Management's Discussion and Analysis

The following discussion of financial condition and results of operations was prepared by Management at April 30, 2004 and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto. It offers Management's analysis of Questerre's financial and operating results and provides estimates, where possible, of Questerre's future financial and operating performance based on information currently available. Actual results may vary from estimates and the variances may be significant.

When calculating unit costs, natural gas is converted to a barrel of oil equivalent using a conversion ratio of six thousand cubic feet equal to one barrel (6:1 ratio).

TORONTO STOCK EXCHANGE LISTING AND INITIAL PUBLIC OFFERING

In July 2003, Questerre successfully completed its Initial Public Offering ("IPO") and began trading on the Toronto Stock Exchange. The IPO financing raised gross proceeds of $7.4 million with 4.14 million flow-through shares, 3.26 million common shares, and 5.34 million common share warrants.

Proceeds from the financing were utilized to drill a new A-5 well on the Company's Beaver River field through the re-entry of the existing A-5 wellbore. The new A-5 well location, supported by seismic, targeted reservoir structure up-dip from the highest producing well in the field.

BEAVER RIVER FIELD DRILLING OPERATION

A significant focus of Questerre's operations in 2003 was the drilling of the new A-5 well at the Beaver River Field. The operation commenced in August 2003 and encountered significant operational delays and cost overruns. The well was completed subsequent to year-end and encountered the reservoir at a sub-sea depth below the original target as identified by seismic. The well was tied-in to existing production facilities in March 2004 and brought on-stream for an extended production test at an initial rate of 3,000 mcf/day.

CREDITOR PROTECTION – QUESTERRE BEAVER RIVER INC.

The substantial cost overruns encountered on the A-5 drilling operations led to serious financial difficulties for Questerre's wholly owned subsidiary, Questerre Beaver River Inc. ("QBR"). On April 1, 2004, QBR applied for and was granted an Initial Order by the Court of Queen's Bench of Alberta providing for creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). The filing under CCAA is intended to allow QBR to restructure its affairs while continuing operations on a normalized basis. The Court Order prohibits creditors from taking action against QBR and prevents QBR from paying most claims which arose before April 1, 2004. QBR is working to put together a plan of arrangement between QBR and its creditors and other stakeholders.

Statements of claim have been filed by various parties against the Company and its subsidiary, QBR. All of the claims relate to the provision of services and materials for the drilling of the Beaver River well. The amounts claimed have been fully provided for as part of accounts payable at December 31, 2003. The outcome of the lawsuits is dependent, in part, on the CCAA process and is unknown at this time.

The Company's future outlook and plans of operation for QBR and the Beaver River project will be determined by the outcome of the restructuring of QBR under CCAA. If the restructuring cannot be completed, the Company may not be able to realize its assets and discharge its liabilities in the normal course of business.

PRODUCTION

Raw gas production from the Beaver River Field for the first six months of 2003 averaged 692 mcf/day compared to 1,600 mmcf/day of production for the ten months that the field was on production in 2002. The Company had no production from the Beaver River field at the end of 2003 as both producing wells were shut-in. In July 2003, the A-5 was shut-in to drill the new well and in October 2003, the second producing well was shut-in due to pipeline pressures and water disposal constraints. Consistent with 2002, the Company's production from minor Alberta properties in 2003 was approximately 25 boe/day in natural gas and associated natural gas liquids.

2003 FINANCIAL RESULTS

REVENUE

Questerre reported petroleum and natural gas revenues of $1.5 million in 2003 (2002 – $2.34 million). 2003 revenues included $1.1 million (2002 – $2.0 million) in natural gas sales and priority right to cash flow from Beaver River and $0.4 million (2002 – $0.34 million) from non-operated minority interests in Alberta properties. Questerre's realized natural gas prices increased 60% to $6.79/mcf in 2003 from $4.25/mcf in 2002. Increases in revenue associated with improved natural gas prices were offset by decreased production in 2003.

ROYALTIES

Crown royalties for the Beaver River property are governed by a royalty agreement which provides for the deferral of all royalties until the earlier of June 30, 2004 and cumulative production of 13 Bcf from the project. Repayment of deferred royalties is contingent on both the success of the experimental project for which the deferral was granted and on monthly production exceeding volumes established by the Crown. Questerre's reported royalty recovery in 2003 included the reversal of prior years' royalty expense recognized under the royalty agreement. Based on the limited production and disappointing results to date, the Company has adjusted the liability from $1.4 million at December 31, 2002 to Nil at December 31, 2003 on the basis that the conditions for repayment do not exist. The impact on 2003 was a recovery of deferred crown royalties in the amount of $1.4 million.

OPERATING COSTS

Total operating expenses decreased 22% from $1.46 million in 2002 to $1.14 million in 2003, consistent with decreased production. There is a significant amount of fixed costs associated with operating the Beaver River property; however, gas processing and transportation fees are directly proportionate to production and are based on interruptible service rates for production processed at the Duke Fort Nelson plant. Marketing fees in 2002 and 2003 were charged at 5% of gross revenue pursuant to an existing marketing contract. This contract was terminated in 2003 and a daily spot price contract was negotiated for 2004 with substantially reduced marketing fees.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of $1.0 million in 2003 included $650,000 of bad debt expense recorded against amounts receivable from partners on the Beaver River project. Excluding bad debt expense, net general and administrative expenses decreased by 28% compared to 2002 primarily as a result of increased overhead recoveries associated with an increased capital expenditure program in 2003.

($ thousands)		**2003**		2002
General & administrative expenses	**$**	**1,023**	$	1,000
Bad debt expense		**650**		–
Overhead recoveries		**(671)**		(513)
General & administrative expenses, net	**$**	**1,002**	$	487

INTEREST ON LONG-TERM DEBT

Interest on bank debt totaled $65,000 for 2003 compared to $23,000 in 2002. Questerre obtained its $400,000 term loan in July 2002 and, as such, the Company only incurred interest expense for five months in 2002 compared to twelve months in 2003.

DEPLETION, DEPRECIATION AND SITE RESTORATION

Questerre recognized $17.3 million in depletion and depreciation in 2003 compared to $5.3 million in 2002. Included in 2003 is a $16.7 million "ceiling test" write-down recorded by the Company on its Beaver River petroleum and natural gas assets. Based on the reserve evaluation, the Company had no proved or probable reserves associated with its Beaver River property at December 31, 2003. All costs associated with the Beaver River property, excluding geological and geophysical costs of $2.6 million were written down and included in depletion for the year.

Questerre does not include costs associated with its St. Lawrence Lowlands acreage in Quebec in the calculation of depletion or in costs subject to the ceiling test calculation. The Quebec property remains undeveloped at December 31, 2003.

The Company's estimated future site restoration and abandonment costs at December 31, 2003 were $898,000 (2002 – $898,000). The annual provision for site restoration is calculated on a unit of production basis using proved reserves. Questerre has recorded the full amount of the estimated liability for site restoration and abandonment associated with the Beaver River property at December 31, 2003 on the basis that there are no proved reserves associated with the property at the date. The annual provision for future site restoration recorded in 2003 was $525,300 (2002 – $109,200).

TAXES

Consistent with prior years, Questerre had sufficient tax pool deductions to offset taxable income in 2003 resulting in no income taxes payable for the current year. In addition, the Company's tax assets significantly exceed tax liabilities. No tax asset is recognized at December 31, 2003 as there is no certainty that the Company will be able to realize the value of the tax assets in the future.

Questerre does not expect to pay income taxes in 2004 based on the Company's estimated tax pools in excess of $19 million at December 31, 2003.

NET LOSS AND CASH FLOW

Questerre recorded a net loss of $17.2 million ($0.56/share) in 2003 compared to $5.6 million ($0.21/share) in 2002. The current year net loss included a $16.7 million ceiling test write-down on the Beaver River property ($3.7 million write-down in 2002).

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EXPENDITURES

Questerre incurred capital expenditures of $14.0 million in 2003 compared to $4.5 million in 2002. The majority of 2003 capital spending ($13.1 million) related to the Beaver River project primarily the drilling of the A-5 well.

Capital expenditures on the Company's Quebec property were largely directed to the acquisition of gas exploration licenses. In May 2003, the Company issued 750,000 common shares at a deemed price of $1.00/share, to Terrenex Acquisition Corporation on the termination of a Farmout agreement covering the St. Lawrence Lowlands licenses. Subsequent to terminating the agreement, Questerre successfully obtained the gas exploration licenses previously covered by the Farmout agreement.

CAPITAL EXPENDITURES

($ thousands)	**2003**	2002
Beaver River Project, BC	**13,090**	3,969
St. Lawrence Lowlands, Quebec	**876**	526
Minor Alberta Properties	**72**	–
Total	**14,038**	4,495

WORKING CAPITAL DEFICIENCY

Questerre reported a working capital deficiency of $4.6 million at December 31, 2003, which includes outstanding bank debt of $314,900. Financial covenants associated with the bank loan 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 is not in compliance with the financial covenants and, therefore, the bank loan has been classified as a current liability.

Questerre's current assets at December 31, 2003 include accounts receivable of $0.6 million, the majority of which relates to outstanding GST refunds. Inventory of $0.7 million at December 31, 2003 (2002 – $0.1 million) includes $0.5 million in drilling mud, all of which was utilized or returned for credit in the first quarter of 2004.

Questerre's trade payables of $7.2 million primarily related to capital expenditures and significant cost overruns associated with the Beaver River A-5 well to December 31, 2003. The Company intended to satisfy trade payables and rectify the working capital deficiency through additional financing or alternatively, from future cash flow from the A-5 well early in 2004. However, cost overruns continued to escalate on the drilling, completion and tie in operations throughout 2004 and well production capability was significantly less than anticipated.

The substantial cost overruns encountered on the A-5 drilling operations led to serious financial difficulties for Questerre's wholly owned subsidiary, Questerre Beaver River Inc. ("QBR"). On April 1, 2004, QBR applied for and was granted an Initial Order by the Court of Queen's Bench of Alberta providing for creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). QBR is working to put together a plan of arrangement between QBR and its creditors and other stakeholders.

At December 31, 2003, QBR had a continuing capital expenditure commitment to complete the drilling of the Beaver River well. The total costs of the well are currently estimated at over $18 million, with $5.7 million incurred in 2004 for additional drilling, completion and tie-in costs. A portion of the 2004 costs were financed by a flow-through share offering which raised gross proceeds of $2.4 million; however the remainder of the costs increased the working capital deficiency. These conditions ultimately led to QBR's declaration of insolvency and application for court protection on April 1, 2004.

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 December 31, 2003, there were no Class B common voting shares or preferred shares outstanding.

In July 2003, Questerre successfully completed its Initial Public Offering ("IPO")and obtained a listing on the Toronto Stock Exchange. The initial prospectus financing raised gross proceeds of $7.4 million with 4,137,700 flow-through shares, 3,269,480 common share shares, and 5,751,922 common share warrants.

Prior to completing the IPO, the shareholders of the company, at the annual and special meeting of the shareholders, approved a subdivision of the company's common shares on a three-for-one basis. The effect on the company's common shares at January 1, 2003 was an increase from 8,945,000 common shares to 26,835,000 common shares.

In addition to the IPO financing, Questerre completed 3 smaller private placement financings which raised combined gross proceeds of $1,275,200 on the issue of 209,500 common shares and 900,900 flow though shares. The flow through shares were issued to Terrenex Acquisition Corporation ("Terrenex"), a related party.

Throughout 2003, the Company entered into several capital transactions with Terrenex Acquisition Corporation. Terrenex is a related party with three directors who also serve as directors for Questerre. In May 2003, the Company issued 750,000 common shares at a deemed price of $1.00/share, to Terrenex Acquisition Corporation ("Terrenex") on the termination of a Farmout agreement covering the St. Lawrence Lowlands licenses. In December 2003, Terrenex converted $4.5 million of Series I Preferred shares into common shares at a conversion price of $1.00/share. In addition, Terrenex exercised 1,509,666 common share purchase warrants to purchase common shares at an exercise price of $1.11/share for proceeds of $1.7 million.

Subsequent to year end, on February 13, 2004, the Company completed a private placement for 642,860 common shares and 1,878,791 flow-through common shares for gross proceeds of $3,156,003. Proceeds from the offering were primarily used to finance the completion and tie-in of the A-5 well at Beaver River.

QUARTERLY INFORMATION

PERIOD ENDED DECEMBER 31, 2003

($ thousands except where noted)	Q1	Q2	Q3	Q4	Total
Production revenue, net of royalties	491,366	490,265	124,850	242,811	1,349,292
Net loss	(262,986)	(245,196)	(544,271)	(16,132,172)	(17,184,625)
Per share – basic	(0.01)	(0.01)	(0.02)	(0.52)	(0.56)
Per share – diluted	(0.01)	(0.01)	(0.02)	(0.52)	(0.56)

PERIOD ENDED DECEMBER 31, 2002

($ thousands except where noted)	Q1	Q2	Q3	Q4	Total
Production revenue, net of royalties	335,918	616,194	162,675	686,465	1,801,252
Net loss	(4,983,524)	(158,646)	(375,538)	(38,907)	(5,556,615)
Per share – basic	(0.19)	(0.01)	(0.01)	–	(0.21)
Per share – diluted	(0.19)	(0.01)	(0.01)	–	(0.21)

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. The following discussion outlines the accounting policies and practices that are critical to determining Questerre's financial results.

FULL COST ACCOUNTING

Questerre follows the Canadian Institute of Chartered Accountants' ("CICA") guideline on full cost accounting to account for its oil and natural gas properties. Under this method, all costs associated with the acquisition of, exploration for and development of natural gas and crude oil reserves are capitalized and costs associated with production are expensed. The capitalized costs are depreciated, depleted and amortized using the unit-of-production method based on estimated proved reserves. Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depreciation, depletion and amortization ("DD&A"). A downward revision in a reserve estimate could result in a higher DD&A charge to earnings. In addition, if net capitalized costs are determined to be in excess of the calculated ceiling, which is based largely on reserve estimates, the excess must be written off as an expense charged against earnings.

OIL AND GAS RESERVES

Questerre's year end 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.

FUTURE SITE RESTORATION AND ABANDONMENT COSTS

The Company recognizes a provision for future site reclamation and abandonment costs calculated on the unit-of-production basis over the life of the petroleum and natural gas properties based on total estimated reserves (see above) and an estimated future abandonment liability. The estimate of the future abandonment liability is determined by management based on the best available information using current costs and current technology. These estimates are subject to change over time and, as such, may impact the charge against income for future site reclamation and abandonment costs.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

STOCK BASED COMPENSATION

Effective January 1, 2004, the CICA Section 3870, "Stock-based compensation and other stock-based payments" will require all stock based compensation, including stock options, to be expensed at fair value. Under existing standards, companies have the option of disclosing this information in the notes to the financial statements rather than expensing stock options. The Company will be retroactively adopting the new requirements January 1, 2004 which results in an increase in deficit of $70,527.

ASSET RETIREMENT OBLIGATIONS

In December 2002, the Accounting Standards Board approved a standard on accounting for asset retirement obligation to be applied for fiscal years beginning on or after January 1, 2004. The new standard requires recognition of a liability for obligations associated with the retirement of property, plant and equipment. The liability would be recognized initially at the fair value with the resulting amount capitalized as part of the asset cost, subsequently increasing depletion and depreciation expense. In subsequent periods, the liability is accreted for the change in the present value in each period. The Company will be retroactively adopting the new requirements January 1, 2004. Questerre is assessing the new requirements but does not anticipate a material effect on its financial statements based on the significant ceiling test write-downs recorded to date and the full recognition of site restoration liabilities in its 2003 financial statements.

FULL COST ACCOUNTING GUIDELINE

In September 2003, the CICA issued a new accounting guideline "Oil and Gas Accounting - Full Cost" effective for years beginning after January 1, 2004. The new guideline amends the ceiling test calculations to be a two step process. The first step would determine whether a write-down is required by comparing the carrying value of the properties to the undiscounted cash flow of the proved reserves (based on management's best estimate of future prices) plus the lower of cost and market value for unproved properties. If there is an impairment calculated under the first step, the carrying value of properties will be written down to the discounted value of the proved plus probable reserves (based on management's best estimate of future prices) plus the lower of cost and market of unproved properties. Questerre is assessing the new requirements but does not anticipate a material effect on its financial statements based on the significant ceiling test write-downs recorded to date and based on the reserve evaluation with no proved and no probable reserves at December 31, 2003.

RISK MANAGEMENT

Companies engaged in the petroleum and natural gas industry face a variety of risks. For Questerre, these include risks associated with exploration and development drilling as well as production operations, commodity prices, exchange rate and interest rate fluctuations. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates and government regulations could have an impact on the Company's future operating results and/or financial condition. While management realizes that all the risks may not be controllable, they can be monitored and managed.

Questerre's wholly owned subsidiary, QBR filed for and obtained creditor protection under CCAA in April 2004. The future outlook and plans of operation for QBR and the Beaver River project will be determined by the outcome of the restructuring of QBR under CCAA.

Statements of claim have been filed by various parties against the Company and its subsidiary, QBR. All of the claims relate to the provision of services and materials for the drilling of the Beaver River well. The amounts claimed have been fully provided for as part of accounts payable at December 31, 2003. The outcome of the lawsuits is dependent, in part, on the CCAA process and is unknown at this time.

A significant risk for Questerre as a junior exploration company is access to capital. The Company attempts to secure both equity and debt financing on terms it believes are attractive in current markets. Management also endeavors to seek farm-in participants to participate in the development of its projects on favorable terms. However, there can be no assurance that the Company will be able to secure sufficient capital if required or that such capital will be available on terms satisfactory to the Company.

The Company has issued and will continue to issue flow through shares to investors. The Company uses its best efforts to ensure that qualifying expenditures of CEE are incurred in order to meet its flow through obligations. However, in the event that the Company incurs qualifying expenditures of CDE or has CEE expenditures reclassified under audit by Canada Customs and Revenue Agency, the Corporation may be required to liquidate certain of its assets in order to meet the indemnity obligations under the flow through share subscription agreements.

Exploration and development drilling risks are managed through the use of geological and geophysical interpretation technology, employing technical professionals and working in areas where those individuals have experience. Being the operator and maintaining a high working interest in its properties allows the Company to best manage operational risk by giving the Company control over costs and timing of expenditures, and the method and sales of production. Where the Company is not the operator of a property, it strives to develop a good working relationship with the operator and the other partners in the property and monitors the operational activity on the property. The Company also carries appropriate insurance coverage for risks associated with its operations.

Although Questerre has no formal hedging policy, the Company may use financial instruments to reduce corporate risk in certain situations. Questerre currently has no hedges or other financial instruments in place.

Interest rates on long-term debt float with the Bank of Canada rate. The Company does not have any US$ denominated debt. If strong indications arise that interest rates would be increasing significantly, steps would be taken where possible to fix the rate for a period of time

Potential risks to the environment are inherent in some of the business activities of the Company. Questerre intends to conduct its operations in a manner consistent with environmental regulations as stipulated in provincial and federal legislation. Facilities are modern and are well maintained complying with environmental and safety regulations. The Company also mitigates the potential financial exposure of environmental risks by maintaining adequate insurance.