No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

A COPY OF THIS PRELIMINARY PROSPECTUS HAS BEEN FILED WITH THE SECURITIES REGULATORY AUTHORITIES IN ALBERTA, BRITISH COLUMBIA AND ONTARIO BUT HAS NOT YET BECOME FINAL FOR THE PURPOSE OF THE SALE OF SECURITIES. INFORMATION CONTAINED IN THIS PRELIMINARY PROSPECTUS MAY NOT BE COMPLETE AND MAY HAVE TO BE AMENDED. THE SECURITIES MAY NOT BE SOLD UNTIL A RECEIPT FOR THE PROSPECTUS IS OBTAINED FROM THE SECURITIES REGULATORY AUTHORITIES.

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities.

PRELIMINARY PROSPECTUS

Initial Public Offering May 14, 2003

QUESTERRE ENERGY CORPORATION

MAXIMUM OFFERING: $8,500,000 (● UNITS)
MINIMUM OFFERING: $5,000,000 (● UNITS)

PRICE: $● PER UNIT

Questerre Energy Corporation ("Questerre" or the "Corporation") by this prospectus (the "Prospectus") hereby qualifies for distribution up to a maximum ("Maximum Offering") of ● units ("Units") consisting of a maximum of ● flow-through units ("Flow-Through Units") or of a maximum of ● regular units ("Regular Units") or some combination thereof totaling a maximum of ● Units and a minimum ("Minimum Offering") of ● Units consisting of a minimum of ● Flow-Through Units or of a minimum of ● Regular Units or some combination thereof totaling a minimum of ● Units at a price of $● per Unit for aggregate gross proceeds of a maximum of $8,500,000 and a minimum of $5,000,000. Each Flow-Through Unit consists of one Class "A" common share ("Common Share") of the Corporation issued on a flow-through basis ("Flow-Through Common Share") and one-half of one Common Share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to acquire one Common Share at an exercise price of $● until December 31, 2003 and thereafter at a price of $● until December 31, 2004. Each Regular Unit consists of one Common Share and one whole Warrant. The Common Shares issued on the exercise of the Warrants will not be issued on a flow-through basis.

	Number of Units	**Price to the Public**	**Agent's Fee**(1)(2)	**Net Proceeds to the Corporation**(2)(3)(4)
Per Unit	1	$●	$●	$●
Maximum Offering	●	$8,500,000	$680,000	$7,820,000
Minimum Offering	●	$5,000,000	$400,000	$4,600,000

Notes:

1. Pursuant to the Agency Agreement, Canaccord Capital Corporation ("Canaccord" or the "Agent") will be paid a commission equal to 8% (the "Agent's Commission") of the gross proceeds of the Offering. In addition to the commission, the Agent will be granted an option (the "Agent's Option") to purchase that number of Common Shares equal to 8% of the aggregate number of Units sold pursuant to this Offering for 12 months following the date of the initial closing of the Offering (the "Initial Closing Date") at a price of $● per Common Share. This Prospectus qualifies for distribution the Agent's Option. The Agent will be reimbursed for reasonable expenses and legal fees incurred in connection with the Offering. See "Plan of Distribution".
2. The Corporation has granted to the Agent an option (the "Over Allotment Option") exercisable for a period of 30 days from Initial Closing Date to purchase up to an additional ● Units on the same terms set forth above solely to cover over allotments, if any. If the Over Allotment Option is exercised in full, the gross proceeds, the Agent's Commission and net proceeds to the Corporation will be $●, $● and $●, respectively. This Prospectus also qualifies the grant of the Over Allotment Option and the Common Shares and Warrants issuable as part of the Units on the exercise of the Over Allotment Option. See "Plan of Distribution".

3. Before deducting expenses of the Offering, which are estimated to be $170,000.
4. Does not include the proceeds, if any, which may be received by the Corporation on the exercise of the Warrants, the Over Allotment Option and the Agent's Option. There is no assurance that the Warrants or the Agent's Option will be exercised.

The Agent conditionally offers the securities qualified hereunder, on a "best efforts" basis, subject to prior sale, if, as and when issued by Questerre and accepted by the Agent in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution".

The issue price of the Flow-Through Units and Regular Units offered for sale hereunder was determined by negotiation between Questerre and the Agent.

There is no market through which the Common Shares and Warrants may be sold and purchasers may not be able to resell their Common Shares and Warrants purchased under the Prospectus.

The promoters, directors and senior officers of the Corporation beneficially own, directly or indirectly, or control, collectively 2,282,950 (24.9%) of the Common Shares issued and outstanding prior to the Offering (●% after giving effect to the Minimum Offering and ●% after giving effect to the Maximum Offering).

Purchasers who place an order to purchase Flow-Through Common Shares with the Agent, or any sub-agent of the Agent, will be deemed to have authorized the Agent or such sub-agents to execute and deliver, as agent on their behalf, the Subscription Agreement (as hereinafter defined). Provided that the Minimum Offering is subscribed for, it is expected that the Initial Closing Date will be June ●, 2003, or such other date as the Corporation and the Agent may agree to not later than ●, 2003. Should closing occur in respect of the Minimum Offering, one or more closings, if necessary, may occur until the earlier of the Maximum Offering being subscribed for and ●, 2003. The Offering will be discontinued if a closing in respect of the Minimum Offering has not occurred on or prior to that date that is 90 days from the issuance of a receipt for this Prospectus, unless each of the persons or companies that subscribed for Units during that period and applicable regulatory authorities consent to a continuation of the Offering.

Until the Initial Closing Date, all subscription funds received by the Agent will be promptly delivered to and held by Computershare Trust Company of Canada (the "Custodian"), pending Closing of the Minimum Offering, pursuant to the provisions of the Agency Agreement. If the Minimum Offering has not been subscribed for prior to the expiry of the 90 day period, the Custodian shall promptly return the proceeds of subscriptions to the Purchasers without interest or deduction unless such Purchasers have otherwise instructed the Custodian.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the Corporation reserves the right to close the subscription books at any time once the Minimum Offering is achieved. Certificates representing the securities acquired hereunder will be available at closing.

An investment in the Units offered should be considered highly speculative due to the nature of the Corporation's business and its relatively early stage of development. Exploration for natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that additional commercial quantities of natural gas will be discovered by the Corporation. Purchasers must rely on the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation. There is no guarantee that the Corporation will be able to secure financing to meet its future needs on reasonable terms. The Corporation's business is subject to various risks associated with the oil and gas industry, including those associated with oil and gas exploration, the marketability of oil and gas, government regulations, the hazards of operations and fluctuations in the prices it receives for oil and gas. For these reasons, the Offering is suitable only to those Purchasers who are able to risk a loss of their entire investment. Potential Purchasers should read this entire Prospectus and consult their professional advisors before investing. See "Risk Factors".

Purchasers that acquire Flow-Through Units will be entitled to certain deductions for Canadian federal income tax purposes. The Corporation will renounce no later than March 31, 2004, effective December 31, 2003, Canadian exploration expenses, as defined by the *Income Tax Act* (Canada), and Eligible CDE, as defined below, in an amount equal to $● for each Flow-Through Unit purchased. See "Canadian Federal Income Tax Considerations".

Certain legal matters in connection with the Offering will be passed upon for the Corporation by Borden Ladner Gervais LLP, Barristers and Solicitors, Calgary, Alberta and for Canaccord Capital Corporation by McCarthy Tétrault LLP, Barristers and Solicitors, Calgary, Alberta.

Canaccord Capital Corporation
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Tel: (403) 508-3800
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ABBREVIATIONS AND DEFINITIONS

In this Prospectus, the abbreviations set forth below have the following meanings:

"**boe**"	barrel of crude oil equivalent	"**mbbl**"	thousands of barrels of crude oil
"**bcf**"	billion cubic feet of natural gas	"**mmcf**"	million cubic feet of natural gas
"**tcf"**	trillion cubic feet of natural gas	"**mmcfd**"	million cubic feet of natural gas per day
"**GJ**"	gigajoules of natural gas	"**m**^{3}"	cubic metre of natural gas

In this Prospectus, the capitalized terms set forth below have the following meanings:

"**ABCA**" means the *Business Corporations Act* (Alberta), together with any or all regulations promulgated thereunder, as amended from time to time;

"**Agency Agreement**" means the agency agreement entered into between Questerre, the Custodian and the Agent dated ●, 2003, with respect to, among other things, the offering of the Units;

"**Agent**" means Canaccord Capital Corporation;

"**Agent's Option**" means the option to be issued to the Agent at each closing of the Offering to purchase that number of Common Shares equal to 8% of the aggregate number of Units sold pursuant to the Offering at a price of $● per Common Share until the date which is 12 months after the Initial Closing Date;

"**Business Day**" means any day, other than a Saturday, Sunday or Canadian federal or Alberta provincial holiday, on which banks are open for business in Calgary, Alberta;

"**Canadian Development Expense**" or "**CDE**" means Canadian development expense described in subsection 66.2(5) of the Tax Act and, when renounced under subsections 66(12.66) and (12.601) of the Tax Act, means Canadian development expense described in paragraphs (a) or (b) of the definition of "Canadian development expense" in subsection 66.2(5) of the Tax Act or which would be included in paragraph (f) of subsection 66.2(5) of the Tax Act if the reference therein to "any of paragraphs (a) to (e)" were read as "paragraph (a) or (b)";

"**Canadian Exploration Expense**" or "**CEE**" means Canadian exploration expense described in subsection 66.1(6) of the Tax Act and, when renounced under subsection 66(12.66) of the Tax Act, means Canadian exploration expense described in paragraphs (a) or (d) of the definition "Canadian exploration expense" in subsection 66.1(6) of the Tax Act or which would be included in paragraph (h) of subsection 66.1(6) of the Tax Act if the reference therein to "paragraphs (a) to (d) and (f) to (g.1)," were read as "paragraphs (a) and (d)";

"**Closing Date**" means the date of closing of the Offering, the first of which is expected to occur on or about June • 2003, but may occur on such other date within ninety (90) days from the date of this Prospectus or such other time as may be authorized by the applicable regulatory authorities and consented to by all of the persons or companies that subscribed for Units and the Agent. The Corporation may with the agreement of the Agent, hold more than one closing;

"**Common Shares**" means Class A common shares in the share capital of Questerre;

"**Custodian**" means Computershare Trust Company of Canada;

"**Expenditure Period**" means the period commencing on the date of acceptance of the Subscription Agreement and ending on the earlier of (i) the date on which the Flow-Though Subscription Amount has been fully expended in accordance with the terms hereof; and (ii) December 31, 2004;

"**Eligible CDE**" means an amount incurred by Questerre which is eligible for renunciation as CEE under subsection 66(12.601) of the Tax Act;

"**Flow-Through Common Shares**" means Common Shares issued as "flow-through shares" within the meaning of the Tax Act;

"**Flow-Through Units**" means the unit consisting of one Flow-Through Common Share and one-half of one Warrant;

"**Flow-Through Subscription Amount**" means the amount of the aggregate subscription amount paid hereunder for the Flow-Though Common Shares;

“**Initial Closing Date**” means the first Closing Date;

“**Licenses**” means the exploration licenses that Questerre anticipates being issued by the Ministry of Natural Resources (Quebec) pursuant to which Questerre will have the exclusive right to conduct exploration activities on 287,706 hectares of land located in the St. Lawrence Lowlands;

“**McDaniel**” means McDaniel & Associates Consultants Ltd., independent oil and gas reservoir engineers of Calgary, Alberta;

“**Meeting**” means the annual general and special meeting of the shareholders of the Corporation anticipated to be held in June 2003, at which the shareholders will be asked to consider and, if deemed appropriate, approve a special resolution authorizing the Stock Split, among other matters;

“**McDaniel Report**” means collectively the independent engineering reports prepared by McDaniel entitled "Evaluation of Gas Reserves – Update (Based on February 18, 2003 Report) Based on March 1, 2003 Escalating Price Assumptions, Beaver River Area – Nahanni, as of January 1, 2003" and "Evaluation of Gas Reserves – Update (Based on February 18, 2003 Report) Based on Constant Price Assumptions, Beaver River Area – Nahanni, as of January 1, 2003" on Questerre’s natural gas interests located in the Beaver River Field;

“**Offering**” means the public offering of the Units described herein, or in any amendment hereto;

“**Purchaser**” refers to a purchaser of one or more Units pursuant to this Offering;

“**Qualifying Expenditures**” means CEE and Eligible CDE which is renounceable to Purchasers of Flow-Through Common Shares;

“**Qualifying Provinces**” means Alberta, British Columbia and Ontario;

“**Questerre**” or the “**Corporation**” means Questerre Energy Corporation;

“**Regular Unit**” means the unit consisting of one Common Share and one Warrant;

“**Station 2 Spot Price**” means the price received at the Station 2 compressor station located approximately 200 kilometres southwest of Fort St. John, British Columbia, on the Duke Energy gas transmission pipeline;

“**Stock Split**” means the division of the Common Shares completed by an amendment to the Corporation’s articles whereby each Common Share will be changed into three new Class ”A” common shares;

“**Subscription Agreement**” means the agreement to be executed by the Agent, or any sub-agent of the Agent, as agent for and on behalf of the Purchasers of Flow-Through Units and accepted by the Corporation at or prior to closing setting out, among other things, the contractual relationship between the Corporation and such Purchasers relating to the Flow-Through Units, which agreement shall be in a form satisfactory to both the Corporation and the Agent;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations promulgated thereunder, as amended from time to time;

“**U.S.**” means the United States of America;

“**Units**” means Flow-Through Units, Regular Units or any combination thereof;

“**Warrant**” means a Common Share purchase warrant entitling the holder thereof to acquire one Common Share at an exercise price of $● until December 31, 2003, and thereafter at a price of $● until December 31, 2004;

“**$**” and “**$CDN**” mean Canadian dollars, “**$Thousands**” and “**M$**” mean thousands of Canadian dollars; and

In this Prospectus, unless otherwise noted, all dollar amounts are expressed in Canadian currency and all references to Common Shares are stated prior to giving effect to the Stock Split.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus. Prospective Purchasers should read the entire Prospectus, including "Risk Factors", before making an investment decision with regard to the Units.

The Corporation

Questerre is actively engaged in the exploration for, and the development, production and acquisition of, natural gas interests in Canada. See "Business of the Corporation".

The Offering

A maximum of ● Units and a minimum of ● Units.

Price

$● per Unit.

Use of Proceeds

The net proceeds to Questerre from the sale of the Units, after deducting the Agent's Commission and estimated expenses of the Offering to be paid by Questerre, are estimated to be $4,430,000 if the Minimum Offering is achieved and $7,650,000 if the Maximum Offering is achieved.

Following the completion of the Offering, the Corporation will have funds available to it as follows:

Source of Funds	Maximum Offering	Minimum Offering
Net Proceeds of Offering	$7,650,000	$4,430,000
Estimated Consolidated Working Capital as at April 30, 2003	$350,000	$350,000
Total other funds available	Nil	Nil
Total Funds Available	$8,000,000	$4,780,000

Notes:
1. Net of the Agent's Commission and estimated expenses of the Offering.
2. Calculation of the Corporation's consolidated working capital as at April 30, 2003 is unaudited.

The Corporation intends to use the total funds available as follows:

Description	Maximum Offering	Minimum Offering
Re-entry of A5 well on the Beaver River Field	$4,000,000	$4,000,000
Re-entry of a second well on the Beaver River Field	$3,000,000	Nil
Participate in drilling of one well in the St. Lawrence Lowlands	$500,000	$500,000
Working Capital	$500,000	$280,000
Total	$8,000,000	$4,780,000

See "Business of the Corporation" and "Use of Proceeds".

Income Tax Consequences – Flow Through Shares

The Corporation will incur and renounce effective on or before December 31, 2003 Qualifying Expenditures of $● per Flow-Through Share to Purchasers of Flow-Through Units. As the Qualifying Expenditures are CEE and Eligible CDE, 100% will be deductible for income tax purposes. See "Canadian Federal Income Tax Considerations" for more details.

Eligibility for Investment

In the opinion of Borden Ladner Gervais LLP, counsel to Questerre, if, as and when the Common Shares are listed on a prescribed stock exchange, the Common Shares and Warrants will be qualified investments, within the meaning of the Tax Act, for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans. The Common Shares and Warrants will not constitute "foreign property" under the Tax Act and the regulations thereunder.

Risk Factors

An investment in the Units offered should be considered highly speculative due to the nature of the Corporation's business and its relatively early stage of development. Exploration for natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that additional commercial quantities of natural gas will be discovered by the Corporation. Purchasers must rely on the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation. There is no guarantee that the Corporation will be able to secure financing to meet its future needs on reasonable terms. The Corporation's business is subject to various risks associated with the oil and gas industry, including those associated with oil and gas exploration, the marketability of oil and gas, government regulations, the hazards of operations and fluctuations in the prices it receives for oil and gas. Although the Corporation has agreed to incur and renounce Qualifying Expenditures to Purchasers of Flow-Through Units for flow-through purposes so that renunciations of those expenditures can be made effective on or before December 31, 2003, the Corporation may be unsuccessful in incurring sufficient CEE and Eligible CDE from the proceeds of the Offering. As a result, there can be no assurance that the Corporation will have sufficient funds to incur such expenditures, in which case Purchasers will not receive all of the benefits of their investment. Further, although the proceeds that are received by the Corporation may be expended by the Corporation on a combination of CEE and Eligible CDE, CCRA may not agree with the characterization of the various expenditures of the Corporation. For these reasons, the Offering is suitable only to those Purchasers who are able to risk a loss of their entire investment. Potential Purchasers should read this entire Prospectus and consult their professional advisors before investing. See "Business of the Corporation", "Risk Factors" and "Dividend Record and Policy".

Selected Reserve Information

The table below provides a summary, as at January 1, 2003, of Questerre's material natural gas reserves and the present worth of future net cash flows associated with such reserves of Questerre as evaluated in the McDaniel Report, based on escalated price assumptions and constant price assumptions. **All evaluations of the present worth of estimated future net revenue in the McDaniel Report are stated after provision for estimated future capital expenditures and prior to provision for future site restoration and reclamation costs, income taxes and indirect costs and do not necessarily represent the fair market value of the reserves.**

Natural Gas Reserves and Present Value of Estimated Future Cash Flows

Based on Escalated Price Assumptions

Reserves	Questerre's Share of Remaining Reserves (mmcf)		Questerre's Share of Present Worth Values Before Income Tax (M$)			
	Gross	Net	0.0%	10.0%	15.0%	20.0%
Proved Producing	2,832	2,263	3,934	3,463	3,276	3,113
Total Proved	2,832	2,263	3,934	3,463	3,276	3,113
Total Probable (Unrisked)	14,401	12,194	52,028	44,584	41,504	38,763
Total Proved & Probable (Unrisked)	17,233	14,458	55,961	48,048	44,780	41,876
Total Proved and Probable (Risked)	-	-	29,948	25,755	24,028	22,495
Total Possible Reserves (Unrisked)	94,150	71,692	225,152	159,696	136,303	117,240
Total Proved, Probable and Possible Reserves (Unrisked)	111,383	86,149	281,113	207,744	181,083	159,116

Natural Gas Reserves and Present Value of Estimated Future Cash Flows

Based on Constant Price Assumptions

Reserves	Questerre's Share of Remaining Reserves (mmcf)		Questerre's Share of Present Worth Values Before Income Tax (M$)			
	Gross	Net	0.0%	10.0%	15.0%	20.0%
Proved Producing	2,832	2,247	5,930	4,856	4,452	4,111
Total Proved	2,832	2,247	5,930	4,856	4,452	4,111
Total Probable (Unrisked)	14,401	12,163	58,773	50,189	46,644	43,495
Total Proved & Probable (Unrisked)	17,233	14,410	64,703	55,045	51,096	47,606
Total Proved and Probable (Risked)	-	-	35,317	29,951	27,773	25,858
Total Possible Reserves (Unrisked)	92,651	70,091	328,512	232,361	198,116	170,264
Total Proved, Probable and Possible Reserves (Unrisked)	109,884	84,501	393,215	287,407	249,212	217,870

Selected Financial Information

The following tables provide a summary of certain historical financial data of the Corporation for the financial years ended December 31, 2002 and 2001, the two month financial period ended December 31, 2000, the financial year ended October 31, 2000 and the unaudited financial statements for the three-month financial periods ending March 31, 2003 and 2002 and are qualified in their entirety by the detailed provisions contained in the Corporation's financial statements elsewhere in this Prospectus. The items in this table have not been audited on a stand-alone basis, but rather in the context of their presentation within the financial statements.

Item	For Three Months Ended March 31, 2003	For Three Months Ended March 31, 2002	Year Ended December 31, 2002	Year Ended December 31, 2001	Two months ended December 31, 2000	Year Ended October 31, 2000
Total Revenues	$496,602	$348,290	$1,843,313	$4,260,871	$37,096	$96,978
Expenses	759,588	931,814	7,388,529	6,982,378	86,974	54,406
Total Net Income (Loss)						
- Total	(262,986)	(583,524)	(5,556,615)	(2,717,430)	(43,149)	39,472
- Per Share	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	23.92
- Per Share	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	23.92
Total Assets	9,748,415	16,260,359	9,935,548	15,489,151	5,039,308	162,512
Working Capital (Deficiency)	341,879	933,693	235,850	4,563,380	4,706,103	61,553
Total Long Term Debt	0	0	0	0	0	0
Total Liabilities	3,075,719	4,351,586	2,999,866	2,996,854	117,615	172,482
Shareholders' Equity	6,672,696	11,908,773	6,935,682	12,492,297	4,921,693	(9,970)

THE CORPORATION

The Corporation was incorporated under the *Companies Act* (Alberta) on October 25, 1971 under the name "Westpro Equipment Ltd." and continued under the ABCA on December 13, 1982. On July 13, 1990 the Corporation was continued under the *Companies Ac*t (British Columbia). On December 5, 2000, the Corporation was continued from British Columbia to Alberta under the ABCA and its name was changed to Questerre Energy Corporation. At the Meeting, it is anticipated that the shareholders will be asked to approve the Stock Split by special resolution. If the Stock Split is approved each Common Share issued and outstanding prior to filing of Articles of Amendment with Corporate Registries (Alberta) will be changed into three new class "A" common shares.

The Corporation's head and registered office is located at 1580 Guinness House, 727 - 7th Avenue SW, Calgary, Alberta, T2P 0Z5.

The Corporation has one wholly owned subsidiary, Questerre Beaver River Inc., which is also incorporated under the ABCA.

BUSINESS OF THE CORPORATION

General

Questerre is actively engaged in the exploration for, and the development, production and acquisition of natural gas interests in Canada.

Questerre is currently directing most of its efforts and resources to the exploration and development of the Beaver River natural gas field (the "Beaver River Field") located northwest of Fort Nelson, British Columbia. Questerre also intends to undertake exploration activities for natural gas reserves in the St. Lawrence lowlands (the "St. Lawrence Lowlands") located in Quebec, south of the St. Lawrence River between Montreal and Quebec City.

Questerre's principal asset is a 60% working interest (subject to gross overriding royalties totaling 5%) in the Beaver River Field. Current production from the two producing wells on the Beaver River Field, B2 and A5, is between 1.3 mmcfd and 1.5 mmcfd. Questerre has made application to the Government of Quebec for the Licenses.

History

Questerre initially operated as an oil and gas exploration and production company with minority interests in several producing properties in Western Canada. In November 2000, a new management team was assembled and Questerre changed its focus to pursuing what management believes will be large-scale natural gas projects in Canada. The management team intends to leverage their specialized knowledge of naturally fractured and hydrothermal dolomitized reservoirs and their track record of successfully financing and operating oil and natural gas projects.

On December 7, 2000, Questerre entered into a farmout agreement (the "Terrenex Farmout Agreement") with Terrenex Acquisition Corporation ("Terrenex"), a publicly traded investment company listed on the TSX Venture Exchange. Under the Terrenex Farmout Agreement, Questerre was entitled to earn an 80% interest in 19 gas exploration licenses held by Terrenex covering 380,283 hectares of land in the St. Lawrence Lowlands in Quebec by assuming operatorship of these lands, drilling and testing one well on the lands and maintaining the annual work commitments required to keep the licenses in good standing. While Questerre maintained the annual work commitments required to keep the licenses in good standing during the term of the Terrenex Farmout Agreement, it did not drill on the lands encompassed by the licenses. In May 2003, Questerre and Terrenex terminated the Terrenex Farmout Agreement. In consideration of being released from its obligations under the Terrenex Farmout Agreement, Questerre issued 250,000 Common Shares to Terrenex. In addition, Questerre and Terrenex executed a mutual release in respect of the Terrenex Farmout Agreement. See "Interests of Management and Others in Material Transactions".

On January 12, 2001, Questerre Beaver River Inc. entered into a farmout and operating agreement (the "Beaver River Agreement") with Mayan Limited Partnership, Mayan Adventures Inc. ("Mayan"), Beaver River Resources Ltd., United Gunn Resources Ltd. (Mayan Limited Partnership, Beaver River Resources Ltd. and United Gunn Resources Ltd collectively referred to herein as the "Farmors") and Wade Oil & Gas Inc.

(“Wade”) to acquire a 60% working interest in the Beaver River Field in consideration of incurring a minimum of $5 million in expenditures to re-establish production from the Beaver River Field. Mayan, the operator under the Beaver River Agreement, has subcontracted Questerre Beaver River Inc. to perform all managerial and administrative services required under the Beaver River Agreement on its behalf. See “Principal Properties – Beaver River, British Columbia”. Pursuant to an amending agreement to the Beaver River Agreement that was entered into in June 2001, the minimum expenditure amount of $5 million was increased to $9 million (the “Initial Work Program”). Questerre satisfied its commitments under the Beaver River Agreement, as amended, and acquired a 60% working interest in the Beaver River Field, subject to a 4% gross overriding royalty payable to the Farmors (the “Farmor’s Royalty”) and a 1% gross overriding royalty payable to Wade (the “Wade Royalty”). Any amounts spent by Questerre under the Beaver River Agreement for the Initial Work Program are accumulated in an account (the “Payout Amount”). The Farmor’s Royalty is payable until Questerre receives six times the Payout Amount. Subject to the payment of the Farmor’s Royalty and the Wade Royalty, until Questerre has received six times the Payout Amount Questerre receives priority to cash flow from the Beaver River Field as follows:

- 100% of remaining cash flow until one times Payout Amount is received ;
- 80% of remaining cash flow until two times Payout Amount is received and an environmental reserve has been fully funded, such environmental reserve to be determined by Questerre and set aside to cover future abandonment and reclamation expenses;
- 70% until six times Payout Amount is received; and
- 60% thereafter.

Effective April 1, 2002, Questerre had incurred a minimum of $9 million in expenditures and ended the Initial Work Program. Consequently it is no longer obligated to fund 100% of the costs associated with the Beaver River Field. Costs are now required to be incurred on the Beaver River Field by Questerre and the Farmors in accordance with their respective working interests. At December 31, 2002, the Payout Amount balance was $10,923,075. During the year ended December 31, 2002, Questerre received $741,818 of cash flow applicable to the Payout Amount.

In May 2003, Questerre made a proposal to the Farmors to acquire their remaining 40% working interest in the Beaver River Field. Under this proposal, Questerre would agree to eliminate the Payout Amount and assume the obligation to pay all deferred royalties under the Royalty Deferral Agreement (as defined under the heading “Principal Properties – Beaver River, British Columbia”), in consideration of the Farmors converting their 40% working interest and the Farmor’s Royalty in the Beaver River Field into a 2% non-convertible gross overriding royalty interest which would increase to 2.5% on the achievement of 10 bcf of production from wells drilled or re-completed on the Beaver River Field after the date of such conversion.

Questerre has made an application to the Government of Quebec for the Licenses. Questerre has received a proposal (the “Gastem Proposal”) from Gastem Inc., (“Gastem”) a gas exploration company based in Montreal to farm-in on the interests in the lands encompassed by the Licenses. The entering into of the farm-in agreement (the “Gastem Agreement”) contemplated by the Gastem Proposal is subject to Gastem securing sufficient funds to finance its share of the expenditures anticipated under the Gastem Proposal. See “Risk Factors”. Under the Gastem Proposal, Gastem would pay 75% of the costs of a well to earn a 50% interest in such well and in 1,000 hectares of land surrounding the location of the well. In addition, for a period of six months after the testing of the initial well and any additional wells Gastem would also have an exclusive rolling option to drill further wells on the lands contained within the boundaries of the Licenses on the same terms.

Trends

In the opinion of management of Questerre a few current trends appear to have developed in the oil and gas industry recently that may have an impact or influence on the oil and gas industry in general and the Corporation’s business in particular, in the future.

The value of the Canadian dollar has recently experienced as significant increase against the US dollar. The Corporation sells its oil and gas products based on market prices in US dollars and, therefore, the recent weakening of the US dollar has had a negative impact on the oil and gas production revenue of Canadian producers, including the Corporation. The Corporation cannot be certain as to whether or not this recent trend will continue.

There has recently been a significant amount of volatility in oil and gas prices. This volatility can be attributed in part to political instability and to recent events in the Middle East, including the war in Iraq and events, in the

Middle East. Prices for crude oil and natural gas, which had recently grown to very high historical levels, appear now to have fallen back to levels more consistent with the range of market prices in effect over the past few years. Absent external influences such as wars or other political uncertainty in the Middle East, oil and gas commodity prices are primarily influenced by traditional supply and demand factors. An increased demand for and/or a reduced supply of crude oil and natural gas leads to increases in prices for those commodities, which in turn usually leads to an increase in exploration and development activities. In turn, this increase in exploration and development activity leads to an increase in supply and a softening of prices. This fluctuating supply - demand balance, together with other outside influences, is expected to contribute to continued volatility in oil and gas prices in the future.

A number of Canadian oil and gas exploration and production companies have recently converted into royalty trusts and income funds. In addition the, Canadian oil and gas industry has also experienced a recent wave of mergers and acquisitions, primarily through the acquisition of established Canadian exploration and production companies by US-based companies looking to establish, or re-establish, a presence in Canada. One of the resulting effects of these activities has been that the ownership of existing oil and gas properties has become more consolidated. The pace of these activities appears to have slowed recently, and it is impossible to determine what effect, if any, these activities will have on the business of the Corporation. One possible effect may be that the Corporation may experience greater difficulty than in previous years in securing access to capital, as investors focus on the recently created and larger consolidated entities. Conversely, these consolidated entities may decide to conduct a rationalization of their assets which, in turn could provide the Corporation with a greater number of asset acquisition opportunities.

It is not possible for the Corporation to accurately predict what effect, if any, the trends described above will have on the future prospects of the Corporation. However, the Corporation has no reason to expect that it will be more positively or adversely effected by such trends than will be other similar Canadian oil and gas exploration and production companies.

Business Objectives and Milestones

The following are the Corporation’s objectives:

- Re-establish significant commercial production from the Beaver River Field
- Test new exploration concept in the St. Lawrence Lowlands
- Evaluate and acquire other exploration and exploitation projects

To achieve these objectives, the Corporation has established the following milestones:

- Obtain the Licenses
- Secure a minimum of $5,000,000 of equity financing prior to September 30, 2003
- Re-enter one well on the Beaver River Field prior to March 2004
- Enter into the Gastem Agreement
- Participate in the drilling and, if successful, tie-in one well in the St. Lawrence lowlands prior to December 2003.

Principal Properties

Beaver River, British Columbia

The Beaver River Field is located 100 miles northwest of Fort Nelson on the border of British Columbia and the Yukon. The Beaver River Field was discovered by Amoco Canada in 1961, with commercial production commencing in 1971.

Management has been advised that the original decision to develop the Beaver River Field was based upon recoverable gas reserve estimates of about 1.47 tcf in the Nahanni Formation. This represented a recovery factor of 90% of the calculated original gas in place (“OGIP”) of 1.633 tcf in the Nahanni Formation at the time. However, due to significant water influx, the production rate declined rapidly from a peak of over 200 mmcfd in 1973 until the Beaver River Field was abandoned in 1978. Cumulative production when the Beaver River Field was abandoned was approximately 179 bcf (a recovery factor of 11%) and 3.3 million barrels of water from the Nahanni formation and 6.6 bcf from shallower zones.

In 1989, Beaver River Resources Ltd. acquired the presently existing lease on the Beaver River Field and re-activated the B2 well that subsequently produced from January 1990 to December 1990. Mayan Adventures Inc. became the operator of the field in July 1991 and produced from wells B2 and A5 until July 1993 when water influx again caused production to cease. Cumulative production from the period January 1990 to July 1993 was 3.7 bcf of gas and 1.88 million barrels of water from the Nahanni formation. Wascana Energy Inc. (now Nexen Canada Inc.) farmed in on the field and produced 0.6 bcf of gas from the B2 well from 1999 to 2000 in connection with an experimental dewatering scheme. A total of seven development wells have produced gas from the Nahanni formation in the Beaver River Field, with total cumulative production of approximately 184.7 bcf to January 2003.

In 2001, based on improved gas prices and its theory that the Beaver River Field was compartmentalized, Questerre farmed into the Beaver River Field. Questerre's efforts to date have focused on the following:

- Refurbishing and re-rating infrastructure and production facilities;
- Implementing the Tail-end Recovery Scheme (as hereinafter described) to establish early cash flow;
- Acquiring a 3-D seismic survey to map the compartments; and
- Completing extensive technical work including hydrodynamic pressure studies, material balance analysis, pressure transient analysis and isotope analysis to support its compartmentalization theory.

Compartmentalization

Management believes that the Nahanni formation is extensively faulted and that some of these faults create isolated compartments within the formation.

A 3-D seismic survey was completed in March 2002 at a cost of approximately $3.5 million in conjunction with an industry partner to map these compartments. The interpretation of the 3-D seismic survey completed by Questerre and reviewed by McDaniel indicated that none of the previously drilled wells in the field appear to have encountered the highest structural point within their respective compartments, indicating the possibility of "attic" gas. "Attic" gas is gas that exists above the highest producing well in a compartment and is expected to be captured by an additional well drilled higher in the structure. Questerre proposes to use part of the proceeds of this Offering to re-enter a well in order to produce this attic gas. See "Use of Proceeds". The seismic survey also indicated that there appears to be significantly more compartmentalization of the Nahanni formation in the Beaver River Field than originally interpreted. In the opinion of McDaniel and management of Questerre, there is the possibility that additional isolated compartments have been untapped by existing producing wells.

The McDaniel Report recognizes OGIP of 1.46 tcf for the Beaver River Field in the Nahanni formation. The gas is recognized as being contained within numerous isolated compartments. Assuming a range of recovery factors of between 35% - 50% (based on active water drive gas reservoirs), ultimate recoverable gas from the Beaver River Field could range between 511 bcf and 730 bcf. McDaniel has assigned gross proved reserves of 2.8 bcf to existing compartments currently on production, and gross probable reserves of 14.4 bcf for attic gas within a compartment currently being produced. In addition, McDaniel has assigned gross possible reserves of 111 bcf to as yet undrilled compartments. See "Natural Gas Reserves" for definitions of these terms.

Tail-end Recovery Scheme

Current production from the Beaver River Field under the Tail-end Recovery Scheme is between 1.3 mmcfd and 1.5 mmcfd from two producing wells, B2 and A5. The purpose of the Tail-end Recovery Scheme is to improve the recovery factor within each compartment in the field. The tail-end recovery scheme (the "Tail-end Recovery Scheme") involves the production of water from the reservoir compartment at a rate exceeding the recharge rate from the aquifer. This decreases pressure within the compartment and results in gas being mobilized from the matrix and produced along with the water.

In 2001, as part of the Tail-end Recovery Scheme , Questerre attempted to re-enter a water disposal well on the Beaver River Field. This re-entry was unsuccessful due to unforeseen operational obstacles. See "Drilling Activity". Utilizing the proceeds of this Offering, the Corporation intends to re-enter the A5 well on the Beaver River Field to produce natural gas. Questerre anticipates that its cash flow from this well, if successful, along with proceeds of this Offering should the Minimum Offering be surpassed, will be used to finance additional wells targeting new compartments. See "Use of Proceeds".

The Beaver River Field is currently tied into the Duke Energy Gas Transmission pipeline and all gas produced is processed at the Duke Energy Fort Nelson Gas Plant. Gas is sold at the Station 2 Spot Price under a long-term marketing agreement with Glencoe Resources Ltd. See “Future Commitments”.

The royalties payable to the Province of British Columbia on production from the Beaver River Field are governed by a royalty agreement between the Province, Farmors and Wascana Energy Partnership dated April 1, 1999 as amended October 1, 2001 (the “Royalty Deferral Agreement”). Under the Royalty Deferral Agreement, the payment of royalties payable to the Province of British Columbia on production from the Beaver River Field is deferred until the earlier of June 30, 2004 and the achievement of cumulative production of 13 bcf from the Beaver River Field (the “Deferral Expiry Date”). Thereafter, repayment of deferred royalties is contingent on monthly production exceeding volumes set forth in the Royalty Deferral Agreement. Subsequent to the Deferral Expiry Date, royalties on production will be payable as incurred.

St. Lawrence Lowlands, Quebec

The St. Lawrence Lowlands are located in Quebec south of the St. Lawrence River between Montreal and Quebec City.

The St. Lawrence Lowlands have been sparsely explored with the exception of shallow drilling by Shell Canada in the 1970s. During the 1980s, exploration efforts focused on large deep tilted fault blocks. While these structures were proven to have poor porosity, the existence of a deep gas source to charge deeper structures and migration pathways was proven for the first time in this geological setting.

The recognition of significant wrench faulting in this basin, coupled with an understanding of the mechanism creating hydrothermal dolomitized reservoirs, led to a complete re-evaluation of the area in pursuit of a new exploration concept. This concept is based on areas where extensive wrench faulting creates conduits for hot high-pressured fluids to create hydrothermal dolomitized reservoirs.

Questerre, focusing specifically on this exploration concept, completed an extensive regional geological and geophysical study of the St. Lawrence Lowlands. The study included the reprocessing and reinterpretation of over 3,000 km of 2-D seismic and a detailed review of the wells that have been drilled in the St. Lawrence Lowlands. The work completed by Questerre has been supported by the documented occurrence of hydrothermal dolomitized carbonates in outcrop and well bores in the St. Lawrence Lowlands. Management believes that recent significant discoveries based on this exploration concept in the Appalachian Basin, directly south of the St. Lawrence Lowlands, further validate the proposed exploration concept.

Based on Management’s assessment, the key drill-ready prospect for this exploration concept, Becancour, covers approximately 75 square kilometers.

Although Questerre has made an application to the Government of Quebec for the Licenses covering a total of 287,706 hectares of land in the St. Lawrence Lowlands, it does not presently hold any interests in any lands or producing wells in the St. Lawrence Lowlands.

Subject to being granted the Licenses in the St. Lawrence Lowlands and Gastem securing sufficient funds to finance its share of the expenditures anticipated under the Gastem Proposal, Questerre proposes to enter into the Gastem Agreement and participate in the drilling of one well in the St. Lawrence Lowlands this year to test its exploration concept.

Natural Gas Reserves

The McDaniel Report evaluates the natural gas reserves and present value of estimated future cash flow from reserves of Questerre’s interest in the Beaver River Field as of January 1, 2003, using McDaniel’s March 1, 2003 price forecast. Questerre holds minority interests in certain properties in Alberta that are not considered material to its business and therefore not evaluated in the McDaniel Report.

In preparing its report, McDaniel obtained basic information from Questerre, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluation and upon which the McDaniel Report is based, was obtained from public records, other operators and from McDaniel’s non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by McDaniel as represented.

The following tables, based on the McDaniel Report, show the estimated share of Questerre's natural gas reserves in its properties and the present value of estimated future net revenue for these reserves, using escalated and constant prices and costs as indicated. **All evaluations of the present worth of estimated future net revenue in the McDaniel Report are stated after provision for estimated future capital expenditures and prior to provision for future site restoration and reclamation costs, income taxes and indirect costs and do not necessarily represent the fair market value of the reserves.**

The McDaniel Report includes possible reserves assigned in addition to proved and probable reserves. The term "Possible Reserves" is not a defined term in Appendix 1 of National Policy 2B. Possible reserves are those reserves that are less certain to be recovered than probable reserves and are estimated with a low degree of certainty. The reserves that have been designated as possible reserves are those associated with the additional compartments identified from a three-dimensional geophysical survey conducted on the Beaver River Field in 2002. See "Principal Properties - Beaver River, British Columbia" and "Risk Factors".

Natural Gas Reserves and Present Value of Estimated Future Cash Flows

Based on Escalated Price Assumptions(10)(11)

Reserves	Questerre's Share of Remaining Reserves (mmcf)		Questerre's Share of Present Worth Values Before Income Tax(3)(8) (M$)			
	Gross(1)	Net (2)	0.0%	10.0%	15.0%	20.0%
Proved Producing(4)	2,832	2,263	3,934	3,463	3,276	3,113
Total Proved(5)	2,832	2,263	3,934	3,463	3,276	3,113
Total Probable (Unrisked)(6)	14,401	12,194	52,028	44,584	41,504	38,763
Total Proved & Probable (Unrisked)	17,233	14,458	55,961	48,048	44,780	41,876
Total Proved and Probable (Risked)(7)	-	-	29,948	25,755	24,028	22,495
Total Possible Reserves (Unrisked)(9)	94,150	71,692	225,152	159,696	136,303	117,240
Total Proved, Probable and Possible Reserves (Unrisked)	111,383	86,149	281,113	207,744	181,083	159,116

Natural Gas Reserves and Present Value of Estimated Future Cash Flows

Based on Constant Price Assumptions(10)(12)

Reserves	Questerre's Share of Remaining Reserves (mmcf)		Questerre's Share of Present Worth Values Before Income Tax (3)(8) (M$)			
	Gross(1)	Net (2)	0.0%	10.0%	15.0%	20.0%
Proved Producing	2,832	2,247	5,930	4,856	4,452	4,111
Total Proved	2,832	2,247	5,930	4,856	4,452	4,111
Total Probable (Unrisked)	14,401	12,163	58,773	50,189	46,644	43,495
Total Proved & Probable (Unrisked)	17,233	14,410	64,703	55,045	51,096	47,606
Total Proved and Probable (Risked)	-	-	35,317	29,951	27,773	25,858
Total Possible Reserves (Unrisked)	92,651	70,091	328,512	232,361	198,116	170,264

Reserves	Questerre's Share of Remaining Reserves (mmcf)		Questerre's Share of Present Worth Values Before Income Tax (3)(8) (M$)			
	Gross(1)	Net (2)	0.0%	10.0%	15.0%	20.0%
Total Proved, Probable and Possible Reserves (Unrisked)	109,884	84,501	393,215	287,407	249,212	217,870

Notes:

1. Before royalty deductions.
2. After royalty deductions.
3. Costs associated with extraction of natural gas products have in most cases been deducted from the natural gas revenues.
4. "Proved producing reserves" means those proved reserves that are actually on production or, if not producing, could be recovered from existing wells or facilities and where the reasons for current non-producing status is the choice of the owner rather than lack of markets or some other reason. An illustration of such a situation is where a well or zone is capable, but is shut-in because its deliverability is not required to meet contract commitments. All of the proved producing reserves of the Corporation are on production.
5. "Proved reserves" means those reserves estimated as recoverable under current technology and existing economic conditions from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economical and technically successful in the subject reservoir.
6. "Probable reserves" means those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.
7. The probable additional reserves and estimated future net revenues derived therefrom have been reduced by 50 percent to account for the probability of obtaining production from such reserves.
8. All values are shown in Canadian dollars.
9. "Possible Reserves" means those reserves that are less certain to be recovered than Probable Reserves and are estimated with a low degree of certainty.
10. Values may not add due to rounding.
11. The escalating cost and price assumptions assume the continuance of current laws and regulations and increases in wellhead selling prices, and take into account inflation with respect to future operating capital costs. Natural gas base case prices as forecast by McDaniel effective March 1, 2003 are as follows:

Year	U.S. Henry Hub Gas Price $US/Mmbtu	B.C. Spot Sales Plantgate $C/Mmbtu	AECO Spot Price $C/GJ
2003 (2 mo est.)	5.7	6.65	7.56
Forecast			
2003 (10 mo.)	5.50	6.90	6.69
2004	4.50	5.65	5.51
2005	4.00	5.05	4.95
2006	3.75	4.80	4.71
2007	3.66	4.65	4.57
2008	3.69	4.70	4.61
2009	3.77	4.80	4.71
2010	3.85	4.90	4.81
2011	3.93	5.00	4.90
2012	4.00	5.10	5.00
2013	4.08	5.20	5.10
2014	4.16	5.30	5.19

Year	U.S. Henry Hub Gas Price $US/Mmbtu	B.C. Spot Sales Plantgate $C/Mmbtu	AECO Spot Price $C/GJ
2015	4.24	5.40	5.29
2016	4.31	5.50	5.38
2017	4.41	5.60	5.50
2018	4.50	5.70	5.62
2019	4.59	5.85	5.73
2020	4.69	5.95	5.85
2021	4.78	6.10	5.97
2022	4.87	6.20	6.08
Thereafter	4.87	6.20	6.08

12. Product prices used in the constant price evaluation were based on Questerre's price of $6.28 per MMBTU for gas. The constant gas price assumptions assume the continuance of current laws, regulations and operating costs in effect on the date of the McDaniel Report. Product prices were not escalated beyond 2003. In addition, operating and capital costs have not been increased on an inflationary basis.

Reconciliation of Reserves

The following table summarizes the changes in Questerre's share of material natural gas reserves (assuming escalating pricing), before deduction of royalties owned by others, from July 1, 2001 to December 31, 2002.

	Proved		Probable		Possible	
	Gross	Net	Gross	Net	Gross	Net
As at July 1, 2001	2,543	2,416	11,466	9,332	31,925	24,816
Production	(782)	(782)	nil	nil	nil	nil
Revisions	1,071	629	2,935	2,862	62,225	46,876
As at December 31, 2002	2,832	2,263	14,401	12,194	94,150	71,692

Historical Quarterly Information

The following table sets forth (i) the average daily production of the Corporation's share, before deduction of royalties, of natural gas, (ii) the average net prices per mcf received by the Corporation, (iii) the royalties paid by the Corporation, (iv) the operating expenses incurred by the Corporation, (v) the net back received by the Corporation in respect of its share of production, and (vi) the dollar amounts expended by the Corporation on property acquisitions, exploration activities and development activities and corporate expenditures for the quarterly interim fiscal periods of the Corporation during the periods indicated. The information presented in this table does not include revenue and expenditures related to the Corporation's minority interest in properties located in Alberta.

	Three Months ended		Three Months ended		Three Months ended		Three Months Ended	
	March 3 1, 2003	March 31, 2002	December 31, 2002	December 31, 2001	September 30, 2002	September 30, 2001	June 30, 2002	June 30, 2001
Average Daily Production								
Natural Gas (mcfd)	605.94	1,078.50	891.11	-	389.27	1,114.55	1,267.85	6,268.08
Total (boepd)	100.99	179.75	148.52	-	1,114.55	185.76	211.31	1,044.68
Average Net Price Received								
Natural Gas ($mcf)	5.92	3.10	4.32	-	2.22	2.57	2.55	5.20

	Three Months ended		Three Months ended		Three Months ended		Three Months Ended	
	March 3 1, 2003	March 31, 2002	December 31, 2002	December 31, 2001	September 30, 2002	September 30, 2001	June 30, 2002	June 30, 2001
Crown Royalties								
Crude Oil and NGL ($bbl)	-	-	-	-	-	-	-	-
Natural Gas ($mcf)	1.38	0.63	0.96	-	0.45	0.51	0.57	1.22
Operating Expenses								
Natural Gas ($mcf)	4.90	2.76	1.93	-	5.35	3.92	2.10	0.54
Netback Received								
Natural Gas ($mcf)	(0.36)	(0.29)	1.43	-	(3.58)	(1.86)	(0.11)	3.45
Expenditures ($)								
Property Acquisition								
Exploration	48,729	1,527,556	226,134	626,004	(123,164)	104,126	522,073	56,334
Development	41,950	1,902,638	204,679	2,080,989	55,954	5,053,729	32,820	506,980

Future Commitments

Mayan, the operator of the Beaver River Field, entered into a gas purchase contract with Glencoe Resources Ltd. ("Glencoe") dated September 1, 1992 and amended October 19, 2001 for the purchase and sale of gas production from the Beaver River Field, including Questerre's working interest share of production from the Beaver River Field. This gas purchase contract provides the following net prices.

The first 5,000 GJ/day of production: 95% of the Station 2 Spot Price
The next 5,000 GJ/day of production: 97% of the Station 2 Spot Price
The next 10,000 GJ/day of production: 100% of the Station 2 Spot Price
Production in excess of 20,000 GJ/day: 100% of the Station 2 Spot Price less $0.015/GJ

The contract expires October 31, 2008. Subject to periodic adjustments, the daily contract quantity ("DCQ") that Glencoe has the right to purchase under the contract is 10 mmcf and is calculated by allocating 1 M^3 of the DCQ for each 5,000 M^3 of Mayan's dedicated reserves up to 50 bcf. The DCQ for additional reserves in excess of the first 50 bcf, if any, will be calculated by allocating 1 M^3 of DCQ for each 4,000 M^3 of Mayan's dedicated reserves.

Exploration and Development

In June 2001, Questerre attempted to re-enter the B1 well, an existing water disposal well on the Beaver River Field. This re-entry attempt was unsuccessful due to unforeseen operational obstacles. Utilizing the proceeds of this Offering, the Corporation intends to re-enter the A5 well on Beaver River Field. Questerre anticipates that its cash flow from this well, if successful, along with the proceeds of this Offering should the Minimum Offering be surpassed, will be used to finance additional wells targeting new compartments.

Subject to being granted the Licenses in the St. Lawrence Lowlands and to Gastem securing sufficient funds to finance its share of the expenditures anticipated under the Gastem Proposal, Questerre proposes to enter into the Gastem Agreement and participate in the drilling of one well in the St. Lawrence Lowlands this year to test its exploration concept.

Oil and Gas Wells

As at the date of this prospectus, the Corporation had an interest in nine (1.54 net) natural gas wells in Alberta and two (1.2 net) natural gas wells located in the Beaver River Field in British Columbia that are producing. The natural gas reserves from nine (1.54 net) natural gas wells in Alberta have not been included in the McDaniel Report as the production and reserves attributable thereto are not material to the Corporation.

Drilling Activity

During the two most recently completed years, Questerre's only drilling activity was the attempted re-entry of the B1 well. The re-entry attempt was unsuccessful due to unforeseen operational obstacles. Questerre holds a 60% working interest (after payout) in this well, subject to the Farmor's Royalty and the Wade Royalty. See "Principal Properties - Beaver River, British Columbia".

SELECTED ANNUAL FINANCIAL INFORMATION

The following tables provide a summary of certain historical financial data of the Corporation for the financial years ended December 31, 2002 and 2001, the two month financial period ended December 31, 2000, the financial year ended October 31, 2000 and the unaudited financial statements for the three-month financial periods ending March 31, 2003 and 2002 and are qualified in their entirety by the detailed provisions contained in the Corporation's financial statements elsewhere in this Prospectus. The items in this table have not been audited on a stand-alone basis, but rather in the context of their presentation within the financial statements.

Item	For Three Months Ended March 31, 2003	For Three Months Ended March 31, 2002	Year Ended December 31, 2002	Year Ended December 31, 2001	Two months ended December 31, 2000	Year Ended October 31, 2000
Total Revenues	$496,602	$348,290	$1,843,313	$4,260,871	$37,096	$96,978
Expenses	759,588	931,814	7,388,529	6,982,378	86,974	54,406
Net Income (Loss) from operations						
- Total	(262,986)	(583,524)	(5,545,216)	(2,721,507)	(49,878)	42,572
- Per Share	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	25.81
- Per Share	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	25.81
Total Net Income (Loss)						
- Total	(262,986)	(583,524)	(5,556,615)	(2,717,430)	(43,149)	39,472
- Per Share	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	23.92
- Per Share	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	23.92
Net Income (Loss) before discontinued operations and extraordinary items						
- Total	(262,986)	(583,524)	(5,556,615)	(2,717,430)	(43,149)	39,472
- Per Share	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	23.92
- Per Share	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	23.92
Total Assets	9,748,415	16,260,359	9,935,548	15,489,151	5,039,308	162,512
Working Capital (Deficiency)	341,879	933,693	235,850	4,563,380	4,706,103	61,553
Total Long Term Debt	0	0	0	0	0	0
Total Liabilities	3,075,719	4,351,586	2,999,866	2,996,854	117,615	172,482
Shareholders' Equity	6,672,696	11,908,773	6,935,682	12,492,297	4,921,693	(9,970)

Note:
1. In December, 2000, the Corporation changed its financial year-end from October 31 to December 31.

DIVIDEND RECORD AND POLICY

To date, the Corporation has not declared or paid any dividends on the Common Shares. Any decision to pay dividends on the Common Shares in the future will be made by the Board of Directors of the Corporation on the basis of the Corporation's earnings, financial requirements and other conditions existing at that time. The Corporation has not declared or paid a dividend on the Series 1 Shares.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion of Questerre's historical financial information should be read in conjunction with the financial statements and notes presented therein.

Questerre's audited financial statements for the years ended December 31, 2002, December 31, 2001 and unaudited financial statements for the quarters ended March 31, 2003 and March 31, 2002 primarily reflect the expenses and revenues associated with the development of its principal property, the Beaver River Field. Questerre acquired an interest in this field in January 2001. See "Principal Properties – Beaver River, British Columbia". Prior thereto, Questerre's primary business was the acquisition and development of minority interests in producing properties in Alberta.

Under the terms of the Beaver River Agreement, as amended, Questerre earned a 60% interest in the Beaver River Field subject to a lien until it completed the Initial Work Program. Any amounts incurred by Questerre under this agreement for the Initial Work Program are accumulated in an account (the "Payout Amount") and cash flow is shared by Questerre and the Farmors with the Farmors receiving the Farmor's Royalty and Wade receiving the Wade Royalty. The Farmor's Royalty is payable until Questerre receives six times the Payout Amount. Subject to the payment of the Farmor's Royalty and the Wade Royalty, until Questerre has received six times the Payout Amount Questerre receives cash flow from the Beaver River Field as follows:

- 100% of remaining cash flow until one times Payout Amount is received;
- 80% of remaining cash flow until two times Payout Amount is received and an environmental reserve has been fully funded, such environmental reserve to be determined by Questerre and set aside to cover future abandonment and reclamation expenses;
- 70% until six times Payout Amount is received; and
- 60% thereafter.

Effective April 1, 2002, Questerre had incurred a minimum of $9 million in expenditures and ended the Initial Work Program. Consequently it is no longer obligated to fund 100% of the costs associated with the Beaver River Field. Costs are now required to be incurred on the Beaver River Field by Questerre and the Farmors in accordance with their respective working interests.

The financial statements for the twelve months ended October 31, 2000 and for the two months ended December 31, 2000 only reflect the expenses and revenues associated with Questerre's minority interests in producing properties in Alberta. As a result, the discussion of operating and financial results does not include a comparison to these periods as they do not provide a relevant comparison to the Corporation's current state of affairs. In 2000, in connection with a change in management, the Corporation changed its financial year end from October 31 to December 31.

Three Months Ended March 31, 2003 compared to Three Months Ended March 31, 2002

In the first quarter of 2003, the Corporation's activities were focused on completing internal technical studies on the Beaver River Field and discussions with industry partners regarding farm-in opportunities.

Resource revenue, net of royalties, for the first quarter of 2003 was $0.49 million, a 46% increase over revenue in the same period in 2002 of $0.34 million. Excluding revenue from the Corporation's minority interest in properties of $0.08 million (2002 - $0.01 million), revenue from the Beaver River Field was up 24% to $0.41 million. While net sales volumes for the quarter decreased from 97.07 mmcf in 2002 to 54.5 mmcf, the increase in revenue can be attributed to higher pricing (an average of $7.38/mcf in 2003 as compared to an average of $4.35/mcf in 2002) and Questerre's priority right to cash flow from the Beaver River Field pursuant to the Beaver River Agreement.

General and administrative expense increased 13% from $0.18 million in the three months ended March 31, 2002 to $0.20 million for the same period in 2003. As Questerre incurred $3.49 million in capital expenditures during the first quarter of 2002 (2003 - $0.16 million), a significant proportion of the general and administrative costs related to these expenditures and was capitalized. Thus, on a pre-capitalized basis, general and administrative expenses for the first quarter of 2003 were $0.35 million or 69% higher than in 2002 when they were $0.20 million.

Excluding operating expenses relating to the minority properties of $0.02 million, operating expenses for the Beaver River Field for the first quarter of 2003 were $0.25 million as compared to $0.27 million for the same period in 2002.

Depletion, depreciation and amortization expense decreased from $0.36 million for the first quarter in 2002 to $0.19 million for the same period in 2003. The depletion expense is calculated on a unit of production basis utilizing the net book value of the Corporation's producing assets as at the fiscal year end. The lower depletion amount for the first quarter of 2003 is largely due to the lower net book value of Questerre's petroleum and natural gas assets as at December 31, 2002 of $4.89 million, as compared to $7.12 million as at December 31, 2001.

Questerre incurred capital expenditures of $0.20 million for the first quarter of 2003 as compared to $3.49 million for the same period in 2002. The expenditures in 2002 relate to the acquisition of the 3-D seismic survey and the installation of a booster compressor.

At the end of the first quarter of 2003, Questerre had a positive working capital position of $0.34 million as compared to $0.93 million for the same period in 2002. The stronger working capital position in 2002 can be attributed to the cash balance of $3.3 million held by Questerre as at March 31, 2002 that subsequently financed the 3-D seismic survey and other capital expenditures incurred during 2002.

Year Ended December 31, 2002 compared to Year Ended December 31, 2001

In 2002, Questerre concentrated its activities on the development of a new field interpretation and the continued implementation of the Tail-end Recovery Scheme at the Beaver River Field. The development of a new field interpretation involved the acquisition and interpretation of a 32 square mile 3-D seismic survey and numerous technical studies to support this interpretation. The implementation of the Tail-end Recovery Scheme during the year consisted of the installation of a booster compressor to ensure that production could be reliably sold throughout the year, the continuous refinement of production practices to maximize gas production and upgrading of production facilities.

Capital expenditures in 2002 were significantly lower, $4.49 million, as compared to 2001 expenditures of $13.20 million. The higher expenditures in 2001 are the result of the initial costs involved with rehabilitating and refurbishing infrastructure, installing production facilities and working over producing and disposal wells associated with the Tail-end Recovery Scheme. An unsuccessful work over of a water disposal well represented $4.16 million of this amount.

Approximately $0.53 million of capital expenditures in 2002 and $0.25 million of capital expenditures in 2001 relate to the development of the exploration acreage in Quebec.

Revenues

The Corporation reported resource revenue of $1.80 million in 2002 as compared to revenue of $4.03 million in 2001. The substantial decrease in revenue was due to the larger volume of gas production and the higher prices realized in 2001 as compared to 2002. Cumulative production from the Beaver River Field was 0.49 bcf and the average price received was $4.25 per mcf in 2002 as compared to cumulative annual production of 0.85 bcf at an average price of $6.15 per mcf in 2001. Daily production from the Beaver River Field averaged 4.7 mmcfd over the six months that the field was on production in 2001 compared to 1.6 mmcfd during the 10 months the Beaver River Field was on production in 2002. The higher production experienced in 2001 was largely due to a secondary gas cap that had accumulated during 2000 while the Beaver River Field was shut-in. Production has stabilized at a rate of between 1.3 and 1.5 mmcfd since the installation of the booster compressor in February 2002. Questerre believes the results of the Tail-end Recovery Scheme are encouraging and have the potential to improve recovery from the field by 10% to 15%. Lower interest income was also reported in 2002 ($0.02 million) as compared to 2001 ($0.2 million) due to the considerably smaller cash balances held by Questerre during 2002 as compared to 2001.

Expenses

General and administrative expenses declined 7% over the year from $0.56 million in 2001 to $0.52 million in 2002. This can be attributed to the cost-cutting measures implemented by Questerre in the summer of 2002 in response to a low price environment.

Despite the substantial decrease in production volumes, operating expenses declined marginally from $1.15 million in 2001 to $1.12 million in 2002 reflecting the significant proportion of fixed costs involved in operating the Beaver River Field. Gas processing and transportation fees are directly proportionate to production and are based on interruptible service rates established by Duke Energy for production processed at the Duke Fort Nelson plant. Marketing fees are charged as a percentage of gross revenue. See "Principal Properties – Future Commitments".

Depletion, depreciation and amortization expense increased 22% to $5.42 million in 2002 as compared to $4.46 million in 2001. The majority of the difference can be attributed to the ceiling test write down of $3.7 million incurred by Questerre in 2002 (2001 - $1.02 million). Questerre follows the full-cost method of accounting whereby all costs related to the acquisition, exploration and development of natural gas reserves are capitalized. The majority of Questerre's capital expenditures have been directed at proving up new reserves at the Beaver River Field. Until these reserves are determined as proved, Questerre must subject the costs associated with them to a ceiling test based on its existing proved reserves.

Liquidity & Solvency

Questerre reported positive cash flow from operations of $0.03 million for the year ended December 31, 2002 as compared to positive cash flow of $2.63 million for the year ended December 31, 2001. Questerre's liquidity position is enhanced by the Royalty Deferral Agreement which defers the payment of royalties to the Government of British Columbia. See "Principal Properties - Beaver River, British Columbia". At current prices, the Corporation generates sufficient cash flow to fund its general and administrative and operating expenses. The Corporation does not anticipate incurring any additional material capital expenditures in connection with the Tail-end Recovery Scheme in the foreseeable future.

Questerre reported a working capital position of $0.24 million as at December 31, 2002 as compared to a working capital position of $4.56 million as at December 31, 2001. The decrease in working capital can be attributed to capital expenditures incurred in 2002 in connection with the acquisition of the 3-D seismic survey and the installation of a booster compressor.

Questerre's capital requirements in 2002 were financed by its internal cash resources, operating cash flow and a term loan with a Canadian chartered bank. In 2001, Questerre raised $10.29 million through the issuance of 5.83 million Common Shares in a series of private placements to fund its capital expenditures.

The bank debt is classified as a current liability. Questerre does not meet a financial covenant with the lender, a Canadian bank, to maintain $10 million in tangible equity. Questerre is currently in discussions with the bank to adjust this covenant.

Business Risks

The Corporation will conduct its operations in Canada in a manner consistent with environmental regulations as stipulated in provincial and federal legislation. The Corporation is making increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment.

However, the Corporation does not anticipate that it will be subject to any increases in such expenditures which, as a percentage of cash flow, will be greater than those expected, on average, by other industry operators. The Corporation will maintain insurance coverage where available and financially desirable in light of risk versus cost factors. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates and government regulations could have an impact on the Corporation's future operating results and/or financial condition. See "Risk Factors".

Although the Corporation has no set policy, management of the Corporation may use financial instruments to reduce corporate risk in certain situations. The Corporation currently has no hedges or other financial instruments in place.

Outlook

The Corporation estimates that it will require approximately $5.0 million in capital resources to fulfill its minimum capital budget for 2003. Capital for this development plan is being financed by the proceeds from the Offering. See "Use of Proceeds". Over the long term, the Corporation anticipates that its capital requirements can be funded through internal cash flow, additional equity and debt financing and by having interested third parties farm-in on its projects. There is no certainty that the Corporation will be able to obtain such additional financing or farm-in arrangements. See "Risk Factors – Uncertainty of Additional Financing".

DESCRIPTION OF SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of Common Shares, an unlimited number of class B common shares and an unlimited number of preferred shares, issuable in one or more series, of which 4,500,000 Series 1 6% cumulative redeemable convertible preferred shares ("Series 1 Shares"). As at May 14, 2003, 9,195,000 Common Shares and 4,500,000 Series 1 Shares were issued and outstanding. In addition, 919,500 Common Shares were reserved for issuance upon exercise of options issued under the directors, officers and employees stock option plan. See "Stock Options". Additionally, 1,330,000 Common Shares are reserved for issuance upon exercise of warrants.

At the Meeting, it is anticipated that the shareholders will be asked to approve the Stock Split by special resolution. If the Stock Split is approved each Common Share issued and outstanding prior to filing of Articles of Amendment with Corporate Registries (Alberta) will be changed into three new class "A" common shares. After giving effect to the Stock Split and prior giving effect to the Offering, a total of 27,585,000 new class "A" common shares will be issued and outstanding.

Common Shares

The holders of the Common Shares are entitled to dividends as and when declared by the directors, to one vote per share at meetings of shareholders of the Corporation and to receive upon liquidation such assets of the Corporation as are distributable to the holders of the Common Shares.

Preferred Shares

The preferred shares may be issued from time to time in one or more series, each series consisting of a number of preferred shares as may be determined by the board of directors of the Corporation who may also fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. Unless the directors otherwise specify in the articles of amendment designating a series of preferred shares, the holder of each series of preferred shares shall not, as such, be entitled to receive notice of or vote at any meeting of shareholders, except as otherwise specifically provided in the ABCA. The preferred shares of each series shall, with respect to payment of dividends and distributions of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, rank on a parity with the preferred shares of every other series and shall be entitled to preference over the Common Shares and the class B common shares.

Series 1 Shares

The holders of Series 1 Shares are entitled, upon declaration by the board of directors of the Corporation, to a 6% preferential cumulative dividend, calculated from January 1, 2001 and payable quarterly commencing April 10, 2001. If quarterly dividends are not declared and paid on the due dates at any time following January 10, 2006, then the holders of Series 1 Shares are entitled to receive notice of and to attend and vote at meetings of holders of Common Shares. Except in this event or in circumstances provided under the ABCA, the Series 1 Shares are non-voting.

Dividends may be paid at the discretion of the Corporation in Common Shares, the issue price being a 10% discount to the volume weighted average trading price of the Common Shares during the 20 consecutive trading days preceding the end of the quarter for which the dividend is to be paid.

Until the earlier of (i) December 7, 2005; and (ii) 90 days after confirmation that the Corporation has at least 200 bcf of net proved reserves and the Corporation's consolidated balance sheet indicates net current assets in excess of $10 million; the Series 1 Shares may be redeemed by the Corporation, upon 30 days notice, for $1.00 per share. Thereafter the Series 1 Shares may be redeemed by the Corporation for $1.00 per share together with an amount equal to all accrued and unpaid dividends.

In addition, holders of Series 1 Shares may, at any time, at the holder's option convert their shares into Common Shares at a 10% discount to the 20 day volume weighted average price of the Common Shares calculated during the period commencing 30 trading days prior to the conversion date (the "Market Price").

The conversion right, if exercised after a redemption notice has been issued, terminates the third business day prior to the redemption date. The Corporation may elect to satisfy its conversion obligations by a cash payment equal to the Market Price of the Common Shares issuable upon the conversion.

Upon liquidation, dissolution or winding-up of the Corporation, the holders of Series 1 Shares are entitled to receive an amount equal to the paid capital of all shares plus accrued but unpaid dividends before any amount is distributed to the holders of Common Shares or any class of shares ranking junior to the Series 1 Shares.

CAPITALIZATION

Since December 31, 2002, there have been no material changes in the share and loan capital of Questerre other than as set forth below.

1. On February 21, 2003, Questerre issued 50,000 Common Share purchase warrants to Terrenex in consideration of Terrenex extending the deadline for the drilling of a test well on the St. Lawrence Lowlands. See "Interests of Management and Others in Material Transactions. Each purchase warrant entitles Terrenex to purchase one Common Share at a price of US$2.50 until March 1, 2005.

2. Questerre issued 250,000 Common Shares to Terrenex in consideration of the termination of the Terrenex Farmout Agreement. See "Business of the Corporation - History" and. "Interests of Management and Others in Material Transactions".

3. Questerre anticipates calling the Meeting. At the Meeting, the shareholders will be asked to approve, among other things, the Stock Split. If the Stock Split is approved, each Common Share issued and outstanding prior to filing of Articles of Amendment with Corporate Registries (Alberta) will be changed into three new class "A" common shares.

The following table sets forth the capitalization of the Corporation both before and after giving effect to the Offering. This information set forth below is provided prior to giving effect to the Stock Split. This table should be read in conjunction with the financial statements of the Corporation and the accompanying notes thereto appearing elsewhere in this Prospectus.

Capital[1]	**Amount Authorized**	**Outstanding as at December 31, 2002 (audited)**[2][3][4]	**Outstanding as at March 31, 2003 (unaudited)**[2][3][4]	**Outstanding as at March 31, 2003 after giving effect to the Minimum Offering (unaudited)**[2][3][4][5][6]	**Outstanding as at March 31, 2003 after giving effect to the Maximum Offering (unaudited)**[2][3][4][5][6]
Common Shares	Unlimited	$10,758,029 (8,945,000 shares)	$10,758,029 (8,945,000 shares)	$15,188,029 (● shares)	$18,408,029 (● shares)
Preferred Shares	Unlimited	nil	nil	nil	nil
Series 1 Shares	4,500,000	$4,500,000 (4,500,000 shares)	$4,500,000 (4,500,000 shares)	$4,500,000 (4,500,000 shares)	$4,500,000 (4,500,000 shares)

Notes:

1. See "Description of Share Capital" for a general description of the material rights, privileges, restrictions and conditions attached to the Common Shares, the preferred shares and Series 1 Shares.
2. The deficit of the Corporation as at December 31, 2002 was $8,322,347 (audited) and as at March 31, 2003 was $8,585,333 (unaudited).
3. Does not include the following Common Shares reserved for issuance on exercise of outstanding stock options held by directors, officers, employees and consultants of the Corporation, exercisable at the following prices:
   (a) 493,750 shares at $4.50 per share;
   (b) 295,750 shares at a price equal to 110% of the offering price of the Units; and
   (c) 130,000 shares at US$2.00 per share.
4. Does not include 980,000 Common Shares issuable on the exercise of outstanding warrants issued in connection with a financing completed by the Corporation in December 2001. Each warrant entitles the holder to acquire one Common Share for US$2.50 until December 18, 2003. An additional 350,000 Common Shares are issuable on the exercise of warrants issued in connection with the Terrenex Farmout Agreement. Each such warrant entitles the holder to acquire one Common Share for US$2.50.
5. Does not include 250,000 Common Shares issued to Terrenex on May 12, 2003.
6. Does not include a maximum of ● Common Shares issuable on the exercise of Warrants, up to an additional ● Common Shares issuable upon exercise of the Agent's Option, or up to an additional ● Common Shares issuable upon exercise of the Over Allotment Option.

DIRECTORS AND OFFICERS

The following are the names and municipalities of residence of the directors and officers of the Corporation, their present position(s) and offices with the Corporation, their principal occupations during the last five years and their holdings of Common Shares as at the date hereof.

Name, Present Position with the Corporation and Municipality	Principal Occupations for Preceding Five Years	Date when became an Officer or Director of the Corporation	Number and Percentage of Common Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Direction is Exercised
Leslie R. Beddoes, Jr. Director Calgary, Alberta	Director, Terrenex, a public investment company from July 1999 to November 2000. Independent exploration consultant since 1997.	November 2000	50,000 (<1%)
Michael R. Binnion President, Chief Executive Officer and Director Calgary, Alberta	President, Chief Executive Officer and Director since November 2000. President and Director of Terrenex since October 1995. President and Chief Executive Officer of Flowing Energy Corporation, a junior exploration and production company from June 1996 to December 2001 and Chairman since April 2002. President and Chief Financial Officer of CanArgo Energy Corporation, an independent exploration & production company from 1998 to 2000.	November 2000	1,087,950(1) (11.83%)
Russ Hammond Director London, England	Investment advisor to Provincial Securities Limited, a private investment company. Director of ECO Recycling Systems Ltd., an environmental services company, since 2000. Director of CanArgo Energy Corporation since July 1998 and a Director of Cadiz Inc., a water development company from November 1991 to December 1998.	November 2000	Nil(2)
Tom Landry, Jr. Director Dallas, Texas	President and owner of L&L Petroleum Corporation, an independent exploration and production company, since 1999. From 1999 to 2001, partner in Turnkey Partners, Inc. a private drilling firm. From 1991 to 1993, Chairman and CEO of EOR Inc., a NASDAQ listed oilfield services company.	June 2001	145,000(3) (1.58%)
David G. Mallory Director Calgary, Alberta	Chief Financial Officer of the Corporation from November 2000 to March 2003 and a director of the Corporation since October 2001. Chief Financial Officer of Flowing Energy Corporation since September 2000 and a director of Flowing Energy Corporation since March 2001. Chief Financial Officer of Questerre from November 2000 to March 2003. President, CEO, CFO and director of Passion Media Inc., a media entertainment company from January 2000 until June 2002, from July 2002, serving as a director only since July 2002. President of 715502 Alberta Ltd., a management services company, since January 1997. Chief Financial Officer of Oxbow Equities Corp., a publicly traded investment company from August 1997 to October 1999. Vice-President, Corporate Finance for Oxbow Capital Corporation, a private investment company from May 1996 to December 1998.	November 2000	137,500 (4) (1.50%)
Peder N. Paus Director Oslo, Norway	Director of Questerre since November 2000. Director, Flowing Energy Corporation since June 2000. Director, CanArgo Energy Corporation from July 1998 to June 2001. Director of Terrenex since September 1999. Independent businessman since 1995.	December 2000	714,000 (7.77%)
Jason D'Silva Treasurer Calgary, Alberta	Manager, Investor Relations of Questerre since November, 2000 and Treasurer since May 2003. Corporate Compliance Officer of CanArgo Energy Corporation from July 1998 to December 2000. Analyst with Terrenex since 1995.	May 2003	67,500 (<1%)
Maria Rees Corporate Secretary and Controller Calgary, Alberta	Controller and Corporate Secretary of the Corporation since November 2000. Controller and Corporate Secretary of Terrenex since 1995 and a Director since November 2000. Prior thereto, Vice President, Business Administration, Corporate Secretary and Controller of CanArgo Energy Corporation from 1998 to 2000.	December 2000	81,000 (<1%)

Notes:

1. 465,000 Common Shares are held by Rupert's Crossing, An Investment Corporation, a private investment company of which Mr. Binnion is a director.

2. Mr. Hammond is an investment advisor to Provincial Securities Limited which holds 853,550 Common Shares and 80,000 Common Share purchase warrants. Mr. Hammond does not claim beneficial ownership or control of the Common Shares held by Provincial Securities Limited.
3. 145,000 Common Shares and 20,000 Common Share purchase warrants are held by Landry Holdings, Inc. a private investment company of which Mr. Landry is a director and controlling shareholder.
4. 102,500 Common Shares are held by 715502 Alberta Ltd., a management services company of which Mr. Mallory is a director.
5. Terrenex, of which Mr. Hammond is Chairman, Mr. Binnion is President and a director and Mr. Paus is a director, holds, directly and indirectly, 886,285 Common Shares and 4,500,000 Series 1 Shares. Terrenex also holds, and directly or indirectly, 503,222 warrants entitling it to acquire 503,222 Common Shares at US$2.50 per share expiring at various times until February 1, 2005. Mr. Hammond, Mr. Binnion and Mr. Paus do not claim beneficial ownership over the Common Shares held by Terrenex. Mr. Binnion holds 314,611 common shares and Mr. Paus holds 470,835 common shares of Terrenex, respectively, representing 8.3% and 12.4% of the outstanding common shares capital of Terrenex.

Mr. Paus, Mr. Hammond and Mr. Mallory are members of the Audit Committee. The Corporation does not have an Executive Committee. The directors will hold office until the next annual meeting of the Corporation or until their successors are elected or appointed.

The directors and senior officers of the Corporation collectively beneficially own, directly or indirectly, or exercise control or direction over, 2,282,950 of the Common Shares, representing 24.9% of the total number of Common Shares issued and outstanding prior to the Offering (●% after giving effect to the Minimum Offering and ●% after giving effect to the Maximum Offering).

Certain directors and officers of the Corporation and its subsidiary are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with the ABCA, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation. Certain of the directors of the Corporation have either other employment or other business or time restrictions placed on them and accordingly, these directors of the Corporation will only be able to devote part of their time to the affairs of the Corporation.

MANAGEMENT

Michael R. Binnion, President, Chief Executive Officer and a Director of the Corporation.

President since November 2000.

Mr. Binnion has been actively involved in the financing and executive management of numerous private and public companies over the last 14 years.

He has been President and a director of Terrenex since 1995, Chairman of Flowing Energy Corporation, a junior exploration and production company since 1996 and a Director of Sylogist Inc., an information technology solution service provider since 1997. Mr. Binnion also holds Board positions on two other private technology companies.

From 1998 to 2000, he was President, Chief Financial Officer and a director of CanArgo Energy Corporation, an integrated energy company operating in the Republic of Georgia. From 1992 to 1997 he was Executive Director of Crossfield House Inc., a private merchant banking firm. From 1992 to 1998 he was a minority shareholder and manager of a private investment company that held interests in commercial real estate and golf courses. Prior thereto he was Manager in the High Tech group at Clarkson Gordon, a division of Ernst and Young, specializing in tax-assisted financings.

Mr. Binnion is a Chartered Accountant and holds a Bachelor's degree in Commerce from the University of Alberta.

Mr. Binnion expects to devote approximately 85% of his time to the Corporation. Mr. Binnion is 42 years of age.

John C. Brodylo, Exploration Manager

Exploration Manager since March 2001. Mr. Brodylo has over 18 years' experience as a geologist and geophysicist with medium and large energy companies.

Mr. Brodylo's career has focused on both development and exploration activities, primarily in Central Alberta. He has been responsible for independently generating prospects, conducting regional studies and geological mapping integrated with geophysics and petrophysics. He was employed by Draig Energy Ltd. from June 1998 to March 2001 as a geologist and geophysicist. From 1995 to 1998, he was employed by Pan Northern Resources Ltd. as a geologist. Prior thereto, he was employed by Samedan Oil of Canada Ltd. as a geologist. Mr. Brodylo was previously employed by Canadian Occidental Petroleum Ltd. as an exploration geologist in domestic and international operations from 1989 to 1993.

Mr. Brodylo holds a Bachelor of Science Degree in Geology and Geophysics from the University of Calgary.

Mr. Brodylo will devote 100% of his time to the Corporation and is 42 years of age.

David P. Meeks, Engineering Manager

Engineering Manager since December 2000. Mr. Meeks is a professional engineer and has over 21 years' experience in the natural resource sector.

Since 1993, Mr. Meeks' career has focused on well abandonments, workovers, completions and the implementation of optimization plans for developed fields on a consulting basis. From 1990 to 1993, he was employed as a project geologist for Consolidated Ramrod Gold Corporation, a junior mining company. Prior thereto, he was employed by Canadian Occidental Petroleum Ltd. His positions included Supervisor Reservoir Operations, Staff Reservoir Engineer, Staff Completions Engineer and Technical Supervisor, Production Operations.

Mr. Meeks holds a Bachelor of Science in Geological Engineering from the University of British Columbia.

Mr. Meeks will devote 100% of his time to the Corporation. He is 47 years of age.

Jason D'Silva, Treasurer

Treasurer since May 8, 2003.

Mr. D'Silva has been the Manager, Investor Relations of Questerre since November, 2000 and Treasurer since May 2003. Mr. D'Silva has also been an analyst with Terrenex since 1995. Mr. D'Silva was the Corporate Compliance Officer of CanArgo Energy Corporation from July 1998 to December 2000.

Mr. D'Silva holds a Bachelor of Science in Finance from Utah State University.

Mr. D'Silva will devote 90% of his time to the Corporation. He is 29 years of age.

Maria Rees, Corporate Secretary

Corporate Secretary and Controller since November 2000.

Ms. Rees has been Controller and Corporate Secretary of Terrenex since 1995 and a Director since November 2000. She has also served as Vice President, Business Administration and Corporate Secretary and Controller of CanArgo Energy Corporation from 1998 to 2000.

Ms. Rees will devote 80% of her time to the Corporation. She is 43 years of age.

PRINCIPAL SHAREHOLDERS

To the knowledge of the Corporation, as at the date of this Prospectus, no person or company beneficially owned, directly or indirectly, or exercised control or direction over, voting securities of the Corporation carrying more that 10% of the voting rights attached to any class of voting securities of the Corporation, other than as set forth below.

Name	Type of Ownership	Number and Percentage of Common Shares as at the Date Hereof	Number and Percentage of Total Common Shares Owned After Completion of Minimum Offering	Number and Percentage of Total Common Shares Owned After Completion of Maximum Offering
Michael Binnion(1)	Direct and Indirect	1,087,500 (11.83%)	1,087,500 (●%)	1,087,500 (●%)

Note:

1. 465,000 Common Shares are held by Rupert's Crossing, An Investment Corporation, a private investment company of which Mr. Binnion is a director.

EXECUTIVE COMPENSATION

Compensation of Executive Officers

During the financial year ended December 31, 2002, the Corporation employed two Executive Officers, one of whom has since resigned. "Executive Officer" means the chairman and any vice-chairman of the board of directors who perform the functions of that office on a full-time basis, the president of the Corporation or any vice-president in charge of a principal unit of the Corporation and any officer of the Corporation or its subsidiary who performs a policy making function in respect of the Corporation. As at the date hereof, the Corporation has one Executive Officer. The Executive Officer of the Corporation, is also a director of the Corporation. The aggregate cash compensation, including salaries, fees (including director's fees), commissions, bonuses paid for services rendered, bonuses paid for services rendered in a previous year, and any compensation other than bonuses earned, paid to the Executive Officers, by the Corporation and its subsidiaries for services rendered during the financial year ended December 31, 2002 was $229,020. Other than as herein set forth, the Corporation did not pay any additional compensation to its Executive Officers (including personal benefits and securities or properties paid or distributed which compensation was not offered on the same terms to all full-time employees).

Summary Compensation Table

The following table sets forth all annual and long term compensation for services in all capacities to the Corporation for the financial years ended December 31, 2000, 2001 and 2002, in respect of the individuals who were, during the financial year ended December 31, 2002, acting in a capacity similar to a Chief Executive Officer and the four most highly compensated executive officers whose compensation was greater than $100,000 for the financial year ended December 31, 2002 (collectively, the "Named Executive Officers").

		Annual Compensation			Long Term Compensation			
					Awards		Payouts	
Name and Position	**Year ended Dec. 31**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Securities Under Options/SARs Granted (#)**	**Restricted Shares or Restricted Share Units ($)**	**LTIP Payouts ($)**	**All Other Compensation ($)**
Michael Binnion President, Chief Executive Officer and Director (1)(2)	2002	155,520	nil	nil	nil	nil	nil	nil
	2001	172,800	nil	nil	165,000	nil	nil	nil
	2000(3)	nil	nil	nil	100,000	nil	nil	nil
David Mallory, Director(2)(4)	2002	nil	nil	73,500	8,500	nil	nil	nil
	2001	nil	nil	120,000	55,000	nil	nil	nil
	2000(3)	nil	nil	nil	35,000	nil	nil	nil
John Brodylo, Exploration Manager(2)	2002	115,000	nil	nil	15,000	nil	nil	nil
	2001	95,833	nil	nil	80,000	nil	nil	nil
	2000(3)	nil	nil	nil	nil	nil	nil	nil

Name and Position	Year ended Dec. 31	Annual Compensation			Long Term Compensation			All Other Compensation ($)
					Awards		Payouts	
		Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Under Options/SARs Granted (#)	Restricted Shares or Restricted Share Units ($)	LTIP Payouts ($)	
David Meeks, Engineering Manager(2)	2002	114,000	nil	nil	5,000	nil	nil	nil
	2001	118,333	nil	nil	40,000	nil	nil	nil
	2000(3)	13,750	nil	nil	50,000	nil	nil	nil
Richard Mindus, Chief Operator(2)	2002	102,769	nil	nil	31,000	nil	nil	nil
	2001	101,738	nil	nil	5,000	nil	nil	nil
	2000(3)	nil	nil	nil	nil	nil	nil	nil

Notes:

1. Under the terms of an Office Rental Agreement dated January 10, 2001, between the Corporation and a corporation controlled by Mr. Binnion, the Corporation incurred fees in 2002 of $126,000, for the provision of offices, office equipment, and support personnel. The agreement may be terminated by either party with six months' written notice. See "Interest of Management and Others in Material Transactions".
2. See "Management Contracts".
3. For the 14 month period ended December 31, 2002.
4. Mr. Mallory resigned as Chief Financial Officer of the Corporation on March 31, 2003.

Compensation of Directors

One of the directors receives $1,000 per month for serving as a director. Another director receives US$500 per month for the provision of an office in Norway. None of the other directors receive any compensation other than stock options for serving as a director.

Options

The Corporation has established a stock option plan (the "Plan") for directors, officers, employees and consultants of the Corporation and its subsidiaries. The Board of Directors may designate which directors, officers, employees and other key personnel of the Corporation or its subsidiaries are to be granted options to acquire Common Shares, subject to the restriction that the aggregate number of Common Shares issuable upon exercise of options granted thereunder shall not exceed 10% of the number of Common Shares issued and outstanding. The directors, in compliance with the requirements of the stock exchange(s) on which the Common Shares are listed or regulatory body having jurisdiction, determine the exercise price associated with any options granted under the Plan. The options vest on a date set by the directors and expire at a time set by the directors, not to exceed five years, provided that any outstanding options will expire on a date not exceeding 30 days following the date of termination of employment or service, or in the event of death of the optionee on a date not to exceed six months from the date of death of the optionee. If any option granted under the Plan expires or terminates for any reason without having been exercised in full, the unpurchased shares subject thereto are again available for the purpose of the Plan. Options granted under the Plan are non-assignable. Outstanding options granted under the Plan may be adjusted in certain events, as to exercise price and number of Common Shares, to prevent dilution or enhancement.

The following table and the notes thereto set forth information in respect of each exercise of options by the Named Executive Officers during the Corporation's fiscal year ended December 31, 2002 and the financial year-end value of unexercised options.

Name and Position	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at December 31, 2002 (#) Exercisable/Unexercisable	Value of Unexercised "in-the-Money" Options at December 31, 2002(1) ($) Exercisable/Unexercisable
Michael Binnion, President, Chief Executive Officer and Director	Nil	Nil	96,250/68,750	0/0

Name and Position	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at December 31, 2002 (#) Exercisable/Unexercisable	Value of Unexercised "in-the-Money" Options at December 31, 2002[1] ($) Exercisable/Unexercisable
David Mallory, Director	Nil	Nil	34,208/29,292	0/0
John Brodylo, Exploration Manager	Nil	Nil	50,416/44,584	0/0
David Meeks, Engineering Manager	Nil	Nil	24,583/20,417	0/0
Richard Mindus, Chief Operator	Nil	Nil	10,666/25,334	0/0

Note:

1. Unexercised "in-the-money" options refer to those options in respect of which the market value of the underlying security as at the financial year end exceeds the exercise price of the option, being the aggregate of the difference between the market value of the securities as at December 31, 2002 and the exercise price of $4.50 per share. The Common Shares have never been listed for trading on an exchange or other market. As such, a price of $3.00 per Common Share, being the price at which the Corporation issued Common Shares for cash in March 2001, is designated at the market value of the Common Shares at December 31, 2002.

As at December 31, 2002 and May 14, 2003, there were an aggregate of 919,500 options issued and outstanding all of which are anticipated to be outstanding at the completion of the Offering, as more particularly described in the following table.

Group (Number in Group)	Common Shares Under Option	Exercise Price	Date of Grant	Expiry Date	Market Value on Date of Grant	Market Value on Dec. 31, 2002 and May 14, 2003[1]
Executive Officers (1)	165,000	$4.50[2]	02/15/2001	02/14/2006	$3.00	$3.00
Directors who are not Executive Officers (5)	250,000	$4.50[2]	02/15/2001	02/14/2006	$3.00	$3.00
	115,000	$4.50[3]	06/01/2001	05/31/2006	$3.00	$3.00
	108,500	$4.50	03/11/2002	03/10/2007	$3.00	$3.00
Employees (6)	80,000	US$2.00	02/09/2001	02/09/2006	$3.00	$3.00
	82,000	$4.50	03/11/2002	03/10/2007	$3.00	$3.00
	95,000	$4.50[2]	02/15/2001	02/15/2006	$3.00	$3.00
	9,000	$4.50[2]	05/01/2001	05/01/2006	$3.00	$3.00
Others (2)	7,500	$4.50[2]	02/15/2001	02/15/2006	$3.00	$3.00
	7,500	$4.50	03/11/2002	03/11/2007	$3.00	$3.00
Total	919,500					

Notes:

1. The Common Shares have never been listed for trading on an exchange or other market. As such, a price of $3.00 per Common Share, being the price at which the Corporation issued Common Shares for cash in March, 2001, is designated as the market value of the Common Shares at December 31, 2002.
2. Of these options, 50% are exercisable upon payment of the exercise price of $4.50 per share and the remaining 50% are exercisable upon payment of an exercise price equal to the offering price under this Offering plus 10%.
3. Of these options, 50,000 are exercisable at a price of US$2.00 per share and vest at the discretion of the board of directors of the Corporation based on the optionee's assistance in securing financing for the Corporation's projects. The remainder of these options are exercisable on the same terms as discussed in note 2 above.

Long-Term Incentive Plans – Awards in Most Recently Completed fiscal year

The Corporation has not had and does not currently have any long-term incentive plans other than stock options granted from time to time. See "Stock Options".

Stock Option and SAR Re-pricing

The Corporation did not make any downward re-pricing of stock options or stock appreciation rights during the fiscal year ended December 31, 2002.

Pension and Retirement Plans and Payments Made Upon Termination of Employment

The Corporation does not have any pension or retirement plan which is applicable to the Named Executive Officers. The Corporation has not provided compensation, monetary or otherwise, during the preceding fiscal year, to any person who now or previously has acted as an Executive Officer of the Corporation, in connection with or related to the retirement, termination or resignation of such person and the Corporation has provided no compensation to such persons as a result of change of control of the Corporation, its subsidiaries or affiliates. The Corporation is not party to any compensation plan or arrangement with the Executive Officers resulting from the resignation, retirement, or termination of employment of such persons.

Employment Contracts and Termination of Employment

On January 2, 2001, the Corporation, entered into an employment contract with Michael Binnion, the President and Chief Executive Officer of the Corporation. The employment contract provides for compensation by way of annual salary of $172,800, the right to acquire 300,000 Common Shares at a price of US$0.10 and 100,000 options with an exercise price of US$0.10 per share. The right to acquire Common Shares and the options were subsequently exercised, with one-third of these Common Shares remaining subject to a contractual hold period expiring on Mr. Binnion achieving the third anniversary of the employment contract. The contract may be terminated by Questerre by payment of six months base salary and by Mr. Binnion by three months' written notice. In July 2002, due to cost control measures being implemented, Mr. Binnion agreed to a 20% reduction in base salary, subject to reinstatement by the board of directors of Questerre at their discretion.

On November 8, 2000, the Corporation entered into an employment contract with David Meeks, the Engineering Manager. The employment contract provides for compensation by way of annual salary of $110,000, the right to acquire 10,000 Common Shares at a price of US$0.10 and 50,000 options with an exercise price of US$0.10 per share. The right to acquire Common Shares and the options were subsequently exercised, with one-third of these Common Shares remaining subject to a contractual hold period expiring on Mr. Meeks achieving the third anniversary of the employment contract. In July 2002, due to cost control measures being implemented, Mr. Meeks agreed to a 10% reduction in base salary, subject to reinstatement by the board of directors of Questerre at their discretion.

On February 9, 2001, the Corporation entered into an employment contract with John Brodylo, Exploration Manager. The employment contract provides for compensation by way of base salary of $115,000 and the granting of 80,000 options with an exercise price of US$2.00 per share, one-third of which vest on each anniversary of the employment contract. A bonus may be payable annually as determined by the Chief Executive Officer and Chief Operating Officer based on the performance of Questerre. In the event of a change of control of Questerre, following which Mr. Brodylo is terminated or suffers constructive dismissal, Mr. Brodylo is entitled to six months' base salary and the full vesting of any options, as well as the release from escrow of any escrowed Common Shares.

On May 1, 2002, Questerre Beaver River Inc., a wholly owned subsidiary of the Corporation, entered into an employment contract with Richard Mindus, Chief Operator. The contract provides for a base annual salary of $100,000. The contract may be terminated by Questerre by payment of three months base salary and by Mr. Mindus by three months written notice. In July 2002, due to cost control measures implemented, Mr. Mindus agreed to a 10% reduction in base salary, subject to reinstatement by the board of directors of Questerre at their discretion.

Management Contracts

In January 2001, Questerre Beaver River Inc., entered into a Management Services Agreement ("MSA") with 715502 Alberta Ltd. The insiders of 715502 Alberta Ltd. are David Mallory, a director and former Chief Financial Officer of the Corporation, Ann F.H. Mallory and the Tri-One Trust. Under the terms of the MSA, 715502 Alberta Ltd. provided management services to the Corporation, including the services of Mr. Mallory as Chief Financial Officer for a monthly fee of $10,000 per month (plus GST). 715502 Alberta Ltd. was granted the right to acquire 100,000 Common Shares at a price of US$0.10 per share and 35,000 options with an exercise price of US$0.10 per share. Both the right and the options were subsequently exercised, with one-third of these Common Shares remaining subject to a contractual hold period expiring on January 4, 2004. An annual bonus was payable at the discretion of the Chief Executive Officer based on Mr. Mallory's and Questerre's performance. Effective July 1, 2002 the monthly fee payable under the MSA was reduced to $2,250. The MSA expired on December 31, 2002 and was extended on a month to month basis. On March 31, 2003, Mr. Mallory resigned as the Chief Financial Officer of Questerre.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

Since the beginning of the last completed financial year, no director or executive officer, or any associate or affiliate of any of them, has been or are indebted to the Corporation or to any other entity which is, or at any time since the beginning of the last completed financial year was, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of the Corporation's subsidiaries.

PRIOR SALES

During the twelve-month period prior to the date hereof, 250,000 Common Shares have been issued by the Corporation as follows:

Date of Issue	Number of Shares Issued	Amount Per Share	Total Amount
May 12, 2003(1)	250,000	$3.00	$750,000

Note:
1. The 250,000 Common Shares were issued to Terrenex in partial consideration of the cancellation of the Terrenex Farmout Agreement. See "Business of the Corporation - History" and "Interests of Management and Others in Material Transactions".

ESCROWED SECURITIES

Pursuant to an agreement (the **"**Escrow Agreement**"**) dated ●, 2003 among the Corporation, Computershare Trust Company of Canada and certain of the current shareholders (including all of the directors, officers and promoters of the Corporation who hold Common Shares), the following securities of the Corporation are held in escrow:

Designation of Class	Number of Securities	Percentage of Class Prior to Offering(%)	Percentage of Class After Maximum Offering (%)	Percentage of Class After Minimum Offering(%)(1)
Common Shares	1,801,950	19.5	●	●
Common Share purchase warrants	20,000	2	●	●

Note:
1. Without giving effect to the exercise of the Over Allotment Option.

Twenty-five (25%) percent of such Common Shares will be released from escrow upon receipt of notice confirming the listing of the Common Shares on a Canadian stock exchange. The remaining seventy-five (75%) percent of such Common Shares will be released from escrow in twenty-five per cent (25%) tranches during consecutive six month intervals over a 18 month period following receipt of such notice. This escrow release schedule is subject to acceleration in accordance with National Policy 46-201 "Escrow for Initial Public Offerings". Non-transferrable incentive stock options held by these individuals will not be deposited under the Escrow Agreement.

MATERIAL CONTRACTS

The only material contract entered into by the Corporation , or on its behalf, within the last two years, other than contracts entered into in the ordinary course of business, is the Agency Agreement between the Agent and the Corporation dated May ●, 2003. See "Plan of Distribution". This agreement can be inspected at the office of the Corporation at 1580, 727 - 7th Avenue S.W., Calgary, Alberta T2P 0Z5, during regular business hours during the period of distribution of the Units.

INTERESTS OF EXPERTS

None of McDaniel, McCarthy Tétrault LLP, Borden Ladner Gervais LLP, or PricewaterhouseCoopers LLP or any director, officer, employee or partner thereof received or has received a direct or indirect interest in the property of the Corporation or of any associate or affiliate of the Corporation. As at the date hereof, none of the aforementioned companies and partnerships, nor any of the directors, officers, employees and partners thereof, beneficially own, directly or indirectly, any securities of the Corporation or its associates and affiliates.

No director, officer, partner or employee of any of the aforementioned companies and partnerships is currently expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associates or affiliates of the Corporation.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Corporation has appointed Canaccord Capital Corporation as its agent to offer for sale to the public, on a "best efforts" basis, the Units at a price of $● per Unit, subject to compliance with all necessary legal requirements the terms and conditions of the Agency Agreement. The Offering price was determined by negotiation between the Corporation and the Agent. The Agent will receive a commission of $● per Unit, or 8% of the gross proceeds, for an aggregate commission of $●, if the Maximum Offering is achieved and an aggregate commission of $● if the Minimum Offering is achieved. In addition to the foregoing, the Corporation has agreed to reimburse the Agent for its reasonable expenses and legal fees incurred in connection with this Offering and to grant to the Agent a non transferable Agent's Option to purchase up to that number of Common Shares equal to 8% of the aggregate number of Units sold pursuant to the Offering at a price of $● per Common Share. The Agent's Option will expire 12 months from the Initial Closing Date. The Agent's Option is qualified for distribution by this Prospectus. The Corporation has granted to the Agent an Over-Allotment Option exercisable for a period of ● days from the Initial Closing Date to purchase up to an additional ● Units on the same terms set forth above solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the gross proceeds, the Agent's Commission and net proceeds to the Corporation will be $●, $● and $●, respectively. This Prospectus also qualifies the grant of the Over-Allotment Option and the Common Shares and Warrants issuable as part of the Units on the exercise of the Over-Allotment Option See "Plan of Distribution".

The Agent has agreed to use its "best efforts" to secure subscriptions for the Units offered hereunder on behalf of Questerre, but is not obligated to buy any Units that are not sold. The obligations of the Agent under the Agency Agreement may be terminated at any time at its discretion on the basis of its assessment of the state of the financial markets or upon the occurrence of certain events stated in the Agency Agreement. The Agent may make syndication or other selling arrangements with other registered investment dealers at no additional cost to the Corporation.

The Agent hereby conditionally offers, as agent, on behalf of the Corporation, the Units on a "best efforts" basis, subject to prior sale if, as and when issued by Questerre. The closing is conditional upon all conditions of closing specified in the Agency Agreement having been satisfied or waived.

The Offering consists of a maximum of ● Units and a minimum of ● Units. Each Regular Unit consists of one Common Share and one whole Warrant. Each Flow-Through Unit consists of one Flow-Through Common Share and one-half of one Warrant. Each Warrant will entitle the holder at any time to acquire one Common Share at an exercise price of $● until December 31, 2003 and thereafter at an exercise price of $● until December 31, 2004. For a description of the Common Shares see "Description of Share Capital." The Warrants will be issued pursuant to and governed by a warrant indenture to be entered into between the Corporation and Computershare Trust Company of Canada (the "Warrant Indenture"). The Warrant Indenture will contain certain anti-dilution provisions resulting in adjustments to the number and kind of securities issuable on exercise of the Warrants in certain events. The Warrant Indenture will also contain provisions giving the holders of Warrants the power, exercisable from time to time by extraordinary resolution, to, among other things, agree to any modification, abrogation, alteration, compromise or arrangement of certain of the rights of the holders of Warrants. An "extraordinary resolution" is a resolution tabled as such at a meeting of holders of Warrants (including an adjourned meeting) duly convened and held in accordance with the provisions of the Warrant Indenture passed by the favorable votes of the holders of not less than two-thirds of the Warrants represented at the meeting.

Subscribers who place an order to purchase Flow-Through Common Shares with the Agent, or any sub-agent of the Agent, will be deemed to have authorized the Agent or such sub-agents to execute and deliver, as agent on their behalf, the Subscription Agreement. Provided that the Minimum Offering is subscribed for, it is expected that the Initial Closing Date will be on June ●, 2003, or such other date as the Corporation and the Agent may agree to not later than ●, 2003. Should closing occur in respect of the Minimum Offering, one or more closings, if necessary may occur until the earlier of the Maximum Offering being subscribed for and ●, 2003. If the Minimum Offering has not been subscribed for on or prior to that date that is 90 days from the issuance of a receipt for this Prospectus, the proceeds of subscriptions will be returned to the Purchasers without interest or deduction unless such Purchasers have provided contrary instructions. The Offering will be discontinued if a closing in respect of the Minimum Offering has not occurred before the expiry of this 90 day period, unless each of the persons or companies that subscribed for Units during that period and applicable regulatory authorities consent to a continuation of the Offering.

Until such time as a Closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agent will be promptly delivered to and held by the Custodian, pending Closing of the Minimum Offering, pursuant to the provisions of the Agency Agreement. If the Minimum Offering has not been subscribed for prior to the expiry of the 90 day period, the Custodian shall promptly return the proceeds of subscriptions to the Purchasers without interest or deduction unless such Purchasers have otherwise instructed the Custodian.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the Corporation reserves the right to close the subscription books at any time once the Minimum Offering is achieved Certificates representing the securities acquired hereunder will be available at closing.

The securities offered hereunder have not been, and will not be, registered under the *United States Securities Act of 1933*, as amended (the "U.S. Securities Act"), and accordingly, may not be offered or sold within the United States or to a U.S. Person except in certain transactions exempt from the registration requirements of the U.S. Securities Act.

DETAILS OF THE OFFERING

Subscriptions for Flow-Through Units will be made pursuant to one or more subscription agreements ("Subscription Agreements") to be made between the Corporation and the Agent, as agent for, on behalf of and in the name of the Purchasers of the Flow-Through Units.

PURCHASERS WHO PLACE AN ORDER TO PURCHASE FLOW-THROUGH UNITS WITH THE AGENT, OR ANY SUB-AGENT OF THE AGENT, WILL BE DEEMED TO HAVE AUTHORIZED THE AGENT OR SUCH SUB-AGENTS TO EXECUTE AND DELIVER, AS AGENT ON THEIR BEHALF, A SUBSCRIPTION AGREEMENT. The execution and delivery of the subscription agreement by the Agent or subagent of the Agent on behalf of the Purchaser will bind such Purchaser to the terms thereof as if such Purchaser had executed the Subscription Agreement personally.

Pursuant to the Subscription Agreements, the Corporation will covenant and agree (i) to incur, during the Expenditure Period, Qualifying Expenditures in such amount as enables the Corporation to renounce to the Purchasers of Flow-Through Common Shares ("Subscribers") in accordance with the Tax Act, and the Subscription Agreements, Qualifying Expenditures equal to the Flow-Through Subscription Amount; (ii) to renounce (in accordance with the Tax Act and the Subscription Agreements) to the Subscribers, effective on or before December 31, 2003 in respect of the Flow-Through Common Shares, Qualifying Expenditures incurred during the Expenditure Period equal to the Flow-Through Subscription Amount and, for the purposes of such renunciation: (a) to make in a timely fashion all filings required in connection with the Subscription Agreements including, without limitation, the filings required by subsections 66(12.68) and 66(12.7) of the Tax Act; and (b) to mail to the Subscribers, not later than March 31, 2004 a statement setting forth the aggregate amounts of Qualifying Expenditures renounced to the Subscribers pursuant hereto; (iii) that all Qualifying Expenditures renounced to the Subscribers pursuant to the Subscription Agreements will be Qualifying Expenditures incurred by the Corporation that, but for the renunciation to the Subscribers, the Corporation would be entitled to deduct in computing its income for the purposes of Part I of the Tax Act; (iv) that the Corporation will not reduce the amount renounced to the Subscribers pursuant to the subsection 66(12.6) of the Tax Act or subsection 66(12.601) of the Tax Act and, in the event the Minister reduced the amount renounced to the Subscribers pursuant to subsection 66(12.73) of the Tax Act, the Corporation will indemnify the Subscribers for an amount equal to the amount of any increased tax payable under the Tax Act, or the laws of the province, by the Subscribers as a consequence of such reduction; (v) that the Corporation is a "principal-business corporation" for the purposes of the Tax Act and that the Corporation will maintain its status as a "principal-business corporation" (as defined in the Tax Act) until at least January 1, 2005; (vi) that the Corporation shall indemnify the Subscribers for an amount equal to the amount of any increased tax payable under the Tax Act or the laws of a province by the Subscribers as a consequence of the failure of the Corporation to incur and renounce to the Subscribers Qualifying Expenditures equal to the Flow-Through Subscription Amount as set out in the Subscription Agreement; (vii) subject to any agreement to which the Corporation is not a party, that the Flow-Through Common Shares do not constitute "prescribed shares" for the purpose of Section 6202.1 of the Regulations under the Tax Act and will be "flow-through shares" for the purposes of subsection 66(15) of the Tax Act; and (viii) that none of the Qualifying Expenditures will be renounced to a trust, corporation or partnership with whom the Corporation has a prohibited relationship as defined in subsection 66(12.671) of the Tax Act.

The Subscription Agreements will contain additional representations, warranties, covenants and agreements by the Corporation in favour of the Subscribers which are consistent with and supplement the Corporation's obligations as described in this Prospectus. The contract arising out of the Subscription Agreements and all documents relating thereto shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein. The Subscription Agreement will also provide representations, warranties and agreements of the Subscriber, and by its purchase of Flow-Through Common Shares, each subscriber of Flow-Through Common Shares offered hereunder will be deemed to have represented, warranted and agreed, for the benefit of the Corporation and the Agent that (i) the subscriber, and any beneficial subscriber for whom it is acting, deals, and until January 1, 2005 will continue to deal, at arm's length with the Corporation for the purposes of the Tax Act; (ii) the subscriber is of the full age of majority and has the legal capacity and competence to enter into and be bound by the Subscription Agreement.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Borden Ladner Gervais LLP, the following is, as of the date hereof, a fair and reasonable summary of the principal Canadian federal income tax consequences generally applicable to a Purchaser of Regular Units who acquires Common Shares and Warrants and a Purchaser of Flow-Through Units who acquires Flow-Through Common Shares and Warrants pursuant to this Offering. This summary is applicable only to Purchasers who, for the purposes of the Tax Act and at all relevant times, are resident in Canada, hold their Common Shares, Flow-Through Shares and Warrants as capital property and deal at arm's length with the Corporation ("holders'). The Common Shares, Flow-Through Shares and Warrants will generally be considered capital property to the holder thereof unless either the holder holds the Common Shares, Flow-Through Shares and Warrants in the course of carrying on a business or the holder has acquired the Common Shares, Flow-Through Shares and Warrants in a transaction or transactions considered to be an adventure in the nature of trade. **All Purchasers are advised to consult their own tax advisors.**

This summary is based upon the current provisions of the Tax Act, the regulations promulgated thereunder (the "Regulations"), the proposed amendments to the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Proposals") and the current published administrative practices of the Canada Customs and Revenue Agency (the "CCRA"). This summary assumes that the Proposals will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax considerations. No assurances can be given that the Proposals will be enacted as proposed, if at all.

This summary does not apply to holders: (i) which are "principal-business corporations" within the meaning of the Tax Act; (ii) whose business includes trading or dealing in rights, licenses or privileges to explore for, drill for or take minerals, oil, natural gas or other related hydrocarbons; (iii) which are "financial institutions" within the meaning of the "mark-to-market" rules contained in the Tax Act; (iv) who, at any time, have an "at-risk" adjustment as defined in the Tax Act, or (v) who are trusts or partnerships.

This summary assumes that the Corporation will make all tax filings in respect of the Flow-Through Common Shares and the renunciation of the Qualifying Expenditures in the manner and within the time required by the Tax Act and that all renunciations will be validly made. In addition, while the Corporation will furnish each holder of Flow-Through Common Shares with information relevant to the holder's Canadian federal and provincial income tax returns, the preparation and filing of those returns will remain the responsibility of each holder. This summary further assumes that the Corporation will incur (or will be deemed to have incurred) sufficient Qualifying Expenditures to enable it to renounce to holders of Flow-Through Common Shares all of the expenses covenanted to be renounced by the Corporation. This summary is based on the Corporation being and maintaining its status as a "principal-business corporation" within the meaning of subsection 66(15) of the

Tax Act and assumes that any Flow-Through Common Shares will not be prescribed shares within the meaning of Section 6202.1 of the Regulations.

The Canadian federal income tax consequences to a particular holder will vary depending on a number of factors, including the residence of a particular holder and the amount that would be the holder's taxable income but for the purchase of Flow-Through Common Shares. The following discussion of the income tax consequences is, therefore, of a general nature only and is not exhaustive of all the income tax consequences and is not intended to constitute income tax advice to any particular holder. Accordingly, holders should consult their own income tax advisors with respect to the Canadian federal income tax consequences which will result from holding and disposing of Common Shares, Flow-Through Common Shares and Warrants.

Allocation of Purchase Price

Purchasers of Units will be required to allocate the cost of each Unit among the Common Share component, Flow-Through Common Share component and the Warrant component on a reasonable basis in order to determine the respective cost for purposes of the Tax Act. It is understood that it is the CCRA's administrative position that the allocations made by the Issuer and the holders must be the same. The Corporation proposes to allocate $● per Common Share, $● per Flow-Through Common Share, $● per half Warrant and $● per Full Warrant. The Corporation believes that such allocation is reasonable, although such allocation will not be binding on the CCRA. The amount allocable to acquire Flow-Through Common Shares comprised in the Flow-Through Units will be the amount that can be renounced to holders.

Exercise or Expiry of Warrants

No gain or loss will be realized by a holder by the exercise of a Warrant. When a Warrant is exercised, the holder's cost of the Common Shares acquired thereby would be the aggregate of the holder's adjusted cost base of the Warrant and the exercise price paid for the Common Share. The cost of any Common Shares acquired on an exercise of Warrants must be averaged with the adjusted cost base of the other Common Shares held by the holder as capital property for purposes of calculating the adjusted cost base of such Common Share.

On the expiry of an unexercised Warrant, the holder will generally realize a capital loss equal to the adjusted cost base to the holder of the Warrant.

Renunciation of Qualifying Expenditures in Respect of Flow-Through Common Shares

Subject to certain limitations and restrictions, a principal-business corporation that incurs CEE (other than certain "off the shelf" seismic data or expenses related thereto) and Eligible CDE pursuant to an agreement for the issue of shares of the Corporation (other than prescribed shares) will be entitled to renounce the CEE and Eligible CDE to such holder and the CEE and Eligible CDE so renounced will be deemed to have been CEE and Eligible CDE incurred by such holder on the effective date of renunciation.

Subject to certain qualifications and conditions, the Corporation may designate up to $1,000,000 of Eligible CDE, incurred by it in any given calendar year to be CEE upon renunciation to a holder of Flow-Through Common Shares. The ability to reclassify CDE into CEE is restricted to corporations which, together with any associated corporations, have in aggregate less than $15,000,000 of "taxable capital employed in Canada" (as that term is defined in the Tax Act) at the time a holder gives consideration for flow-through shares. The Eligible CDE so renounced by the Corporation will be deemed to have been CEE incurred by such holders on the effective date of the renunciation. For the remainder of this summary any reference to CEE includes Eligible CDE.

The Corporation is entitled to renounce to holders of Flow-Through Common Shares CEE incurred by it during the period beginning on the Closing Date and ending 24 months after the end of the month in which the closing occurs less: (i) any previous renunciations with respect to such CEE; (ii) any portion of such CEE which is prescribed under the Tax Act as relating to overhead expenses; and (iii) any assistance that the Corporation has received, is entitled to receive, or may reasonably be expected to receive at any time which is reasonably related to such CEE.

CEE incurred within a particular calendar year and renounced to holders effective on or before December 31 of that calendar year will be deemed to have been CEE incurred by such holders on the effective date in that particular calendar year. Certain CEE which the Corporation plans to incur in the year following a particular calendar year may be renounced effective December 31 of the particular calendar year, provided that: (i) the Flow-Through Common Shares are purchased in the particular calendar year; (ii) the proceeds from the Flow-

Through Share purchase are received by the Corporation before the end of the particular calendar year; (iii) such expenses are renounced on or before March 31 of the following year; and (iv) the holder to which such CEE is renounced deals at arm's length with the Corporation throughout the following year (the "12 month look-back rule").

If CEE renounced pursuant to the 12-month look-back rule are not actually incurred by the Corporation by the end of the year following the particular calendar year, the amount of CEE renounced to holders must be reduced by the amount not actually incurred by the Corporation. A holder will not be liable for any penalty and will not be required to pay interest on any resulting increase in income tax payable in a particular calendar year as a result of such a reduction in CEE until after the month of April in the second calendar year following the particular calendar year. Where the Corporation renounces CEE pursuant to the 12 month look-back rule, the Corporation will be liable to pay a deductible charge each month (other than January) in the year during which the CEE must be incurred equal to the amount of renounced expenses which have not been incurred by the end of the particular month multiplied by 1/12 of the prescribed interest rate at that time for refund interest purposes under the Tax Act. In addition, the Corporation must pay a charge under the Tax Act of 10% of the balance of any renounced but unexpended CEE not incurred by the end of the year following the particular year.

CEE deemed to have been incurred by a holder will be added to the cumulative CEE account of such holder. A holder may deduct in computing income from all sources for a taxation year such amount as may be claimed not exceeding 100% of the holder's cumulative CEE account at the end of a taxation year. To the extent that a holder does not deduct the balance of the holder's cumulative CEE account at the end of a taxation year, the balance will be carried forward and the holder will be entitled to claim deductions in respect thereof in subsequent taxation years, subject to the rules regarding an acquisition of control of a corporate holder. A holder who disposes of Flow-Through Common Shares will retain the entitlement to receive renunciations of CEE from the Corporation as described above as well as the ability to deduct any CEE previously deemed to have been incurred by the holder, and a subsequent purchaser of such Flow-Through Common Shares will not be entitled to any renunciation of CEE.

Disposition of Common Shares (including Flow-Through Common Shares)

For the purposes of the Tax Act, the Common Shares (other than Flow-Through Common Shares) acquired hereunder will have a cost for tax purposes equal to their original purchase price. The cost of a Flow-Through Common Share for the purposes of the Tax Act is deemed to be nil. In computing the adjusted cost base of a holder's Common Shares (including Flow-Through Common Shares) acquired, the cost of such Common Shares (including Flow-Through Common Shares) must be averaged with the cost of any other Common Shares (including Flow-Through Common Shares) of the Corporation held as capital property at that time.

Any disposition or deemed disposition (other than to the Corporation) of Common Shares (including Flow-Through Common Shares) will result in the realization of a capital gain (or capital loss) in the taxation year of the disposition to the extent the proceeds of disposition, net of any reasonable disposition costs, exceed (or are exceeded by) the adjusted cost base of such Common Shares (including Flow-Through Common Shares).

A holder will generally be required to include one-half of the amount of any capital gain (a "taxable capital gain") in income and will be required to deduct one-half of the amount of any resulting capital loss (an "allowable capital loss") against taxable capital gains. Allowable capital losses not deducted in the taxation year in which they are realized may ordinarily be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any following taxation year against taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act.

A holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 2/3% on its "aggregate investment income" for the year, which is defined to include an amount in respect of taxable capital gains.

Alternative Minimum Tax

Under the Tax Act, taxes payable by an individual and by most trusts will be the greater of the taxes otherwise determined and an alternative minimum tax computed by reference to such individual's adjusted taxable income for the taxation year in excess of a $40,000 exemption and reduced by certain tax credits. In calculating adjusted taxable income for the purpose of computing the minimum tax, certain deductions and credits otherwise available are disallowed and certain amounts not otherwise included in income are included. The disallowed items include deductions claimed by the individual in respect of CEE and CDE in a particular taxation year to the extent such deductions exceed the individual's resource income (including income attributable to a disposition of Canadian resource properties) in that year. Eighty percent (80%) of any capital gain realized by the individual is included in calculating the individual's adjusted taxable income. The federal rate of minimum tax is 16%. Whether and to what extent the tax liability of a particular holder will be increased by the alternative minimum tax will depend on the amount of such holder's income, the sources from which it is derived, and the nature and amounts of any deductions such holder claims.

Any additional tax payable by an individual for the taxation year resulting from the application of the alternative minimum tax will be deductible in any of the seven immediately following taxation years in computing the amount that would, but for the alternative minimum tax, be such individual's tax otherwise payable for any such year to the extent that such tax payable exceeds the individual's minimum tax calculation for that particular year.

Cumulative Net Investment Loss

One-half of the amount of the CEE and Eligible CDE renounced to a holder will be added to the holder's cumulative net investment loss ("CNIL") account, within the meaning of the Tax Act. A holder's CNIL account may impact a holder's ability to access the $500,000 lifetime capital gains exemption available on the disposition of certain qualified small business corporation shares and qualified farm property.

Source Deductions and Income Tax Installments

A holder who is an employee and who has income tax withheld at source from employment income may prepare a submission to the holder's relevant district office of the CCRA requesting a reduction in such withholding at source by an employer. The CCRA has a discretionary power to grant such request and may do so based on a holder's share of CEE and Eligible CDE. A holder who is required to pay income tax on an installment basis may take into account the holder's share of CEE and Eligible CDE in determining installment payments.

RRSP Eligibility

Provided the Common Shares (including Flow-Through Common Shares) are listed on a prescribed stock exchange, the Warrants and Common Shares (including Flow-Through Common Shares) will be qualified investments, within the meaning of the Tax Act, for registered retirements savings plans ("RRSPs"), registered retirement income funds, registered education savings plans and deferred profit sharing plans as defined thereunder (collectively referred to as "Deferred Income Plans"). The Toronto Stock Exchange is a prescribed stock exchange in Canada.

A holder who is an individual may contribute all or a portion of his Warrants or Common Shares (including Flow-Through Common Shares) to an RRSP and thereby become entitled to a deduction in computing income equal to the fair market value of the Warrants or Common Shares (including Flow-Through Common Shares) at the time they are contributed within the limits set out in the Tax Act for deductions of contributions to RRSPs. A holder who contributes Warrants or Common Shares (including Flow-Through Common Shares) to an RRSP will be deemed to have disposed of the Warrants or Common Shares (including Flow-Through Common Shares) for proceeds of disposition equal to the fair market value of the Warrants or Common Shares (including Flow-Through Common Shares) at that time. Any capital loss arising on such disposition will be deemed to be nil. Holders who wish to contribute all or a portion of their Warrants or Common Shares (including Flow-Through Common Shares) to an RRSP should consult their own tax advisors as to the tax consequences related thereto.

USE OF PROCEEDS

The net proceeds to Questerre from the sale of the Units offered hereby, after deducting the Agent's Commission and estimated expenses of the Offering to be paid by Questerre, are estimated to be $4,430,000 if the Minimum Offering is achieved and $7,650,000 if the Maximum Offering is achieved. See "Business of the Corporation".

Source of Funds	Maximum Offering	Minimum Offering
Net Proceeds of Offering	$7,650,000	$4,430,000
Estimated Consolidated Working Capital as at April 30, 2003	$350,000	$350,000

Source of Funds	Maximum Offering	Minimum Offering
Total other funds available	Nil	Nil
Total Funds Available	$8,000,000	$4,780,000

Note:
1. Net of the Agent's Commission and estimated expenses of the Offering.

The Corporation intends to use the total funds available as follows:

Description	Maximum Offering	Minimum Offering
Re-entry of A5 well on Beaver River Field	$4,000,000	$4,000,000
Re-entry of a second well on the Beaver River Field	$3,000,000	Nil
Participate in drilling of one well in the St. Lawrence Lowlands	$500,000	$500,000
Working Capital	$500,000	$280,000
Total	$8,000,000	$4,780,000

Note:
1. Conditional upon being granted the Licenses and the Gastem Agreement being entered into. The entering into of the Gastem Agreement is subject to Gastem securing sufficient funds to finance its share of the expenditures anticipated under the Gastem Proposal. See "Business of the Corporation".

As a result of to the nature of the natural gas acquisition, exploration, development and exploitation industry, budgets are regularly reviewed with respect to both the success of the expenditures and other opportunities that become available. Accordingly, while it is currently intended by management of the Corporation that the net proceeds of this Offering will be expended by the Corporation as set forth above, actual expenditures may in fact differ from these amounts and allocations.

LEGAL PROCEEDINGS

In January 2002, the former Chief Operating Officer of Questerre, Ronald Watson, filed a statement of claim in the Court of the Queen's Bench of Alberta against Questerre alleging entitlement to a $75,000 severance payment payable upon termination of his employment on October 25, 2001, seeking delivery of 407,000 shares purchased by him currently held in escrow by Questerre, and seeking a declaration that he is entitled to exercise some 24,000 further options to buy shares which would have vested by April 25, 2002. Mr. Watson further seeks an accounting from Questerre until such time as a bonus payable to the Plaintiff for success of the Beaver River project is ascertained, interest pursuant to the *Judgment Interest Act*, solicitor/own client costs of the action, and any requisite ancillary relief. A defence and counterclaim has been filed and served in answer to this claim. Examinations for discovery have not been scheduled. At this date, Management believes it is premature to assess Questerre's risk of liability for these claims.

The Corporation is not aware of any other legal proceedings, actual or contemplated, to which either the Corporation or its subsidiary is a party or of which any of their respective property is the subject matter.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described herein and below, there were no other material interests, direct or indirect, of directors and executive officers of Questerre, any shareholder who beneficially owns more than 10% of the shares of Questerre, or any associate or affiliate of such persons in any other transactions within the last three years before the date hereof or in any other proposed transaction which has materially affected or could materially affect Questerre or any of its subsidiaries.

In December 2000, Questerre entered into a financing agreement (the "Financing Agreement") with Terrenex and its wholly owned subsidiary, Cabernet Holdings Limited ("Cabernet"). Mr. Hammond, Mr. Binnion and Mr. Paus are all directors of Terrenex. In addition, Mr. Binnion is an executive officer of Terrenex and Mr. Hammond is the Chairman of Terrenex. Under the terms of the Financing Agreement, Questerre issued

2,000,000 Series 1 Shares to Terrenex and 2,500,000 Series 1 Shares to Cabernet on January 19, 2001 at a price of $1.00 per share for aggregate proceeds of $4,500,000. The proceeds were used by Questerre for the development of the Beaver River Field and on the lands in the St. Lawrence Lowlands subject to the Terrenex Farmout Agreement. In addition, Terrenex was required to transfer oil and gas properties to Questerre having proved producing reserves valued at $500,000 in consideration of 500,000 additional Series 1 Shares. On November 27, 2001, Questerre, Terrenex and Cabernet agreed to amend the Financing Agreement to provide for the cancellation of the requirement under the Financing Agreement for Terrenex to transfer properties to Questerre having proved producing reserves valued at $500,000 in consideration of 500,000 additional Series 1 Shares. This amending agreement also extended the deadline set forth in the Terrenex Farmout Agreement for the drilling of a well on the subject lands located in the St. Lawrence Lowlands to August 31, 2002 in exchange for 250,000 warrants. Such warrants entitle Terrenex to acquire 250,000 Common Shares until December 18, 2003 at US$2.50 per share.

Pursuant to the terms of the Terrenex Farmout Agreement dated December 7, 2000, Terrenex farmed out to Questerre an interest in 19 gas exploration licenses held by Terrenex covering 380,283 hectares of land in the St. Lawrence Lowlands in Quebec on a 100 for 80 basis in exchange for Questerre providing operating management and financing to conduct an exploration program on these lands. Terrenex subsequently appointed two directors to the Board of Directors of Questerre and Terrenex and Cabernet each purchased 200,000 Common Shares at a price of US$0.10 per share representing a total investment of US$40,000. On August 23, 2002, due to delays in permitting the well, Terrenex further extended the deadline for drilling a well in Quebec to February 28, 2003. For this extension, Questerre issued 50,000 warrants to Cabernet exercisable until September 1, 2004 at the price of US$2.50 per share. A further extension was granted on February 1, 2003, extending the deadline to August 23, 2003. In connection with this extension, Questerre issued 50,000 warrants to Cabernet entitling it to acquire 50,000 Common Shares at the price of US$2.50 per share until February 28, 2005.

In May 2003, Questerre and Terrenex terminated the Terrenex Farmout Agreement. In consideration of being released from its obligations under the Terrenex Farmout Agreement, Questerre issued 250,000 Common Shares to Terrenex at a deemed price of $3.00 per share and executed a mutual release.

Under the terms of an Office Rental Agreement dated January 10, 2001, between the Corporation and Rupert's Crossing Ltd., the Corporation incurred fees in each of 2001 and 2002 of $126,000 plus GST, for the provision of offices, office equipment, and support personnel. The agreement may be terminated by either party with six months' written notice. Mr. Binnion, a director and officer of the Corporation, is a director, officer and the controlling shareholder of Rupert's Crossing Ltd. Mr. Mallory, a director of the Corporation, is a director and a shareholder of Rupert's Crossing Ltd Mr. D'Silva, an officer of the Corporation, is a director and shareholder of Rupert's Crossing Ltd. Ms. Rees, an officer of the Corporation, is an officer and shareholder of Rupert's Crossing Ltd.

PROMOTERS

Michael R. Binnion is the promoter of the Corporation. For information as to the number and percentage of Common Shares of the Corporation beneficially owned, directly or indirectly, or over which control is exercised please see "Directors and Officers". Mr. Binnion holds 165,000 stock options with an exercise price of $4.50 per share which expire on February 14, 2006. See also "Interest of Management and Others in Material Transactions".

INDUSTRY CONDITIONS

Canadian Government Regulation

The natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different from their effect upon other crude oil and natural gas companies of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted.

Pricing and Marketing - Natural Gas

In Canada, the price of natural gas sold in inter-provincial trade is deregulated and is therefore determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the government of Canada. Exporters are free to negotiate prices with purchasers, provided that export contracts meet certain criteria prescribed by the government of Canada and the NEB. Natural gas exports for a term of less than two years must be made pursuant to an NEB order, or, in the case of exports for a longer duration, pursuant to an NEB license and Governor in Council approval. The governments of certain provinces, including Alberta and Saskatchewan, also regulate the volume of natural gas which may be removed from those provinces for consumption elsewhere.

North American Free Trade Agreement

On January 1, 1994, the North American Free Trade Agreement ("NAFTA") became effective among the governments of Canada, the United States and Mexico. The NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the U.S. or Mexico will be allowed provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use; (ii) impose an export price higher than the domestic price; and (iii)disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

The NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

Provincial Royalties and Incentives

In addition to federal regulations, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percent of the value of the gross production, and the rate of royalties payable depend in part on well productivity, geographic location, field discovery date and the type and quality of petroleum product produced.

From time to time, the federal and provincial governments have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging crude oil and natural gas exploration. In Alberta, producers of crude oil or natural gas are entitled to a credit against the royalties payable to the Crown by virtue of the Alberta Royalty Tax Credit ("ARTC") program. The ARTC rate is based on a price-sensitive formula and varies between 75% for prices of crude oil at or below $100 per cubic metre and 25% for prices above $210 per cubic metre. The ARTC rate is applied to an annual maximum of $2,000,000 of Alberta Crown royalties payable for each producer or associated group of producers. Crown royalties on production from producing properties acquired from corporations claiming maximum entitlement to ARTC will generally not be eligible for ARTC. The rate is established quarterly based on the average "par price", as determined by the Alberta Department of Energy for the previous quarterly period.

On March 3, 2003, the Federal Department of Finance issued a technical paper entitled "Improving the Income Taxation of the Resource Sector in Canada". This paper was issued to follow up on the announcement in the federal budget delivered on February 18, 2003, of a five-year plan designed to address various issues relating to resource sector taxation. Although no details exist at present with respect to the possible effects of this initiative at the federal level on the provincially - administered ARTC program, the March 3, 2003 technical papers states that the federal government intends to issue transitional rules relating to the taxation of Alberta Royalty Tax Credits. The proposed taxation of ARTCs by the federal government is part of a more comprehensive set of proposals set out in the paper, one of which is to allow for the deduction of royalties against amounts of corporate tax payable by resource companies. The Corporation cannot be certain at this time as to whether the changes proposed by the Department of Finance will have a positive or negative effect on its net revenues.

Producers of oil and natural gas in the province of British Columbia are also required to pay annual rental payments in respect of Crown leases and royalties and freehold production taxes in respect of oil and gas produced from Crown and freehold lands, respectively. The amount payable as a royalty in respect of oil depends on the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), the quantity of oil produced in a month and the value of the oil. Oil produced from newly discovered pools may be exempt from the payment of a royalty fro the first 36 months of production. The royalty payable on natural gas is determined by a sliding scale based on a reference price which is the greater of the amount obtained by the producer and a prescribed minimum price. Gas produced in association with oil has a minimum royalty of 8% while the royalty in respect of other gas may not be less than 15%.

Environmental Regulation

The crude oil and natural gas industry in Canada is currently subject to environmental regulation pursuant to provincial and federal legislation. In some cases, an environmental assessment and review may be required prior to initiating exploration and development projects or undertaking significant changes to existing projects. Environmental legislation provides for restrictions and prohibitions on crude oil spills and on releases or emissions of various substances produced in association with certain crude oil and natural gas industry operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of fines and penalties. Environmental legislation in the Province of Alberta has been consolidated into the *Environmental Protection and Enhancement Act* which became effective on September 1, 1993 and which imposes significantly increased fees and penalties. These changes will have an incremental effect on the cost of conducting operations in Alberta. It is not expected that any of these environmental regulations will affect the operations of the Corporation in a manner materially different from their effect upon other crude oil and natural gas companies of similar size.

British Columbia's *Environmental Assessment Act* became effective June 30, 1995. This legislation rolls the previous processes for the review of major energy projects into a single environmental assessment process which contemplates public participation in the environmental review.

RISK FACTORS

Purchasers should consider, among other things, the risk factors set out herein and in the Prospectus in assessing the merits of an investment in the Units

An investment in the Units offered hereby should be considered speculative due to the nature of the Corporation's involvement in the business of exploration, development and production of natural gas reserves and its relatively early stage of development. A prospective purchaser should consider carefully the factors set forth below and should consult his or her own expert advisors as to the suitability of an investment in the Units offered herein. An investment in the Units is suitable only for Purchasers who understand the risk factors associated with this type of investment and who can afford a loss of their entire investment. Such information is presented as of the date hereof and is subject to change, completion or amendment without notice.

Exploration and Development

The net proceeds from the Offering will be expended on natural gas exploration, exploitation and development activities, which are high-risk ventures with uncertain prospects for success. No assurance can be given that commercial accumulations of natural gas will be discovered as a result of the efforts of the Corporation or, if discovered, will be profitably marketed. Purchasers must rely on the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation. If all of the proceeds of this issue are spent without making natural gas discoveries in commercial quantities, the Corporation may need additional financing to continue to operate its business, and there can be no assurance that such financing will be available or, if available, will be provided on reasonable terms. Future development of the Corporation's petroleum and natural gas properties may also require additional financing, which may not be available on reasonable terms. To the extent financing is not available, lease expiry dates, work commitments, rental payments and option payments may not be satisfied and could result in a loss of property ownership by the Corporation.

Operating Hazards

The operations to be conducted by the Corporation will be subject to all of the operating risks normally attendant upon drilling for and producing natural gas, such as blowouts and pollution. The Corporation's insurance coverage may not be sufficient to fully cover the extent of the liabilities which the Corporation may incur and certain of such risks are not insurable. Natural gas exploration involves a high degree of risk, including premature decline of reservoirs and invasion of water into producing formations. As the Corporation will initially have interests in a limited number of producing properties, such risks are concentrated in those properties. The Corporation intends to continue to explore for natural gas through internally generated prospects, to participate with other industry partners and to enter into joint ventures, the success of which cannot be assured.

Natural Gas Reserves

All evaluations of future net revenues are before income taxes to be accrued from the sale of the reserves and before consideration of indirect costs such as administrative overhead, other miscellaneous expenses and income taxes. The future net revenues may not be representative of the fair market value of the reserves. There is no assurance that the escalating price and cost assumptions contained in the McDaniel Report will be attained and variances may be material. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, including many factors beyond the control of the Corporation. The reserves data set forth in this Prospectus represent estimates only. In general, estimates of economically recoverable natural gas reserves and the future net revenues therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, each of which may vary considerably from actual results. All such estimates are to some degree speculative and classification of reserves is only an attempt to define the degree of speculation involved and therefore estimates of the economically recoverable natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The reserve estimates included in this Prospectus may be materially different from the quantities and values ultimately realized.

Industry Factors

The natural gas industry is highly competitive and the Corporation must compete with many companies with greater financial and technical resources. Generally, there is intense competition for the acquisition of resource properties considered to have commercial potential. The marketability and price of natural gas which may be acquired or discovered by the Corporation will be affected by numerous factors beyond the control of the Corporation. The ability of the Corporation to market its natural gas may be dependent upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Prices paid for and natural gas produced are subject to market fluctuations which will directly affect the profitability of producing any crude oil or natural gas reserves which may be acquired or developed by the Corporation. The market prices for natural gas are unstable and subject to fluctuation. Any material declines in these prices could result in a reduction of any future net production revenue of the Corporation. The economics of producing from wells acquired or drilled by the Corporation may change as a result of lower commodity prices, which could result in a reduction in the economically recoverable volumes of the reserves of the Corporation. The Corporation may elect not to produce from certain existing wells at lower commodity prices. All of these factors may result in a material decrease in future net production revenue of the Corporation, causing a reduction in cash flow from operations which may be used to fund the Corporation's natural gas acquisition and development activities. Natural gas operations, including lease acquisitions, are subject to extensive government regulation; operations may be affected from time to time in varying degrees by political and environmental developments, such as restrictions on production, price controls, tax increases, expropriation of property, pollution controls and changes in conditions under which crude oil and natural gas may be exported. Export sales are subject to the authorization of provincial and Canadian federal government agencies, and exports to the United States from Canada also require the authorization of United States federal authorities. See "Industry Conditions".

The Corporation conducts title reviews in connection with its principal properties as it believes are commensurate with the values of such properties. These reviews may not be sufficient to conclusively determine title.

The oil and gas industry has been subject to considerable price volatility, over which companies have little control, and a material decline in prices could result in a decrease in Questerre's production revenue. The oil and gas industry has inherent business risks and there is no assurance that products can continue to be produced at economical rates or that produced reserves will be replaced. Fluctuations in prices and currency exchange rates, as well as changes in production volumes, are daily risks in the industry.

The oil and gas industry is also subjected to extensive government policies and regulations, which result in additional cost and risk for industry participants. See “Industry Conditions”. Environmental concerns relating to the oil and gas industry’s operating practices are expected to increasingly influence government regulation and consumption patterns which favour cleaner burning fuels such as natural gas. Questerre is uncertain as to the amount of operating and capital expenses that will be required to comply with enhanced environmental regulation in the future. These risks are mitigated by Questerre, to the extent possible, by adherence to focussed exploration and development strategies and the business acumen, experience and expertise of Questerre’s management.

Conflicts of Interest

There are potential conflicts of interest to which the directors, officers and principal shareholders of the Corporation will be subject in connection with the operations of the Corporation. Some of the directors, officers and principal shareholders may be or become engaged in other oil and gas interests on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with the Corporation. Conflicts, if any, will be subject to the procedures and remedies under the *Business Corporations Act* (Alberta). The directors and officers of the Corporation may not devote their time on a full-time basis to the affairs of the Corporation. See “Interest of Management and Others in Material Transactions”.

Flow-Through Common Shares

Although the Corporation has agreed to incur and renounce Qualifying Expenditures to Purchasers of Flow-Through Units for flow-through purposes so that renunciations of those expenditures can be made effective on or before December 31, 2003, the Corporation may be unsuccessful in incurring sufficient CEE and Eligible CDE from the proceeds of the Offering. In such event, the Corporation will rely on its cash flow from operations to fund Qualifying Expenditures prior to the expiry of the Expenditure Period. There can be no assurance that the Corporation will have sufficient funds to incur such expenditures, in which case Purchasers will not receive all of the benefits of their investment. Further, although the proceeds that are received by the Corporation may be expended by the Corporation on a combination of CEE and Eligible CDE, CCRA may not agree with the characterization of the various expenditures of the Corporation. See “Details of the Offering” and “Use of Proceeds”.

The Canadian federal and provincial tax treatment of oil and gas activities has a material effect on the advisability of investing in the securities of the Corporation. There is no assurance that income tax legislation in Canada will not be amended so as to fundamentally alter the tax consequences of acquiring, holding or disposing of Common Shares issued on a flow-through basis. See “Canadian Federal Income Tax Considerations”.

Bank Loan

In July 2002, Questerre obtained a $400,000 term loan due June 2007 with a Canadian bank. Under the terms of the loan, Questerre must make monthly payments of $6,700 principal plus interest until the loan is paid out. The interest rate under the loan is the lender’s floating base rate plus 2.0% and Questerre may lock in the rate at any time. The loan is secured by the assignment to the lender of a $100,000 guaranteed investment certificate and by a security interest over the assets of Questerre, Questerre Beaver River Inc, its wholly-owned subsidiary, and the operator of the Beaver River Field. The $100,000 guaranteed investment certificate may be released back to Questerre in 2004 if Questerre meets certain financial benchmarks. Questerre made certain financial covenants to the lender under the loan, including maintaining a tangible equity in the business in excess of $9,969,995 and maintaining a working capital ratio of at least 1 to 1. Questerre is presently in default of its financial covenant relating to maintaining tangible equity in the business in excess of $9,969,995 and, therefore, the bank loan has been classified as a current liability. There is no assurance that the lender will not demand payment of the principal amount and all accrued and unpaid interest owing under the loan or, if such amount remains outstanding, realize on its security.

Dividends

The Corporation does not anticipate paying any dividends on its Common Shares in the foreseeable future. See “Dividend Record and Policy”.

Reliance on Operations and Key Personnel

To the extent that the Corporation is not the operator of its properties, it will be dependent upon its operations for the timing of activities and will be largely unable to control the activities of such Operators. In addition, the Corporation's success depends, to a significant extent, upon management and key employees. The loss of key employees could have a negative effect on the Corporation. Attracting and retaining additional key personnel will assist in the expansion of the Corporation's business. The Corporation will face significant competition for skilled personnel. There is no assurance that the Corporation will successfully attract and retain personnel required to continue to expand its business and to successfully execute its business strategy.

Dependence on Economic Conditions

The Corporation's success in its marketing efforts of its products will be dependent to some extent upon the economic conditions affecting marketplace. The Corporation has no control over these economic conditions.

Environmental Risks

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 international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. 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. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Corporation to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol. The Kyoto Protocol provides that certain signatory nations will be required to reduce their emissions of carbon dioxide and other greenhouse gases to various levels below their respective 1990 emission levels during the years 2008 and 2012. On December 16, 2002, Canada ratified the Kyoto Protocol and announced its intention to proceed with implementation. Although the details surrounding the plan for implementation of the Kyoto Protocol by the Canadian government remain uncertain, reductions in greenhouse gases from the Corporation's operations may be required which could result in increased capital expenditures and reductions in production of oil and gas. It is expected that other changes in environmental legislation may also require, among other things, reductions in emissions to the air from our operations and result in increased capital expenditures. Although it is not expected that future changes in environmental legislation will result in materially increased costs, such changes could occur and result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, all of which could have a material adverse effect on the Corporation's financial condition or results of operations.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the quoted market price, if any, for the Common Shares will be subject to market trends generally, notwithstanding the financial and operational performance of the Corporation.

Possible Reserves

The McDaniel Report includes possible reserves assigned in addition to proved and probable reserves. The term "Possible Reserves" is not a defined term in Appendix 1 of National Policy 2B. This is not typical of reserve reports. Possible reserves are those reserves that are less certain to be recovered than probable reserves and are estimated with a low degree of certainty. The reserves that have been designated as possible reserves are those associated with the additional fault blocks identified from a three-dimensional geophysical survey conducted on the Beaver River Field in 2002. See "Principal Properties - Beaver River, British Columbia". These possible reserves are included in the McDaniel Report and disclosed in this Prospectus as they would, if proved, account for a significant portion of Questerre's proved reserves. There is a very low probability that the exploration and development of the possible reserves will result in proved or probable reserves.

Reserve Replacement

The Corporation's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Corporation successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on the Corporation's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Competition

The Corporation actively competes for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Corporation. The Corporation's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and gas industry is highly competitive. The Corporation's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Corporation.

The Corporation's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Permits and Licenses

The operations of the Corporation may require licenses and permits from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects.

St. Lawrence Lowlands

There can be no assurance that the Government of Quebec will issue the Licenses to Questerre this year, if at all. In addition, there can be no assurance that the Gastem Agreement will be entered into on terms described in the Gastem Proposal, if at all.

Availability of Drilling Equipment and Access Restrictions

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

Arbitrary Offering Price

The offering price of the Units has been determined by the Corporation in consultation with the Agent. The offering price is not an indication of the value of the Common Shares or that any of the Common Shares could be sold for an amount equal to the offering price or for any amount.

Dilution

The offering price of ● per Unit exceeds the net tangible book value per share as at March 31, 2003 by $● per share or ●% based on the Maximum Offering or by $● per share or ●% based on the Minimum Offering. Such amounts and percentages do not consider the tax benefits to be received from the renunciation of Qualifying Expenditures to holders of Flow-Through Common Shares or the resulting accounting reduction of share capital from the renunciation of Qualifying Expenditures.

Forward-Looking Statements

This Prospectus contains certain forward-looking statements and information relating to the Corporation that is based on the beliefs of the management of the Corporation, as well as assumptions made by and information currently available to, the management of the Corporation. When used in this Prospectus, the words “estimate”, “project”, “believe”, “anticipate”, “intend”, “propose”, “expect” and similar expressions are intended to identify forward-looking statements. Such statements reflect the current view of the Corporation with respect to future events and are subject to risks and uncertainties that could cause actual results to vary materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Corporation does not undertake any obligation to release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

AS A RESULT OF THESE RISK FACTORS, THE OFFERING IS SUITABLE ONLY FOR THOSE PURCHASERS WHO ARE WILLING TO RELY ON THE MANAGEMENT OF THE CORPORATION AND WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT IN THE UNITS.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Borden Ladner Gervais LLP and on behalf of the Agent by McCarthy Tétrault LLP.

AUDITOR, REGISTRAR AND TRANSFER AGENT

The auditor of the Corporation is PricewaterhouseCoopers LLP, Chartered Accountants, at its Calgary office, 3100, 111 - 5th Avenue SW, Calgary, Alberta, T2P 5L3

The registrar and transfer agent for the Common Shares is Computershare Trust Company of Canada, at its Calgary office, 6th Floor, 530 – 8th Avenue SW, Calgary, Alberta, T2P 3S8.

PURCHASERS’ STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in Alberta, British Columbia and Ontario provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In Alberta, British Columbia and Ontario, the securities legislation further provides a purchaser with remedies for rescission or damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

FINANCIAL STATEMENTS

Questerre Energy Corporation

Consolidated Financial Statements

March 31, 2003, December 31, 2002 and 2001

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
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April 11, 2003
(except as to note 10, which is as of May • , 2003)

Auditors' Report

To the Directors of
Questerre Energy Corporation

We have audited the consolidated balance sheets of **Questerre Energy Corporation** as at December 31, 2002 and 2001 and the consolidated statements of income (loss) and deficit and cash flows for the years ended December 31, 2002 and 2001, the two month period ended December 31, 2000 and the year ended October 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years ended December 31, 2002 and 2001, the two month period ended December 31, 2000 and the year ended October 31, 2000 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Questerre Energy Corporation

Consolidated Balance Sheets

As at March 31, 2003, December 31, 2002 and 2001

	March 31, 2003 $ (Unaudited)	December 31, 2002 $	December 31, 2001 $
Assets			
Current assets			
Cash	561,954	555,004	6,048,172
Accounts receivable and prepaids	962,421	887,755	233,911
	1,524,375	1,442,759	6,282,083
Restricted cash (note 4)	100,000	100,000	-
Petroleum and natural gas properties – net of accumulated depletion and depreciation (note 2)	8,124,040	8,392,789	9,207,068
	9,748,415	9,935,548	15,489,151
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	836,096	840,409	1,718,703
Bank loan (note 4)	346,400	366,500	-
	1,182,496	1,206,909	1,718,703
Deferred crown royalties (note 5)	1,514,755	1,439,409	1,033,811
Future site restoration and abandonment costs	378,468	353,548	244,340
	3,075,719	2,999,866	2,996,854
Shareholders' Equity			
Common shares (note 6)	10,758,029	10,758,029	10,758,029
6% Cumulative redeemable convertible preferred shares (note 6)	4,500,000	4,500,000	4,500,000
Deficit	(8,585,333)	(8,322,347)	(2,765,732)
	6,672,696	6,935,682	12,492,297
	9,748,415	9,935,548	15,489,151

Approved by the Board of Directors

(Signed) "David Mallory Director (Signed) "Peder Paus" Director

Questerre Energy Corporation

Consolidated Statements of Income (Loss) and Deficit

	Three month period ended March 31,		Year ended December 31,		Two month period ended December 31,	Year ended October 31,
	2003 **$** (Unaudited)	**2002** **$** (Unaudited)	**2002** **$**	**2001** **$**	**2000** **$**	**2000** **$**
Revenue						
Petroleum and natural gas – net of royalties	491,366	335,918	1,801,252	4,032,837	32,656	96,752
Interest income	5,236	12,943	22,061	210,848	4,440	226
Other income	-	(571)	20,000	17,186	-	-
	496,602	348,290	1,843,313	4,260,871	37,096	96,978
Expenses						
General and administrative	204,721	180,853	522,747	563,202	60,615	6,693
Operating expenses	267,072	268,161	1,116,711	1,150,927	19,595	28,028
Gas processing and marketing	94,759	123,111	330,954	811,380	-	-
Depletion, depreciation and amortization	193,036	359,689	5,418,117	4,456,869	6,764	19,685
	759,588	931,814	7,388,529	6,982,378	86,974	54,406
Income (loss) from operations	(262,986)	(583,524)	(5,545,216)	(2,721,507)	(49,878)	42,572
Other items						
Gain on settlement of accounts payable	-	-	-	-	-	5,977
Loss on sale of capital assets	-	-	-	-	-	(2,792)
	-	-	-	-	-	3,185
(Loss) income before income taxes	(262,986)	(583,524)	(5,545,216)	(2,721,507)	(49,878)	45,757
Income taxes						
Current tax	-	-	-	-	-	6,885
Capital tax	-	-	11,399	-	-	-
Future income tax expense (recovery) (note 7)	-	-	-	(4,077)	(6,729)	(600)
	-	-	11,399	(4,077)	(6,729)	6,285
Net (loss) income for the period	(262,986)	(583,524)	(5,556,615)	(2,717,430)	(43,149)	39,472
Deficit – Beginning of period	(8,322,347)	(2,765,732)	(2,765,732)	(48,302)	(10,270)	(49,742)
Adjustment due to change in accounting policy	-	-	-	-	5,117	-
Deficit – End of period	(8,585,333)	(3,349,256)	(8,322,347)	(2,765,732)	(48,302)	(10,270)
Weighted average common shares	8,945,000	8,945,000	8,945,000	7,367,925	221,442	1,650
Net (loss) income per share						
Basic and diluted	(0.03)	(0.07)	(0.62)	(0.37)	(0.19)	23.92

Questerre Energy Corporation

Consolidated Statements of Cash Flows

	Three month period ended March 31,		Year ended December 31,		Two month period ended December 31,	Year ended October 31,
	2003 $ (Unaudited)	2002 $ (Unaudited)	2002 $	2001 $	2000 $	2000 $
Cash provided by (used in)						
Operating activities						
Net loss for the year	(262,986)	(583,524)	(5,556,615)	(2,717,430)	(43,149)	39,472
Items not affecting cash						
Depletion, depreciation and amortization	193,036	359,689	5,418,117	4,456,869	6,764	19,685
Future income tax expense (recovery)	-	-	-	(4,077)	(6,729)	(600)
Loss on sale of capital assets	-	-	-	-	-	2,792
	(69,950)	(223,835)	(138,498)	1,735,362	(43,114)	61,349
Deferral of crown royalties	75,346	85,151	405,598	1,033,811	-	-
Net change in non-cash working capital	223,354	894,035	(238,230)	(138,161)	44,063	(10,194)
	228,750	755,351	28,870	2,631,012	949	51,155
Financing activities						
Increase in bank loan	-	-	366,500	-	-	-
Repayment of bank loan	(20,100)	-	-	-	-	-
Restricted cash	-	-	(100,000)	-	-	-
Issue of common shares	-	-	-	10,288,034	326,701	-
Repayment of shareholder advances	-	-	-	-	(180,069)	(1,820)
Issue of preferred shares	-	-	-	-	4,500,000	-
	(20,100)	-	266,500	10,288,034	4,646,632	(1,820)
Investing activities						
Expenditures on petroleum and natural gas properties	(158,468)	(3,491,004)	(4,494,630)	(13,199,930)	(57,028)	(7,466)
Disposal of petroleum and natural gas properties	259,100	-	-	-	-	750
Cash acquired through acquisition of Questerre Beaver River Inc. (note 1)	-	-	-	-	97,387	-
Net change in non-cash working capital related to investing activities	(302,332)	-	(1,293,908)	1,578,890	-	-
	(201,700)	(3,491,004)	(5,788,538)	(11,621,040)	40,359	(6,716)
Increase (decrease) in cash during the period	6,950	(2,735,653)	(5,493,168)	1,298,006	4,687,940	42,619
Cash – Beginning of period	555,004	6,048,172	6,048,172	4,750,166	62,226	19,607
Cash – End of period	561,954	3,312,519	555,004	6,048,172	4,750,166	62,226

1 Accounting policies

Questerre Energy Corporation (formerly Westpro Equipment Ltd.) ("Questerre" or the "company") was incorporated under the Companies Act of Alberta on October 25, 1971, continued under the Business Corporations Act (Alberta) on July 13, 1990 and continued under the Companies Act of British Columbia on December 13, 1992. On December 5, 2000 the company was continued from British Columbia to Alberta under the Business Corporations Act (Alberta) and its name was changed to Questerre Energy Corporation. Also at this time, the company purchased all of the outstanding common shares of Questerre Beaver River Inc. in exchange for 640,000 Class A common voting shares valued at a price of US$0.10 per share. The acquisition was accounted for using the purchase method. Net assets acquired consisted of cash.

The company is currently involved in the exploration, exploitation, development and production of natural gas and petroleum reserves in Western Canada and the Province of Quebec, Canada.

These financial statements are presented on a consolidated basis and include the accounts of Questerre and its wholly owned subsidiary, Questerre Beaver River Inc. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect the company's financial position or results of operations.

Joint interests

Significant portions of the company's oil and gas activities are conducted jointly with others and, accordingly, these financial statements reflect only the company's proportionate interest in such activities.

Petroleum and natural gas properties

The company is primarily engaged in the exploration, exploitation, development and production of natural gas and petroleum and follows the full-cost method of accounting whereby all costs related to the acquisition, exploration and development of natural gas and petroleum properties are capitalized. Capitalized costs are limited by a "ceiling value", being the estimated future net revenues, after tax, from production of proven reserves, at prices and costs in effect at year-end plus the lower of cost and estimated value of undeveloped properties. Gains or losses are not recognized upon the disposition of properties unless a significant change in the depletion rate would result.

Depletion and depreciation are charged against producing properties, computed using the unit-of-production method where the ratio of current year production to proven reserves, before royalties, determines the proportion of depletable costs to be expensed. Non-producing properties are excluded from the depletion calculation. Gas reserves and production are converted to barrels of crude oil on a heat equivalent basis.

Revenue recognition

Revenue is recognized when products have been delivered and title has passed.

Future site restoration and abandonment provision

The provision for future removal and site restoration costs, related to petroleum and natural gas operations is based on estimates made by the company and is charged against income on a unit-of-production basis as part of depletion expense. The cumulative amount has been recorded as future site restoration and abandonment provision.

Foreign currency translation

Assets and liabilities in foreign currencies are translated into Canadian dollars at the closing exchange rate on the balance sheet date. Revenue and expense items arising from transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect on the transaction date.

Stock option plan

The company has a stock option plan for directors and employees. The stock option plan is described in note 6. Any consideration paid by holders of the stock options is credited to share capital. No compensation expense is recorded either on the granting or exercise of options under the plan.

2 Capital assets

	2002 $	2001 $
Petroleum and natural gas properties and equipment	18,108,759	13,614,128
Less: Accumulated depletion and depreciation	(9,715,970)	(4,407,060)
	8,392,789	9,207,068

During the year ended December 31, 2002, the company capitalized administrative overhead charges of $512,554 (December 31, 2001 – $436,250; December 31, 2000 – $nil; October 31, 2000 – $nil) relating to exploration and development activities.

Costs of $3,498,773 (December 31, 2001 – $2,082,839; December 31, 2000 – $56,030; October 31, 2000 – $nil) relating to unproved properties have been excluded from the depletion calculations.

The company incurred a ceiling test writedown of $3,700,000 for the year ended December 31, 2002 using the 2002 year-end price of $5.97 per mcf of gas. Such amount is included in the depletion, depreciation and amortization provision on the income statement.

The ceiling test calculation as at March 31, 2002 used the average price for the three-month period immediately preceding issue of the financial statements of $7.73 per mcf for gas. Had the company's period-end price of $4.41 per mcf for gas been used, an asset writedown of $8,331,853 would have been required.

The company incurred a ceiling test write-down of $1,022,507 for the year ended December 31, 2001 using the 2001 average price of $5.80 per mcf of gas. Such amount is included in the depletion, depreciation and amortization provision for 2001 on the income statement of $4,456,869. Had the company's December closing price for gas of $3.53 per mcf been used, an additional amount of approximately $3.2 million would have been required as a ceiling test write-down.

3 Beaver River Project

On January 12, 2001, the company executed the Beaver River Farmout and Operating Agreement (the "Beaver River Agreement") whereby the company earned a 60% working interest in the Beaver River, B.C. gas field and project (collectively, the "project") subject to a lien until the company has completed a specified work program and spent a minimum $5,000,000 on the project (increased to $9,000,000 effective June 2001). Any amounts spent by the company under the Beaver River Agreement for the specified work program are accumulated in an account (the "Payout Amount") and cash flow is shared by the company and the Farmors as follows:

a) 4% override payable to the Farmors until the company receives 6 times the Payout Amount

b) then, the company receives cash flow as follows:

100% until 1 times Payout Amount received;
80% until 2 times Payout Amount received and an Environmental Reserve has been fully funded, such Environmental Reserve to be determined by the company and set aside to cover future abandonment and reclamation expenses;
70% until 6 times Payout Amount received;
60% thereafter

Gas production from the project is sold under an existing gas purchase contract (the "Gas Contract") and provides for the following pricing:

The first 5,000 GJ/day of production: 95% of Field Price
The next 5,000 GJ/day of production: 97% of Field Price
The next 10,000 GJ/day of production: 100% of Field Price
Production in excess of 20,000 GJ/day: 100% of Field Price less $0.015/GJ

The Field Price is set monthly and the Gas Contract expires on November 1, 2008.

c) Effective April 1, 2002, the specified work program was completed, thus completing Questerre's obligation to fund 100% of the costs associated with the project. Costs are now incurred by partners in accordance with their respective working interests. At December 31, 2002, the Payout Amount balance was $10,923,075 (2001 – $9,588,723; 2000 – $nil). For the year ended December 31, 2002, the company received $741,818 (2001 – $3,478,136; 2000 – $nil) of cash flow applicable to the Payout Amount.

4 Bank loan

In July 2002, the company obtained a 5 year, $400,000 term loan with a Canadian bank. Under the terms of the loan, the company must make monthly payments of $6,667 principal plus interest until the loan is paid out. The interest rate under the loan is the bank's floating base rate plus 2.0% and the company may lock in the rate at any time. The loan is secured by the first assignment to the bank of a $100,000 Guaranteed Investment Certificate and by a General Security Agreement over the assets of the company, its subsidiary and the operator of the Beaver River project. The $100,000 G.I.C. may be released back to the company in 2004 if the company meets certain financial benchmarks. Financial covenants include maintaining a tangible equity in the business in excess of $9,969,995 and maintaining a working capital ratio of at least 1 to 1. The company is not in compliance with the financial covenant relating to maintaining a tangible equity in the business in excess of $9,969,995 and, therefore, the bank loan has been classified as a current liability.

5 Deferred crown royalties

Royalties payable to the Province of British Columbia on production from the Beaver River Project are governed by a Royalty Agreement between the Province and the Joint Venture partners dated April 1, 1999 and amended October 1, 2001. Until the earlier of June 30, 2004 and cumulative production of 13 bcf from the Project, royalties payable to the Crown are deferred. Repayment of deferred royalties is contingent on monthly production exceeding volumes established by the Crown. Subsequent to June 30, 2004, royalties on production will be payable as incurred.

6 Capital stock

Authorized
- Unlimited number of Class A common voting shares
- Unlimited number of Class B common voting shares
- Unlimited number of preferred shares to be issued in one or more series

Common shares

	Number of shares	**Amount $**
Balance – December 31, 2000	3,117,221	469,995
Class A common voting shares		
Issued for cash pursuant to private placement	1,882,779	282,417
Issued for cash pursuant to private placement	2,500,000	7,026,047
Issued for cash pursuant to private placement	1,000,000	2,912,820
Issued on exercise of stock options	445,000	66,750
Balance – December 31, 2002 and 2001	8,945,000	10,758,029

Preferred shares

	Number of shares	Amount $
6% cumulative redeemable convertible preferred shares Series I issued January 19, 2001	4,500,000	4,500,000

On January 17, 2001, a private placement of 4,060,000 Class A common shares closed for total proceeds of US $406,000. 2,177,221 of these common shares are included in the December 31, 2000 share capital balance as proceeds had been received in 2000.

On March 8, 2001, a private placement of 2,500,000 Class A common shares closed for total proceeds before issue costs of US $5,000,000.

On December 31, 2001, a private placement of 958,000 units and 42,000 flow-through Class A common shares closed for total proceeds before issue costs of US $2,000,000. Each unit is comprised of one Class A common share and one Class A common share purchase warrant. In addition, a further 22,000 Class A common share purchase warrants were issued. Each warrant will entitle the holder thereof to acquire one Class A common share for US $2.50 per share until December 2003.

Stock options

The company has a stock option plan for its directors, officers and employees which provides options to purchase common shares at various prices. The stock options granted shall vest and shall expire on dates selected by the board of directors at the date of grant. Stock options that have vested may be exercised at any time between the date on which it becomes exercisable and the end of the stock option's term.

The maximum number of stock options which may be granted or shares reserved for insurance under the stock option plan shall be limited to a floating amount, being that number of common shares which is equal to 10% of the number of common shares outstanding from time to time.

The following table summarizes information relating to stock options outstanding and exercisable under the option plan at December 31, 2002 and 2001:

	2002		2001	
	Share options	Weighted-average exercise price $	Share options	Weighted-average exercise price $
Outstanding – Beginning of year	886,500	4.31	445,000	0.15
Granted	211,000	4.50	886,500	4.31
Exercised	-	-	(445,000)	0.15
Forfeited	(168,000)	4.50	-	-
Outstanding – End of year	929,500	4.31	886,500	4.31
Options exercisable – End of year	497,121	4.32	245,914	4.36

The outstanding options have a range of exercise prices between $3.00 per share and $4.50 per share, and a weighted average number of years to expiry of 1.4 (2001 – 2.17). The exercisable options have a range of exercise prices between $3.00 per share and $4.50 per share and a weighted average number of years to expiry of 1.28 (2001 – 2.15).

Stock-based compensation costs

The company accounts for its stock based compensation plan using the intrinsic-value method. Under this method, no costs are recognized in the financial statements for share options granted to employees or directors when the options are issued at market value. Effective January 1, 2002, Canadian generally accepted accounting principles require disclosure of the impact on net earnings using the fair value method for stock options issued on or after January 1, 2002. If the fair value method had been used, the company's net loss would approximate the following pro forma amounts:

	March 31, 2003 $	**December 31, 2002 $**
Stock based compensation costs	-	-
Net loss for the year		
As reported	262,985	1,856,615
Pro forma	262,985	1,856,615

The stock-based compensation costs are recognized over the vesting period of the stock options granted. The pro forma amounts shown above do not include the stock-based compensation costs associated with stock options granted prior to January 1, 2001.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model, minimum value method, based on the following:

	March 31, 2003	**December 31, 2002**
Fair value of stock options granted (per common share)	$0.00	$0.00
Risk-free interest rate	2.25%	2.25%
Expected life (years)	3	3
Expected volatility	0%	0%

Warrants

On November 27, 2001, the company signed an agreement with Terrenex Acquisition Corporation to modify the terms of the St. Lawrence Lowlands Farmout agreement. The agreement provides for an extension of the deadline for drilling a test well to August 31, 2002 in exchange for among other things, 250,000 common share warrants in the company. Such warrants are exercisable for a period of 2 years from December 31, 2001, at a price of US $2.50 for each common share.

On August 23, 2002, the company signed an agreement with Terrenex to extend the deadline for drilling a test well under the St. Lawrence Lowlands Farmout agreement to February 28, 2003 in exchange for 50,000 common share warrants in the company. Such warrants are exercisable for a period of 2 years from September 1, 2002, at a price of US $2.50 for each common share. Provided certain conditions are met, the agreement also provides for Terrenex to give a further six month extension to the deadline for commencement of the test well from February 28, 2003 to August 31, 2003 in exchange for an additional 50,000 common share warrants exercisable for a period of 2 years after issue, at a price of US $2.50 per common share (see note 10).

6% Cumulative redeemable convertible preferred shares Series I

On December 7, 2000, Questerre executed a financing agreement (the "financing agreement") with Terrenex Acquisition Corporation ("Terrenex") and its wholly owned subsidiary Cabernet Holdings Ltd. ("Cabernet"). Under the terms of the financing agreement, Terrenex provided Questerre with $2,000,000 in cash and was to provide a $500,000 producing oil and gas property in exchange for $2,500,000 6% cumulative redeemable convertible preferred shares Series I. Cabernet provided Questerre with $2,500,000 cash in exchange for $2,500,000 6% cumulative redeemable convertible preferred shares Series I. The funds were received by Questerre prior to December 31, 2000 and the $4,500,000 6% cumulative redeemable convertible preferred shares (the "preferred shares") were issued on January 19, 2001. These funds were used to fund Questerre's Beaver River Project and provide capital for the Quebec exploration program. Terrenex then farmed out to Questerre its Quebec St. Lawrence Lowlands and Gaspe oil and gas exploration permits on a 100 for 80 basis in exchange for Questerre providing operating management and financing to conduct an exploration program on the Quebec permits. Terrenex also obtained the right to appoint two Directors and invest up to US $40,000 in a subsequent private placement of equity. At the time of the transactions, a director of the company was also a director of Terrenex. The transactions were approved by the independent directors of the company. Subsequent to the transactions, two further directors of Terrenex were appointed to the Board of the company and Terrenex exercised its right to invest US $40,000 in a subsequent private placement of equity.

On November 27, 2001, the company, Terrenex, and Cabernet agreed to cancel the requirement under the financing agreement for Terrenex to transfer $500,000 in proven producing reserves and to cancel the requirement for the company to issue $500,000 in preferred shares to Terrenex in exchange.

The preferred shares are accounted for in accordance with their substance and are presented in the financial statements as equity. The terms of the preferred shares include:

Dividend

6% cumulative dividend payable quarterly in cash or common shares at the option of Questerre. If after the dividend payment due January 10, 2006, Questerre fails to pay the dividends quarterly then so long as any such dividends are in arrears, the preferred shares become fully voting with all the powers afforded the common shares of Questerre.

Redemption

For the period up to the earlier of December 7, 2005 or the meeting of a financial test (see below), the shares are fully redeemable by Questerre for $1.00 per share. Thereafter, the shares are redeemable by Questerre for $1.00 per share plus accrued but unpaid dividend.

Financial test

The financial test requires that Questerre's independent engineers' report confirms 200 bcf, or greater, of proven reserves net to Questerre and Questerre's consolidated balance sheet has net current assets in excess of $10 million.

Conversion

The preferred shares are convertible by the holder into common shares at a 10% discount to the 20 day trading average calculated commencing 30 days prior to the conversion date. Questerre may elect to satisfy its conversion obligations by a cash payment equal to the 20 day average trading price of the common shares issuable upon the conversion.

Contingent preferred dividends

Should the preferred shares not be redeemed prior to the earlier of December 7, 2005 or the meeting of the financial test described above, $1,350,000 in preferred dividends, of which approximately $270,000 would relate to the 2002 (2001 – $270,000) fiscal year, will be required to be paid in cash or in common shares, at the option of Questerre, at a 10% discount to the 20 day volume weighted average price of the common shares preceding the end of the quarter for which the dividend is to be paid. No dividends were declared on the preferred shares in 2002 (2001 – nil).

7 Income taxes

Effective November 1, 2000, the company adopted the Canadian Institute of Chartered Accountants' new accounting standard with respect to accounting for income taxes. The new standard recommends the liability method of determining income taxes where future income taxes are determined based on temporary differences between the tax bases of assets or liability and their carrying amounts. Previously, the company used the deferral method of determining income taxes where deferred income taxes were recognized based on the differences in timing of recognition of revenue and expenses for financial accounting and income tax purposes. The new standard has been applied retroactively without restatement of prior periods. The tax provision for the year ended October 31, 2000 has been accounted for under the deferral method.

The effects of the new standard on the opening balances of the 2000 financial statements were:

	$
Decrease deficit	5,117
Decrease future income tax liabilities	(5,117)
	-

The following table summarizes the temporary differences which give rise to the future income tax liability at December 31:

	2002 $	2001 $	2000 $
Future income tax assets (liabilities)			
Property, plant and equipment	2,730,808	815,125	(9,527)
Site restoration	102,916	78,995	642
Non-capital loss carryforwards	232,053	-	4,808
Valuation allowance	(3,065,777)	(894,120)	-
	-	-	(4,077)

The provision for future income taxes in the statement of income and retained earnings varies from the amount that would be computed by applying the expected tax rate of 42.24% (2001 – 43.11%; 2000 – 19.13%) to income before income taxes. The principal reasons for differences between such expected income tax expense and the amount actually recorded are as follows:

	Year ended December 31,		Two month period ended December 31,	Year ended October 31,
	2002 $	2001 $	2000 $	2000 $
Computed expected income tax expense	(2,342,299)	(1,171,484)	(9,542)	8,749
Increase (decrease) in income taxes resulting from				
Non-deductible crown royalties	171,325	459,987	1,462	1,687
Federal resource allowance	(38,906)	(277,449)	2,713	(3,230)
Tax benefit of accounting losses not recognized	2,209,880	984,869	-	-
Other	-	-	(1,362)	(921)
Income tax expense (recovery)	-	(4,077)	(6,729)	6,285

The company has non-capital losses of $550,933 (2001 – $nil; 2000 – $164,632) which expire at various times to 2007 and which may be applied in the prescribed manner against future taxable income. The company has resource deductions of $14,876,188 (2001 – $11,097,871; 2000 – $25,138) which may be carried forward indefinitely and applied in the prescribed manner against future taxable income.

8 Related party transactions

In July 2002, the company exchanged an asset valued at $20,000 for a fixed asset valued at the same amount from a company with two directors who are also directors of the company. The transactions were recorded at the exchange amount and were in the normal course of business.

9 Financial instruments

The company’s financial instruments included in the balance sheet are comprised of accounts receivable, accounts payable and accrued liabilities and bank debt. The fair value of financial instruments classified as current assets or current liabilities approximate their carrying amounts due to the short-term maturity of these instruments. The fair value of bank debt approximates its carrying amount as the interest rate approximates market.

Virtually all of the company’s accounts receivable are with customers in the oil and gas industry and are subject normal industry credit risks.

10 Subsequent event

On February 21, 2003, the company signed an agreement with Terrenex to extend the deadline for drilling a test well under the St. Lawrence Lowlands Farmout agreement from February 28, 2003 to August 31, 2003 in exchange for 50,000 common share warrants exercisable for a period of 2 years from March 1, 2003 at a price of US $2.50 per common share. No warrants have been exercised by Terrenex and may be dilutive in future periods. On May 12, 2003, the company signed an agreement with Terrenex to terminate the Farmout agreement in exchange for 250,000 common shares.

Pursuant to an Agency Agreement dated May • , 2003, the company has agreed to issue a prospectus to raise a minimum of $5 million and a maximum of $8.5 million by the issuance of a maximum of • units at $ • per Unit. The Units are comprised of Regular Units and Flow-Through units. Each Regular Unit consists of one Common Share and one full Warrant. Each Flow-Through Unit consists of one Common Share issued on a Flow-Through basis and one-half of one Warrant. Each whole Warrant entitles the holder to acquire one Common Share at $ • per Common Share until December 31, 2003 and thereafter at $ • until December 31, 2004. The proceeds of the Offering will be used to finance the future development of the Beaver River Field and exploration activities in the St. Lawrence Lowlands.

CERTIFICATE OF THE CORPORATION

Dated: May 14, 2003

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(signed)	"*Michael R. Binnion*" Chief Executive Officer	(signed)	"*Jason D'Silva*" Chief Financial Officer

On behalf of the Board of Directors

(signed)	"*David G. Mallory*" Director	(signed)	"*Peder Paus*" Director

CERTIFICATE OF THE PROMOTERS

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(signed) "*Michael R. Binnion*"

CERTIFICATE OF THE AGENT

Date: May 14, 2003

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

CANACCORD CAPITAL CORPORATION

(signed) *"Stephen J. Mullie"*