largely due to the gain of $1.50 million realized on the sale of 50% of its working interest at Beaver River to its partner.

Cash flow from operations for the period was essentially unchanged from $5.14 million in the prior period and increased from $2.41 million in the prior year. Higher commodity prices in the quarter and improved operating netbacks were responsible for the increase in cash flow compared to the prior year period.

Capital Expenditures

Capital expenditures, prior to acquisitions and dispositions, in the nine months of 2008 were $28.40 million as compared to $16.11 million in 2007. The majority of these expenditures, or $17.69 million, were incurred in the first quarter primarily at Greater Sierra and Beaver River. In the third quarter, capital expenditures of $7.35 million were incurred as follows:

- $3.71 million in Antler drilling 2 wells and stimulating 5 wells
- $1.14 million at Beaver River primarily recompleting the A-5 well to evaluate shale gas potential
- $2.02 million in Quebec for the exploration activities in the Lowlands, including the recompletion of Gentilly #1 and participating in the drilling of 2 wells.
- The remainder of $0.48 million represents amounts spent in Alberta, primarily in Vulcan for the tie-in of the horizontal well and associated facilities.

In 2007, Questerre incurred $8.15 million in British Columbia, primarily drilling and completing wells for the shallow Mattson horizon at Beaver River and $6.01 million spent in Alberta with the remainder in Quebec.

For the nine months ended ($ thousands)	**2008**	2007
Capital Expenditures		
Alberta	**2,201**	6,010
British Columbia	**14,325**	8,151
Saskatchewan	**8,633**	–
Quebec	**3,127**	707
Corporate/Other	**109**	1,239
Expenditures on Property, Plant and Equipment	**28,395**	16,107
Dispositions (net of gain)	**(890)**	(8,499)
Acquisitions (cash portion)	**609**	–
Acquisitions (non-cash portion)	**155**	–
Asset Retirement Obligations	**–**	376
Total	**28,269**	7,984

Capitalization and Financial Resources

Questerre reported a working capital surplus of $67.83 million at September 30, 2008 as compared to a surplus of $10.00 million at December 31, 2007.

The Company's current assets consist of cash and equivalents of $69.28 million, $2.35 million in deposits and prepaids and accounts receivable of $8.38 million. Current liabilities are $12.80 million in accounts payable and accrued liabilities. The Company funded its capital expenditures of $28.40 million for the year to date through its cash flow, credit facility and working capital.

Questerre's capital budget for the remainder of this year is expected to be approximately $12 million. This budget will be funded through cash flow, existing cash on hand and dispositions of non-core assets.

The Company believes it is well capitalized to weather the current volatility in financial markets with positive cash flow from operations, no debt and working capital consisting mainly of cash in excess of $60 million.

The majority of next year's capital spending will be incurred in Quebec and is in part contingent upon the results of the pilot programs conducted by its partners. The Company does not currently anticipate using its line of credit to fund 2009 capital expenditures. The line of credit is believed to provide adequate contingency for unanticipated changes in capital spending or market conditions.

The recent change in commodity prices will have a material impact on Questerre's cash flow from operations. Questerre attempts to mitigate the effect of lower prices by shutting in production in unusually low pricing environments and reallocating capital to more profitable areas or reducing capital spending based on results and other market considerations.

Share Capital

The following table provides a summary of the outstanding common shares and options as at the date of the MD&A, the current quarter end and the preceding year-end.

	November 11 2008	September 30 2008	December 31 2007
Common Shares	197,290,420	197,290,420	168,930,470
Stock Options	17,670,421	17,320,421	13,064,170
Weighed average common shares			
Basic		182,806,201	157,078,211
Diluted		192,042,814	163,260,612

Contractual Obligations

The Company is obligated to make total payments under an operating lease of $28,953 in 2008, $115,811 in 2009 and 2010. Questerre has commitments under a lease for office space of $84,927 in 2008 and $339,708 in 2009 and 2010.

Off-Balance Sheet Arrangements

There were no off-balance sheet transactions entered into during the period, nor were there any outstanding as of the date of this MD&A.

Business Environment and Risk

Except as detailed below, there were no changes to Questerre's risk management policies during the period from those detailed in the MD&A for the year ended December 31, 2007.

Environmental Regulation and Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined could have a material impact on the nature of oil and natural gas operations, including those of the Company.

The Federal Government released on April 26, 2007, its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as ecoACTION and which includes the Regulatory Framework for Air Emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy-using products. Regarding large industry and industry related projects the Government's Action Plan intends to achieve the following: (i) an absolute reduction of 150 megatonnes in greenhouse gas emissions by 2020 by imposing mandatory targets; and (ii) air pollution from industry is to be cut in half by 2015 by setting certain targets. New facilities using cleaner fuels and technologies will have a grace period of three years. In order to facilitate the companies' compliance of the Action Plan's requirements, while at the same time allowing them to be cost-effective, innovative and adopt cleaner technologies, certain options are provided. These are: (i) in-house reductions; (ii) contributions to technology funds; (iii) trading of emissions with below-target emission companies; (iv) offsets; and (v) access to Kyoto's Clean Development Mechanism.

On March 8, 2007, the Alberta Government introduced Bill 3, the Climate Change and Emissions Management Amendment Act, which intends to reduce greenhouse gas emission intensity from large industries. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12% starting July 1, 2007; if such reduction is not initially possible the companies owning the large emitting facilities will be required to pay $15 per tonne for every tonne above the 12% target. These payments will be deposited into an Alberta-based technology fund that will be used to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. As an alternate option, large emitters can invest in projects outside of their operations that reduce or offset emissions on their behalf, provided that these projects are based in Alberta. Prior to investing, the offset reductions, offered by a prospective operation, must be verified by a third party to ensure that the emission reductions are real.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company and its operations and financial condition.

Review of Alberta Royalty and Tax Regime

The government has previously stated its intention to consult with industry and potentially revise the New Royalty Framework ("NRF") for unintended consequences. This consultation has now been concluded and on April 10, 2008 the government released its clarifications as well as a new "deep resource program". Highlights of this release are as follows:

Deep oil wells

- A five-year oil program for exploration wells over 2,000 meters will provide royalty adjustments to offset higher drilling costs and provide a greater incentive for producers to continue to pursue new, deeper oil plays.
- Wells deeper than 2,000 meters represented 20 per cent of oil wells drilled and 26 per cent of new conventional oil production between 2002 and 2007.
- Wells will qualify for up to $1 million or 12 months of royalty offsets, whichever comes first.

Deep natural gas

- To encourage continued deep gas exploration, the government will replace the existing Royalty Adjustment Program with the Natural Gas Deep Drilling Program for wells deeper than 2,500 meters.
- Wells over 2,500 meters represented five per cent of natural gas wells drilled and 27 per cent of natural gas production between 2002 and 2007.
- The Natural Gas Deep Drilling Program will provide greater benefits to deeper wells, creating a sliding scale of royalty credit according to depth, up to $3,750 per meter.

Other clarifications as a result of the unintended consequences analysis

- Under the New Royalty Framework, four par prices instead of two will be used to calculate royalties on oil, allowing royalties to be charged at a price closer to that received by the producer.
- Natural gas royalty will be calculated based on the sum of vertical drill depth and all laterals, encouraging greater development of coalbed methane. Greater use of laterals may significantly lessen land use and the environmental footprint of CBM development.

Questerre has reviewed the new program as well as the "clarifications" and it has determined that they do not materially alter the impact of the NRF as disclosed in the Company's 2007 annual report.

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. There were no changes to Questerre's critical accounting estimates in the period from those used in the audited financial statements from 2007. Please refer to the MD&A for the year ended December 31, 2007.

Changes in Accounting Policies

Accounting Standard Changes

As of January 1, 2008, Questerre adopted the following new Canadian Institute of Chartered Accountants ("CICA") standards:

Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation", which will replace Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

Section 1535 "Capital Disclosures", which will require additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements.

Section 3031, "Inventories" which establishes standards for presentation of inventories. The new standard replaces the previous inventories standard and requires inventory to be valued on a first-in, first-out or weighted average basis, which is consistent with Questerre's former accounting policy. The new standard allows the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The adoption of this standard has had no material impact on the Company's financial statements.

Future Accounting Pronouncements

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As Questerre will be required to report its results in accordance with IFRS starting in 2011, the Company is assessing the potential impacts of this changeover and developing its plan accordingly.

In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. Questerre is currently evaluating the impact this section will have on its results of operations and financial position.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to Questerre's management as appropriate to allow timely decisions regarding required disclosure. Questerre's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared.

Internal controls have been designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements together with the other financial information for external purposes in accordance with Canadian GAAP. The Company's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision internal controls over financial reporting related to the Company, including its consolidated subsidiaries.

The Company's Chief Executive Officer and Chief Financial Officer are required to cause the Company to disclose herein any change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. There were no material changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2008.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.