

FILING STATEMENT

OF

QUESTFIRE ENERGY CORP.

IN RESPECT OF

THE ACQUISITION OF CERTAIN ASSETS OF

ADVANTAGE OIL & GAS LTD.

Dated as at April 26, 2013

Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the Fundamental Acquisition described in this Filing Statement.

TABLE OF CONTENTS

GLOSSARY OF TERMS.....	1
Currency and Exchange Rates	6
Abbreviations	6
Other	6
BOE Conversion	7
McfGE Conversion	7
Metric Conversion Table	7
FORWARD LOOKING STATEMENTS.....	8
SUMMARY OF FILING STATEMENT	10
Questfire	10
The Transaction.....	10
The Assets	11
Purchase Consideration	11
The Debentures	11
The Credit Facilities	12
Arm's Length Transaction.....	12
Approvals Necessary for the Transaction.....	12
Shareholder Approval	12
Debentureholder Approval	12
Competition Bureau Approval	13
Exchange Approval.....	13
Sponsorship	13
The Resulting Issuer	13
Name and Incorporation	13
Board of Directors and Management of the Resulting Issuer	13
Intercorporate Relationships	13
Interest of Insiders in the Transaction	13
Promoter	14
Conflicts of Interest	14
Available Funds and Proposed Use	14
Proposed Use of Available Funds.....	14
Selected Pro Forma Financial Information	15
Interests of Experts.....	15
Summary of Risk Factors Associated with Transaction.....	15
RISK FACTORS	17
General	17
Conditions to Complete the Transaction.....	17
Nature of Business	17
Fluctuating Prices	17
Industry Risks	18
Ranking of Debentures	18
Market for Debentures	19
Credit Risk	19
Ability to Maintain Obligations Under Credit Facilities and Other Debt	19
History of Losses	20
Issuance of Debt	20
Hedging	20
Additional Funding Requirements	20
Depletion of Reserves and Production Declines	20

Exploration and Development	21
Operations.....	21
Disruptions in Production	22
Reserve Estimates	22
Uninsurable Risks	23
Environmental Concerns.....	23
Natural Disasters and Weather-Related Risks	23
Title to Assets	24
Availability of Drilling Equipment and Access Restrictions	24
Reserve Replacement.....	24
Price Volatility of Publicly Traded Securities	24
Additional Financing	24
Governmental Regulation	25
Changes in Legislation.....	25
Legal Proceedings.....	25
Cost of New Technologies.....	25
Alternatives to/Changing Demand for Petroleum Products	25
Dependence on Key Personnel	26
Conflicts of Interest	26
Dividends.....	26
Exercise of Rights of First Refusal	26
INFORMATION CONCERNING QUESTFIRE ENERGY CORP.	27
Name and Incorporation.....	27
General Development of the Business	27
Three Year History.....	27
Significant Acquisitions and Dispositions	27
Corporate Strategy.....	27
Financing Arrangements.....	29
Purchase Consideration.....	29
The Debentures	29
The Credit Facilities	30
Statement of Reserves Data and Other Oil and Gas Information	30
Selected Financial Information.....	30
Management's Discussion and Analysis	31
Description of Securities.....	31
Class A Shares	31
Class B Shares	31
Questfire 2012 Debentures	32
Warrants	32
Debentures	32
Preferred Shares.....	32
Option Plan	32
Voting Shares and Principal Holders Thereof	33
Prior Sales	33
Stock Exchange Price	33
COMPENSATION OF DIRECTORS AND OFFICERS.....	34
Executive Compensation	34
Compensation Discussion and Analysis.....	34
Option-based Awards	35
Compensation Governance	35
Summary Compensation Table	36
Narrative Discussion.....	37
Incentive Plan Awards	37

Narrative Discussion	39
Pension Plan Benefits	39
Termination and Change of Control Benefits	39
Director Compensation	39
Director Compensation Table	39
Incentive Plan Awards	39
Other Compensation	40
Securities Authorized for Issuance Under Equity Compensation Plans	40
Arm's Length Transaction.....	41
Indebtedness of Directors and Officers.....	41
Legal Proceedings.....	41
Material Contracts	41
Auditors and Transfer Agent.....	42
Additional Information	42
INFORMATION CONCERNING THE ASSETS	43
General Information Concerning the Assets and the Transaction	43
The Transaction	43
Terms of the Debentures.....	43
The Purchase Agreement	43
Reserves Data and Other Oil and Gas Information	44
Selected Financial Information.....	44
Description of the Assets	44
Property Descriptions.....	46
Southern Alberta.....	46
West Central Alberta	46
Northeast and East Central Alberta.....	47
INFORMATION CONCERNING THE RESULTING ISSUER	47
Corporate Structure	47
Intercompany Relationships	48
Narrative Description of Business	48
Stated Business Objectives	48
Milestones.....	48
Exploration and Development	50
Description of Securities.....	51
Pro Forma Capitalization	51
Fully Diluted Share Capital	52
Available Funds and Principal Purposes	53
Funds Available	53
Proposed Use of Available Funds – 2013.....	54
Dividends.....	54
Principal Security Holders.....	54
Directors, Officers and Promoters	54
Name, Address, Occupation and Security Holdings	54
Management	56
Corporate Cease Trade Orders or Bankruptcies	59
Penalties or Sanctions	59
Personal Bankruptcies	59
Conflicts of Interest	60
Other Reporting Issuer Experience	60
Executive Compensation	60
Long Term Incentive Plan	61
Stock Options	61
Pension and Retirement Plans	61

Termination of Employment, Change in Responsibilities and Employment Contracts.....	61
Compensation of Directors	61
Indebtedness of Directors and Officers.....	61
Investor Relations Arrangements.....	61
Options to Purchase Securities	62
Stock Option Plan.....	62
Escrowed Securities	62
Escrow Agreement.....	62
Escrowed Options.....	62
Auditor, Transfer Agent and Registrar	63
Auditor.....	63
Transfer Agent and Registrar.....	63
GENERAL MATTERS.....	64
Sponsorship.....	64
Experts.....	64
Other Material Facts.....	64
Questfire Board Approval	64
CERTIFICATE OF QUESTFIRE ENERGY CORP.	65
SCHEDULE “A” - PURCHASE AGREEMENT	
SCHEDULE “B” - QUESTFIRE TRANSACTION CONSENT	
SCHEDULE “C” - ASSET FINANCIAL STATEMENTS	
SCHEDULE “D” - ASSET RESERVE INFORMATION	
SCHEDULE “E” - PRO FORMA FINANCIAL INFORMATION	
SCHEDULE “F” – QUESTFIRE FINANCIAL STATEMENTS	

GLOSSARY OF TERMS

Unless the context otherwise provides, the following terms used in this Filing Statement and the Schedules hereto, shall have the meanings ascribed to them as set forth below.

“**ABCA**” means the *Business Corporations Act* (Alberta) R.S.A 2000, c. B-9, as amended, including all regulations promulgated thereunder;

“**Advantage**” or “**AOG**” means Advantage Oil & Gas Ltd.;

“**Affiliate**” means a Company that is affiliated with another Company as described below:

A Company is an “Affiliate” of another Company if:

- (a) one of them is the subsidiary of the other, or
- (b) each of them is controlled by the same Person.

A Company is “controlled” by a Person if:

- (a) voting securities of the Company are held, other than by way of security only, by or for the benefit of that Person, and
- (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the Company.

A Person beneficially owns securities that are beneficially owned by:

- (a) a Company controlled by that Person, or
- (b) an Affiliate of that Person or an Affiliate of any Company controlled by that Person;

“**Arm’s Length Transaction**” means a transaction which is not a Related Party Transaction;

“**Asset Financial Statements**” means the unaudited operating statements concerning the Assets for the nine months ended September 30, 2012 and 2011 and the years ended December 31, 2012, 2011 and 2010, a copy of which are attached as Schedule “C”;

“**Assets**” means the Alberta oil and gas assets which Questfire has agreed to purchase from Advantage pursuant to the Purchase Agreement;

“**Associate**” when used to indicate a relationship with a Person means:

- (a) an issuer of which the Person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer,
- (b) any partner of the Person,
- (c) any trust or estate in which the Person has a substantial beneficial interest or in respect of which a Person serves as trustee or in a similar capacity,
- (d) in the case of a Person who is an individual:

- (i) that Person's spouse or child, or
- (ii) any relative of the Person or of his spouse who has the same residence as that Person;

but

- (e) where the Exchange determines that two Persons shall, or shall not, be deemed to be associates with respect to a Member firm, Member corporation or holding company of a Member corporation, then such determination shall be determinative of their relationships in the application of Rule D with respect to that Member firm, Member corporation or holding Company;

"Business Day" means a day other than a Saturday, Sunday or civic holiday in the City of Calgary, Alberta or the City of Vancouver, British Columbia;

"Change of Control" means: (i) the acquisition by any Person or group of Persons acting jointly or in concert (within the meaning of Multilateral Instrument 62-104 - *Take-Over Bids and Issuer Bids* and in Ontario, the *Securities Act* (Ontario) and Ontario Securities Commission Rule 62-504 - *Take-Over Bids and Issuer Bids*) of ownership of, or voting control or direction over, Voting Securities carrying more than 50% of the voting rights attached to all of the issued and outstanding Voting Securities; or (ii) the acquisition of all or substantially all of the Corporation's assets, by any Person or group of Persons acting jointly or in concert;

"Class A Share" means a Class A Share in the capital of Questfire;

"Class A Shareholder" means a holder of a Class A Share;

"Class B Share" means a Class B Share in the capital of Questfire;

"Class B Shareholder" means a holder of a Class B Share;

"Closing" means the closing of the Transaction;

"Closing Date" means the date of Closing of the Transaction;

"COGE Handbook" means the "Canadian Oil and Gas Evaluation Handbook" prepared jointly by The Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society), as amended from time to time;

"Company" unless specifically indicated otherwise, means a corporation, unincorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

"Control Person" means any Person that holds or is one of a combination of Persons that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer;

"Credit Facilities" means the \$60 million aggregate principal amount demand credit facilities to be entered into at the time of Closing with National Bank of Canada;

"Debenture" means a three-year convertible secured debenture, to be issued by Questfire to Advantage pursuant to the Debenture Indenture in the aggregate principal amount of approximately \$44 million, prior to customary closing adjustments;

"Debenture Indenture" means the debenture indenture between Questfire and Olympia Trust Company to be entered into effective the Closing Date providing for the terms of the Debentures;

“**Disclosure Document**” has the meaning ascribed thereto in Exchange Policy 5.2;

“**Exchange**” or “**TSXV**” means the TSX Venture Exchange Inc.;

“**Exchange Policy 5.2**” means Policy 5.2 of the TSX Venture Exchange Corporate Finance Manual entitled “*Changes of Business and Reverse Takeovers*”;

“**Exchange Policy 5.3**” means Policy 5.3 of the TSX Venture Exchange Corporate Finance Manual entitled “*Acquisitions and Dispositions of Non-cash Assets*”;

“**Exchange Requirements**” means and includes the articles, by-laws, policies, circulars, rules, guidelines, orders, notices, rulings, forms, decisions and regulations of the Exchange as from time to time enacted, any instructions, decisions and directions of the Exchange (including those of any committee of the Exchange as appointed from time to time), and all applicable provisions of the securities laws of any other jurisdiction;

“**Filing Statement**” means this Filing Statement of Questfire dated April 26, 2013;

“**Final Exchange Acceptance**” means the final Exchange acceptance of the Transaction, as evidenced by the Final Exchange Bulletin;

“**Final Exchange Bulletin**” means the Exchange bulletin issued following closing of the Transaction and the submission of all Post-Approval Documents which evidences the Final Exchange Acceptance of the Transaction;

“**Fundamental Acquisition**” has the same meaning as ascribed thereto by the Exchange in Exchange Policy 5.3;

“**GLJ**” means GLJ Petroleum Consultants Ltd., independent oil and gas reserve engineers;

“**GLJ Report**” means the report prepared by GLJ dated February 21, 2012 evaluating the reserves data and other oil and gas information of Questfire effective as at December 31, 2011;

“**GORR**” means gross over-riding royalty;

“**Insider**” if used in relation to an issuer, means:

- (a) a director or senior officer of the issuer;
- (b) a director or senior officer of a Company that is an Insider or subsidiary of the issuer;
- (c) a Person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the issuer; or
- (d) the issuer itself if it holds any of its own securities;

“**Issuer**” means a Company and its subsidiaries which have any of its securities listed for trading on the Exchange and, as the context requires, any applicant Company seeking a listing of its securities on the Exchange;

“**Laws**” means all laws, by-laws, statutes, regulations, rules, orders, ordinances, judgments, decrees and other requirements, terms and conditions of any grant of approval, permission, authority, permit or license of any Governmental Entity or self-regulatory authority; and the term “**applicable**” with respect to such Laws and in the context that refers to one or more Parties, means such Laws as are applicable to such Party or Parties or its or their business, undertaking, property or securities and emanate from a Person having jurisdiction over the Party or Parties or its or their business, undertaking, property or securities;

“**Member**” means a Person who has executed the members’ agreement of the Exchange, as amended from time to time, and is accepted as and becomes a member of the Exchange under the Exchange Requirements;

“**NI 51-101**” means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;

“**Non Arm’s Length Parties**” means in relation to a Company, a promoter, officer, director, other Insider or Control Person of that Company (including an Issuer) and any Associates or Affiliates of any such Persons. In relation to an individual, means any Associate of the Individual or any Company of which the individual is a promoter, officer, director, Insider or Control Person;

“**Option Plan**” means the incentive stock option plan of Questfire as described under “*Information Concerning Questfire – Option Plan*”;

“**Parties**” means Questfire and Advantage; and “**Party**” means any one of them;

“**Person**” means a Company or individual;

“**Post-Approval Documents**” mean the documents prescribed as such in Exchange Policy 5.2;

“**Principal**” means:

- (a) a Person or Company, or their respective Associates or Affiliates, who acted as a promoter of Questfire within two years before the Initial Public Offering prospectus or Final Exchange Bulletin;
- (b) a director or senior officer of Questfire or any of its material operating subsidiaries at the time of the Initial Public Offering prospectus or Final Exchange Bulletin;
- (c) a 20% holder – a Person or Company that holds securities carrying more than 20% of the voting rights attached to Questfire’s outstanding securities immediately before and immediately after the Initial Public Offering or immediately after the Final Exchange Bulletin for non-Initial Public Offering transactions; or
- (d) a 10% holder – a Person or Company that:
 - (i) holds securities carrying more than 10% of the voting rights attached to Questfire’s outstanding securities immediately before and immediately after the Initial Public Offering or immediately after the Final Exchange Bulletin for non-Initial Public Offering transactions; and
 - (ii) has elected or appointed, or has the right to elect or appoint, one or more directors or senior officers of Questfire or any of its material operating subsidiaries;

“**Promoter**” has the definition prescribed by applicable Securities Laws;

“**Purchase Agreement**” means the Asset Purchase Agreement dated February 5, 2013, as amended March 12, 2013, between Questfire and Advantage, a copy of which is attached hereto as Schedule “A”;

“**Questfire**” or the “**Corporation**” means Questfire Energy Corp.;

“**Questfire 2012 Debentures**” means the 12% convertible unsecured debentures issued by Questfire in 2012 and due June 30, 2014, the principal amount of which each Questfire 2012 Debenture is convertible, in whole or in part, into Class A Shares at the option of the holder at any time prior to the close of business on June 30, 2014 at a conversion price of \$0.50 per Class A Share;

“Questfire Board” means the board of directors of Questfire;

“Questfire Financial Statements” means the audited statements of Questfire for the fiscal periods ending December 31, 2010 and December 31, 2011 and the unaudited interim statements of Questfire for the periods ending September 30, 2012 and 2011 attached hereto as Schedule “F”;

“Questfire Shareholders” means the holders of both the Class A Shares and Class B Shares;

“Questfire Transaction Consent” means the consent of Questfire Shareholders approving the Transaction pursuant to Exchange Policy [5.2], attached to this Filing Statement as Schedule “B”;

“Related Party Transaction” has the meaning ascribed to that term in Exchange Policy 5.9 - *Protection of Minority Security Holders in Special Transactions*, and includes a related party transaction that is determined by the Exchange to be a Related Party Transaction. The Exchange may deem a transaction to be a Related Party Transaction where the transaction involves Non Arm’s Length Parties, or other circumstances exist which may compromise the independence of the issuer with respect to the transaction;

“Resulting Issuer” means the Issuer that exists upon issuance of the Final Exchange Bulletin and, in the case of this Filing Statement, means Questfire after giving effect to the Transaction;

“Resulting Issuer Board” means the board of directors of the Resulting Issuer;

“Resulting Issuer Shares” means the shares in the capital of the Issuer that exist upon issuance of the Final Exchange Bulletin and, in the case of this Filing Statement, means the Class A Shares;

“Securities Authorities” means the appropriate securities commissions or similar regulatory authorities in Canada and each of the provinces and territories thereof;

“Securities Laws” means any applicable Canadian provincial securities laws and any other applicable securities law, rule, regulation, policy, notice, order and instrument promulgated thereunder;

“Sponsor” has the meaning specified in Exchange “Policy 2.2 – *Sponsorship and Sponsorship Requirements*”;

“subsidiary” means a subsidiary as defined in the *Securities Act* (Alberta);

“Sproule” means Sproule Associates Limited, independent oil and gas reserve engineers;

“Sproule Report” means the report entitled “Advantage Oil & Gas Ltd., Computer Recalculation to an Effective Date of September 30, 2012 of Certain Alberta Properties of Advantage Oil and Gas Ltd. to be acquired by Questfire Energy Corp.”;

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

“Taxes” means, with respect to any entity, all income taxes (including any tax on or based upon net income, gross income, income as specially defined, earnings, profits or selected items of income, earnings or profits) and all capital taxes, gross receipts taxes, environmental taxes, sales taxes, use taxes, *ad valorem* taxes, value added taxes, transfer taxes, franchise taxes, licence taxes, withholding taxes or other withholding obligations, payroll taxes, employment taxes, Canada or Québec Pension Plan premiums, excise, severance, social security premiums, workers’ compensation premiums, employment insurance or compensation premiums, stamp taxes, occupation taxes, premium taxes, property taxes, provincial Crown royalties, windfall profits taxes, alternative or add-on minimum taxes, goods and services tax, customs duties or other taxes of any kind whatsoever, together with any interest and any penalties or additional amounts imposed by any taxing authority (domestic or foreign) on such entity or for which such entity is responsible, and any interest, penalties, additional taxes, additions to tax or other amounts imposed with respect to the foregoing;

“**Transaction**” means the acquisition of the Assets from Advantage by Questfire pursuant to the terms and conditions of the Purchase Agreement;

“**Voting Share**” means a security of an Issuer that: (a) is not a debt security, and (b) carries a voting right either under all circumstances or under some circumstances that have occurred and are continuing, and in the case of this Filing Statement, means the Class A Shares and Class B Shares; and

“**Warrant**” means a Class A Share purchase warrant issued by Questfire in conjunction with the Questfire 2012 Debentures. Each Warrant entitles the holder thereof to acquire one Class A Share at a price of \$0.75 until June 30, 2014.

Words importing the singular number only include the plural and vice versa, and words importing any gender include all genders.

Currency and Exchange Rates

Unless otherwise indicated, all references to “dollar” or the use of the symbol “\$” are to Canadian dollars.

Abbreviations

The abbreviations set forth below have the following meanings:

Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	Mcf	thousand cubic feet
bbls	barrels	MMcf	million cubic feet
Mbbl	thousand barrels	Mcfpd	thousand cubic feet per day
MMbbls	million barrels	MMcfpd	million cubic feet per day
Mstb	1,000 stock tank barrels	MMBTU	million British Thermal Units
bbls/d	barrels per day	Bcf	billion cubic feet
bbl/d	barrels of oil per day	GJ	gigajoule
NGL	natural gas liquids		
stb	standard tank barrels		

Other

API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil.
BOE	barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 boe for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead
BOE/d	barrel of oil equivalent per day
LNG	liquefied natural gas
m ³	cubic meters
Mboe	1,000 barrels of oil equivalent
McfGE	1,000 cubic feet of gas equivalent on the basis of 6 Mcfs to 1 bbl of crude oil. Mcfes may be misleading, particularly if used in isolation. A Mcf conversion ratio of 6 Mcfs to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade
MMscf	Millions of standard cubic feet of gas (gas volume at 60 degrees Fahrenheit and 14.65 pounds

per square inch absolute)

BOE Conversion

The calculation of barrels of oil equivalent (BOE) is based on a conversion ratio of six thousand cubic feet (Mcf) of natural gas for one barrel (bbl) of oil based on an energy equivalency conversion method. BOEs may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

McfGE Conversion

McfGE is derived by converting oil to gas in the ratio of one barrel of oil to six thousand cubic feet of gas (1bbl:6Mcf). Mcfs may be misleading, particularly if used in isolation. A McfGE conversion ratio of 1 bbl: 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Metric Conversion Table

The following table sets forth certain factors for converting metric measurements into imperial equivalents.

To convert from	To imperial units	Multiply by
BOE	Mcf	6
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres (“m ³ ”)	bbls	6.290
Feet (“ft”)	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares (“Ha”)	0.405

FORWARD LOOKING STATEMENTS

Certain statements contained in this Filing Statement are forward looking statements. These forward looking statements are not based on historical facts but rather on the expectations of management of Questfire regarding Questfire's future performance. All statements, other than statements of historical fact, may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions.

Such forward looking statements reflect management's current beliefs and assumptions and are based on information currently available to management. Forward looking statements involve significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including the risks discussed under "*Risk Factors*" and elsewhere in this Filing Statement, and other factors, many of which will be beyond the control of Questfire. Although the forward looking statements contained in this Filing Statement are based upon assumptions which management of Questfire believes to be reasonable, Questfire cannot assure investors that actual results will be consistent with these forward looking statements.

In particular, this Filing Statement contains forward-looking statements, pertaining to the following:

- work plans to be conducted by Questfire;
- capital expenditure programs;
- supply and demand for oil and natural gas;
- the size of the Resulting Issuer's oil and natural gas reserves;
- oil and natural gas production levels;
- development of resources;
- treatment under governmental regulatory and taxation regimes; and
- expectations regarding the Resulting Issuer's ability to raise capital and to continually add to reserves through acquisitions and development.

With respect to forward-looking statements contained in this Filing Statement, Questfire has made assumptions regarding, among other things:

- the recoverability of reserves and resources;
- the legislative and regulatory environment;
- geological and engineering estimates in respect of reserves and resources;
- the geography of the areas in which exploration and development activities have been conducted;
- unpredictable changes to the market prices for oil and gas; and
- the ability to obtain additional financing on satisfactory terms.

The Resulting Issuer's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Filing Statement:

- volatility in the market prices for oil and natural gas;
- uncertainties associated with estimating oil and natural gas reserves;
- geological, technical, drilling and processing problems;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- incorrect assessments of the value, or failure to realize the anticipated benefits, of acquisitions;
- competition for, among other things, capital, acquisitions of oil and natural gas reserves, undeveloped lands, drilling rigs and other equipment and skilled personnel;

- uncertainties associated with changes in legislation including, but not limited to, tax and environmental legislation in any of the jurisdictions where the Resulting Issuer will have operations;
- lack of availability of additional financing and farm-in or joint venture partners;
- the other factors referred to under “*Risk Factors*”.

Statements relating to “reserves” or “resources” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Filing Statement are expressly qualified by this cautionary statement. Further, any forward-looking statement is made only as of a certain date, and Questfire undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as may be required by applicable securities laws. New factors emerge from time to time, and it is not possible for management of Questfire to predict all of these factors and to assess in advance the impact of each such factor on Questfire’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

SUMMARY OF FILING STATEMENT

The following is a summary of information relating to Questfire, the Assets and the Resulting Issuer (assuming completion of the Transaction) and should be read together with the more detailed information and financial data and statements contained elsewhere in this Filing Statement.

Questfire

Questfire was incorporated under the ABCA on January 15, 2010 as 1512243 Alberta Ltd. The articles of incorporation were amended on July 16, 2010 to change the name of the Corporation to "Questfire Energy Corp.". The Articles were amended on August 24, 2011 to remove the private company restrictions, to reclassify the common shares as Class A Shares, and to create the Class B Shares. The registered office of the Corporation is Suite 1000, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1 and its head office is located at Suite 400, 703 - 6th Avenue S.W., Calgary, Alberta, T2P 0T9.

The Corporation was formed to operate in the Western Canadian Sedimentary Basin as an oil and gas exploration, development and production company. Since incorporation, Questfire's focus area has been on W4 & W5 Alberta, wherein it has acquired a 100% working interest in 18,535 acres.

On November 25, 2010 the Corporation raised \$1,895,000 by private placement. The Corporation conducted limited operations prior to closing its initial public offering on October 18, 2011, whereby it raised gross proceeds of \$6,176,000. The Class A Shares and Class B Shares were listed and commenced trading on the Exchange on October 26, 2011 under the symbols "Q.A" and "Q.B", respectively.

In June of 2012, the Corporation raised \$1,510,000 by private placement of the Questfire 2012 Debentures. The Corporation issued 302 units pursuant to that private placement, with each unit being comprised of one \$5,000 par value Questfire 2012 Debenture and 5,000 Warrants.

The Class A Shares and Class B Shares will continue to be listed on the Exchange subsequent to the completion of the Transaction. The Class A Shares and Class B Shares were voluntarily halted on February 5, 2013 in anticipation of Questfire's announcement of the Transaction. On January 17, 2013, the most recent trading day prior to the halt of the securities, the Class A Shares closed at \$0.50 per Class A Share and on January 16, 2013, the most recent trading day prior to the halt of the securities, the Class B Shares closed at \$1.40 per Class B Share. On April 18, 2013 the Class A Shares and Class B Shares resumed trading. On April 25, 2013, the latest practicable trading date before the date of this Filing Statement, the Class A Shares closed at \$1.25 per Class A Share and on April 25, 2013, the latest practicable trading date before the date of this Filing Statement, the Class B Shares closed at \$3.00 per Class B Share.

As at the date hereof, the Corporation had six full-time employees.

See "*Information Concerning Questfire Energy Corp.*".

The Transaction

The Transaction is the proposed acquisition of the Assets from Advantage by Questfire. The Transaction is to be effected in accordance with the terms of the Purchase Agreement entered into on February 5, 2013, as amended March 12, 2013, between Questfire and Advantage. The Purchase Agreement is attached hereto as Schedule "A".

The Transaction will constitute a Fundamental Acquisition pursuant to Exchange Policy 5.3. This Filing Statement is being delivered to Shareholders and filed with the Exchange in order to satisfy the Exchange's requirement for a Disclosure Document pursuant to Exchange Policy 5.3.

Closing of the Transaction is subject to a number of terms and conditions including, but not limited to: the accuracy of representations and warranties in the Purchase Agreement at the Closing Time; the receipt of the Final Exchange Acceptance; the issuance of the Debentures and the Class B shares; there being no material change to the Assets prior to the Closing Time (subject to certain exceptions contained in the Purchase Agreement), execution of governance agreements and other customary conditions.

Please see “*Information Concerning the Transaction – The Purchase Agreement*”.

The Assets

The Assets are located in Southern Alberta, West Central Alberta and Northeast and East Central Alberta. The Assets are comprised of approximately 80% natural gas and 20% light oil and natural gas liquids currently producing approximately 5,800 BOE/d comprised of 27.8 MMcf/d of gas, 507 bbls/d of oil and 660 bbls/d of NGLs. The majority of the production is operated with high working interest. The assets include a total net land base of approximately 300,000 acres (469 sections), a significant 2D and 3D seismic database and significant oil and gas gathering and processing infrastructure.

See “*Information Concerning the Assets*”.

Purchase Consideration

Purchase consideration will consist of \$40 million of cash, \$44 million of Debentures and 1.5 million Class B shares (at a deemed issue price per Class B Share of \$6.67). Customary closing adjustments between the effective date of November 1, 2012 and the closing date of the Transaction will be applied to the Debenture.

The Debentures

The Debentures will have a three-year term and will be secured but will be subordinate to the Credit Facilities. Interest will be payable quarterly in arrears at the following per annum rates commencing June 30, 2013:

- 6% for the period from Closing to April 30, 2014;
- 7% for the period from May 1, 2014 to April 30, 2015;
- 9% for the period from May 1, 2015 to maturity.

The Corporation may elect, from time to time, subject to applicable regulatory approval, to satisfy its obligation to pay interest on the Debentures (i) in cash; (ii) by delivering freely tradable Class A Shares to the debenture trustee, for sale, to satisfy the interest obligations in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable, from the proceeds of the sale of such Class A Shares; or (iii) any combination of (i) and (ii) above.

The Debentures will be convertible into Class A Shares at the 20 day volume-weighted average trading price at the option of the holder for a period of 30 days following the occurrence of any of the events listed below:

- (i) if the Corporation chooses to pay interest by delivering shares to the debenture trustee as described above;
- (ii) any event of default;
- (iii) any conversion by the Corporation of Class B Shares into Class A Shares;
- (iv) October 1, 2015;

- (v) April 1, 2016;
- (vi) upon the occurrence of a Change of Control; or
- (vii) other than a non-brokered financing of \$2 million or less, upon an equity financing by the Corporation whereby the holder of a Debenture has the option of conversion, up to a maximum of 50% of the total gross proceeds raised in the financing, unless mutually agreed to otherwise.

See “*Information Concerning Questfire Energy Corp. – Financing Arrangements – The Debentures*”.

The Credit Facilities

Questfire will fund the cash portion of the purchaser price by entering into the Credit Facilities.

See “*Information Concerning Questfire Energy Corp. – Financing Arrangements – The Credit Facilities*”.

The Corporation has retained the services of National Bank Financial Inc. to provide analysis of the Transaction and advice in connection with the market and mergers and acquisitions. The Corporation intends to provide National Bank Financial Inc. a commission of \$200,000 for such services, which is contingent upon Questfire entering into the Credit Facilities and closing of the Transaction.

Arm’s Length Transaction

The proposed Transaction is an Arm’s Length Transaction.

Approvals Necessary for the Transaction

Shareholder Approval

Questfire Shareholders are being asked by majority written consent to consider the Purchase Agreement and approve the Transaction.

Pursuant to the requirements of the Exchange, the Transaction will require the approval of a majority of votes cast by Questfire Shareholders. The Transaction and the Purchase Agreement will be submitted to the Shareholders for approval by way of the Questfire Transaction Consent attached as Schedule “B”. In the event that a majority of the Shareholders sign the Questfire Transaction Consent, a meeting of Questfire Shareholders to approve the Transaction will not be required.

Accompanying this Filing Statement is a copy of the Questfire Transaction Consent. A Questfire Shareholder who wishes to sign the Questfire Transaction Consent may do so by completing the information required, signing the Questfire Transaction Consent and sending or delivering the completed Questfire Transaction Consent to Questfire Energy Corp., c/o Davis LLP, Suite 1000, 250 2nd Street SW, Calgary, Alberta, Attention: Roger MacLeod, email rmacleod@davis.ca See Schedule “B” – *Questfire Transaction Consent*.

Debentureholder Approval

The Transaction requires the approval of a two-thirds majority of votes cast by holders of Questfire 2012 Debentures, as a result of the Debenture ranking senior to the Questfire 2012 Debentures. The Transaction and the Debenture will be submitted to the holders of Questfire 2012 Debentures for approval by way of written resolution. In the event that a two-thirds majority of the holders of Questfire 2012 Debentures provide written resolution, a meeting of such holders to approve the Transaction will not be required.

Competition Bureau Approval

The Transaction is subject to notification under the *Competition Act* (Canada). Questfire received an advance ruling certificate under section 102 of the *Competition Act* (Canada) on March 26, 2013, whereby the Commissioner of Competition indicated that it was satisfied that it would not have sufficient grounds on which to apply to the Competition Tribunal under section 92 of the *Competition Act* (Canada) with respect to the Transaction.

Exchange Approval

The Exchange has conditionally accepted the Transaction subject to Questfire fulfilling all of the requirements of the Exchange. Listing of the Class B Shares to be issued in connection with the Transaction is subject to Questfire fulfilling all of the requirements of the Exchange on completion of the Transaction. Questfire will be considered to have completed the Transaction on the date that the Exchange issues its Final Exchange Bulletin.

Sponsorship

Questfire was not required to obtain a Sponsor under the Exchange Requirements.

The Resulting Issuer

Name and Incorporation

In this Filing Statement, Questfire, after it has completed the Transaction, will sometimes be referred to as the “Resulting Issuer”.

Following completion of the Transaction, the corporate name of the Resulting Issuer will continue to be Questfire Energy Corp. The head office will continue to be located at Suite 400, 703 – 6th Ave. S.W., Calgary, Alberta, T2P 0T9 and the registered office will continue to be located at Suite 1000, 250 - 2nd Street SW, Calgary, AB T2P 0C1.

Board of Directors and Management of the Resulting Issuer

The existing board of directors and management of Questfire will continue following the Transaction and Advantage will be entitled to appoint two additional members to the Board, which are to be determined after Closing and mutually agreed to by Questfire.

See “*Information Concerning the Resulting Issuer – Directors, Officers and Promoters*”.

Intercompany Relationships

Questfire does not have any subsidiaries and after giving effect to the Transaction, the Resulting Issuer will not have any subsidiaries.

Interest of Insiders in the Transaction

No Insider, promoter or Control Person of the Resulting Issuer and no Associate or Affiliate of the same, has any interest in the Transaction other than that which arises from the holding of Class A Shares.

Other than Advantage, who will hold 1,500,000 Class B Shares, being 10.1% of the rights to vote at a meeting of shareholders of the Corporation, upon completion of the Transaction, to the knowledge of management of Questfire, no persons will own, of record or beneficially, directly or indirectly, or exercise control or direction over, more than 9.9% of the Class A Shares. See “*Information Concerning the Resulting Issuer - Principal Securityholders*” and “*Information Concerning the Resulting Issuer - Directors, Officers and Promoters*” and “*Information Concerning Questfire Energy Corp. – Description of Securities*”.

Promoter

Richard Dahl and John Ramescu may be considered to be promoters of Questfire as they took the initiative in substantially re-organizing the business of Questfire. Mr. Richard Dahl will own an aggregate of 1,272,001 Class A Shares which will comprise 9.9% of the Class A Shares and Mr. John Ramescu will own an aggregate of 630,000 Class A Shares, which will comprise 4.9% of the Class A Shares that will be issued and outstanding upon completion of the Transaction. Upon completion of the Transaction, nothing of value, including money, property, contracts, options or rights of any kind has been received or is presently contemplated to be received by Mr. Richard Dahl and Mr. John Ramescu, directly or indirectly, from Questfire or, directly or indirectly, from the Resulting Issuer other than as disclosed herein.

Conflicts of Interest

There are potential conflicts of interest to which some of the directors, officers, Insiders and Promoters of the Resulting Issuer will be subject in connection with the operations of the Resulting Issuer. All of the directors, officers, Insiders and Promoters are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of the Resulting Issuer. Accordingly, situations may arise where some or all of the directors, officers, Insiders and Promoters will be in direct competition with Resulting Issuer. Conflicts, if any, will be subject to the procedures and remedies as provided under the ABCA.

Available Funds and Proposed Use

The following table sets forth the estimated available funds (based upon total current assets less total current liabilities) plus the amounts and sources of other funds available to Questfire prior to, or concurrently with, the completion of the Transaction, after giving effect to the Transaction.

	Available Funds (Post Acquisition Close)
Questfire Working Capital Deficit ⁽¹⁾	(\$2,600,000)
Bank Line of Credit	\$60,000,000
Cash component of the Acquisition to be drawn against Bank line	(\$40,000,000)
Less Transaction Expenses ⁽²⁾	(\$1,200,000)
TOTAL	\$16,200,000

Notes:

1. As of March 31, 2013. Unaudited - Based on estimates from Questfire.
2. Estimated Transaction Expenses of \$600,000 have been incurred or accrued in Questfire's Working Capital at March 31, 2013.

Proposed Use of Available Funds

Description	Amount to be Expended(1)
Drilling and Completions	\$4,900,000
Recompletions:	\$3,500,000
Facilities	\$1,500,000
Land and Seismic	\$1,500,000
Abandonments and Reclamation	\$1,500,000
Miscellaneous	\$ 500,000
Working Capital	\$ 2,800,000
Total	\$16,200,000

Note:

1. These are estimated expenditures. See "Information Concerning the Resulting Issuer - Available Funds and Principal Purposes".

Due to the nature of the oil and gas industry, budgets are regularly reviewed in light of the success of the expenditures and other opportunities that may become available to the Resulting Issuer. In addition, the ability of the Resulting Issuer to carry out operations will depend upon the decisions of other working interest owners in its properties. Accordingly, while the Resulting Issuer anticipates that it will have the ability to spend the funds available to it as stated in this Filing Statement, there may be circumstances where, for sound business reasons, a reallocation of the funds may be necessary. The Resulting Issuer anticipates that the funds available to it upon completion of the Transaction will be sufficient to carry out its business following completion of the Transaction, although it is anticipated that additional funds will be secured via future private placements from time to time as well as cash flow from operations.

See “*Information Concerning the Resulting Issuer - Use of Available Funds*”.

Selected Pro Forma Financial Information

The following table sets forth certain pro forma financial information of the Resulting Issuer for the nine months ended September 30, 2012 after giving effect to the Transaction. This information is based upon the Questfire Financial Statements incorporated by reference hereto and the Asset Financial Statements attached as Schedule “C” – *Asset Financial Statements* to this Filing Statement and should be read in conjunction with such statements. See Schedule “E” – *Pro Forma Financial Information*.

	Resulting Issuer Pro Forma For the nine months ended September 30, 2012 (Unaudited)
Revenue, net of royalties	\$33,837,353
Operating and Transportation Expense	<u>\$21,108,726</u>
Operating Income	\$12,728,627

Interests of Experts

At the date hereof, GLJ and Sproule, the authors of the GLJ Report and Sproule Report, respectively, own, directly or indirectly, in the aggregate, no securities of Questfire. No employee, partner or associate of GLJ or Sproule are expected to be elected, appointed or employed as a director, officer or employee of Questfire or of any associate or affiliate of Questfire.

As at the date hereof, partners and associates of Collins Barrow Calgary LLP, Questfire’s current auditors, own, respectively, directly or indirectly, in the aggregate, no securities of Questfire. No partner or associate of Collins Barrow Calgary LLP is or is expected to be elected, appointed or employed as a director, officer or employee of Questfire or of any associate or affiliate of Questfire.

Roger MacLeod, a director of Questfire, is a partner of Davis LLP, counsel to Questfire, and Graham Norris, Secretary of Questfire, is an associate of Davis LLP. At the date hereof, lawyers with Davis LLP, counsel to Questfire, own, directly or indirectly, in the aggregate, 625,000 Class A Shares, nil Class B Shares, \$100,000 principal amount of Questfire 2012 Debentures, 100,000 Warrants and 83,000 options of Questfire. No other lawyers with Davis LLP are or are expected to be elected, appointed or employed as a director, officer or employee of Questfire or of any associate or affiliate of Questfire.

Summary of Risk Factors Associated with Transaction

There are a number of risk factors associated with the Transaction and with the Assets. Those risk factors include risks associated with the petroleum and natural gas industry; changes in royalty or tax regimes; fluctuations in petroleum, natural gas and other commodity prices; dependence on key personnel; competition; conflicts of interest; government regulation; environmental risks; substantial capital requirements; additional funding requirements to fund operations; debt issuance; availability of drilling equipment and access; reserve estimates; insurance; growth; credit; future sales of Questfire Shares by significant shareholders; dilution of Questfire Shares due to distributions;

volatility of Questfire Share price and risks associated with having directors and officers that have significant control of the Resulting Issuer.

See “*Risk Factors*” for a full discussion on the risks associated with an investment in the Resulting Issuer.

RISK FACTORS

In addition to the other information contained in this Filing Statement, investors should give careful consideration to the following, factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Filing Statement. If any of the following events described as risks or uncertainties actually occurs, the business, prospects, financial condition and operating results of Questfire would likely suffer, possibly materially. In that event, the market price of the Questfire Shares could decline and investors could lose all or part of their investment. Additional risks and uncertainties presently unknown, or that are not believed to be material at this time, may also impair or have a material adverse effect on Questfire's operations. In addition to the risks described elsewhere and the other information contained in this Filing Statement, prospective investors should carefully consider each of and the cumulative effect of all of the following risk factors. References in the below Risk Factors to "we", "our" or "us" refer to the management of Questfire.

General

Conditions to Complete the Transaction

The obligations of the parties to complete the Transaction are subject to the satisfaction or mutual waiver, where permissible, of certain conditions set forth in the Purchase Agreement. Some of these conditions cannot be waived, including obtaining the requisite regulatory approval. If these conditions are not satisfied, the Transaction will not be completed. Completion of the Transaction is also subject to Questfire fulfilling all of the requirements of the Exchange.

Nature of Business

An investment in Questfire should be considered highly speculative due to the nature of Questfire's involvement in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas reserves and its current stage of development. Oil and gas operations involve many risks which even a combination of experience and knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Questfire.

Fluctuating Prices

Oil and gas prices will have a direct impact on Questfire's earnings and are subject to volatile price fluctuations. Questfire's revenues are expected to be in large part derived from the extraction and sale of oil and natural gas. The price of oil will be affected by numerous factors beyond Questfire's control, including international economic and political trends, expectations of inflation, war, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. Any substantial decline in the prices of oil or natural gas could have a material adverse effect on Questfire and the level of its oil and natural gas reserves.

Prices varied considerably throughout 2011 concurrent with shifts in the global economy. Any decreases in oil and natural gas prices would typically result in a reduction of Questfire's net production revenue and may change the economics of producing from some wells which could result in a reduction in the volume of Questfire's reserves. Any substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in Questfire's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to Questfire will in part be determined by Questfire's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore, reducing the bank credit available and could require that a portion of its bank debt, if any at that time, be repaid.

From time to time Questfire has and may in the future enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Questfire will not benefit from such increases. Further, to the extent that Questfire engages in risk management activities related to commodity prices, it will be subject to credit risks associated with counter parties with which it contracts.

Industry Risks

Competitive factors in the distribution and marketing of oil and gas include price methods and reliability of delivery. The oil and natural gas industry is intensely competitive and Questfire will compete with other companies which possess greater technical and financial resources. Many of these competitors not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on an international basis. Generally, there is intense competition for the acquisition of resource properties considered to have commercial potential. Prices paid for both oil and natural gas produced are subject to market fluctuations and will directly affect the profitability of producing any oil or natural gas reserves which may be acquired or developed by Questfire. There is no assurance that Questfire will be able to successfully compete against such competitors.

The impact on the oil and natural gas industry from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers may also decline.

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by Questfire will result in discoveries of oil or natural gas that are commercially or economically feasible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Questfire's operations will be subject to all the risks normally associated with the exploration, development and operation of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature declines of reservoirs, potential environmental damage, blow-outs, cratering, fires and spills, all of which could result in personal injuries, loss of life and damage to property of Questfire and others. In accordance with customary industry practice Questfire expects to obtain insurance coverage, but will not be not fully insured against all risks, nor are all such risks insurable.

Oil and natural gas exploration and development activities are dependent on the availability of seismic, drilling and other specialized 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 Questfire and may delay exploration and development activities.

Ranking of Debentures

The Debentures will be direct, secured obligations of Questfire. Each Debenture will rank equally with each other Debenture but subordinate to the Credit Facilities. The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinate in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of Questfire, which includes the Credit Facilities. Therefore, in the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of Questfire, Questfire's assets will be available to pay its obligations with respect to the Debentures only after it has paid all holders of Senior Indebtedness of Questfire. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding.

Market for Debentures

The Debentures are not listed for trading on any market and no assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid trading market for the Debentures does not develop or is not sustained, this may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation.

The trading price of securities of oil and gas issuers is subject to substantial volatility. This volatility is often based on factors both related and unrelated to the financial performance or prospects of the issuers involved. The market price of the Debentures will be based on a number of factors, including: (i) the prevailing interest rates being paid by entities similar to Questfire; (ii) the overall condition of the financial and credit markets; (iii) interest rate volatility; (iv) the markets for similar securities; (v) the financial condition, results of operation and prospects of Questfire; (vi) the publication of earnings estimates or other research reports and speculation in the press or investment community; (vii) the market price and volatility of the Common Shares; (viii) changes in the industry in which Questfire operates and competition affecting Questfire; (ix) general market and economic conditions; (x) domestic and global commodity prices; and (xi) market perceptions of the attractiveness of particular industries.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Debentures.

Dilution of Class A Shares

Under specific circumstances, the Debentures may be converted into an indeterminable number of Class A Shares, with such conversion occurring in accordance with the terms of the Debenture Indenture. Accordingly, existing Class A Shareholders may suffer significant dilution upon the occurrence of specific circumstances. See “*Information Concerning Questfire Energy Corp. – Financing Arrangements – The Debentures*”.

Credit Risk

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of Questfire and its creditworthiness. Accordingly, there is no assurance Questfire will have sufficient capital to repay the Debentures on the Maturity Date or that it will be able to raise sufficient capital on acceptable terms by the Maturity Date to repay the Debentures.

Ability to Maintain Obligations Under Credit Facilities and Other Debt

Questfire will have borrowed a significant amount of cash under the Credit Facilities and the Debentures. As at the Closing Date, approximately \$41 million will be outstanding under the Credit Facilities and approximately \$44 million will be outstanding under the Debenture. Questfire is required to satisfy certain financial covenants in order to maintain its good standing under the Credit Facilities.

Questfire may from time to time enter into other arrangements to borrow money in order to fund its operations and expansion plans, and such arrangements may include covenants that have similar obligations or that restrict its business in some way. Events may occur in the future, including events out of Questfire’s control, that would cause it to fail to satisfy its obligations under the Credit Facilities or other debt instruments. In such circumstances, the amounts drawn under Questfire’s debt agreements may become due and payable before the agreed Maturity Date, or demands for repayment may be made by the lenders thereunder, and Questfire may not have the financial resources to repay such amounts when due. The Credit Facilities are payable on demand and are secured by all of Questfire’s property. If National Bank of Canada makes demand for repayment under the Credit Facilities, whether or not Questfire defaults on its obligations in respect of the Credit Facilities, National Bank of Canada could enforce its security and realize upon all or significant portions of Questfire’s assets. If Questfire defaults in its obligations under the Debentures, the lenders thereunder could enforce their security and realize upon all or a significant portion of Questfire’s assets.

History of Losses

As of March 31, 2013, Questfire had a working capital deficit of approximately \$2,600,000. Questfire has historically incurred losses from operations. As at September 30, 2012 and December 31, 2011, Questfire had a cumulative deficit of \$3,038,693 and \$904,417, respectively. The inability of Questfire to generate positive operating cash inflow in the future could have a material adverse impact on Questfire's business, financial condition, results of operations and prospects. In addition, should Questfire be unable to continue as a going concern, realization of assets and settlement of liabilities other than in the normal course of business may be at amounts significantly different from those in the financial statements.

Issuance of Debt

Subject to the terms of the Credit Facility and the Debentures, from time to time Questfire may enter into transactions to acquire assets or the shares of other organizations through debt or equity financing. Questfire's debt levels are at or slightly above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, Questfire may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither Questfire's articles nor its by-laws limit the amount of indebtedness that Questfire may incur. The level of Questfire's indebtedness from time to time, could impair Questfire's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise. Questfire will enter the Credit Facilities on Closing for a \$60 million revolving demand loan. For a description of the material terms of the Credit Facility, see "*Information Concerning Questfire Energy Corp. – Financing Arrangements – The Credit Facilities*".

Hedging

From time to time, Questfire may enter into agreements to receive fixed prices on any future oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Questfire would not benefit from such increases. Similarly, from time to time, Questfire may enter into agreements to fix the exchange rate of various currencies used in its business in order to offset the risk of revenue or cost related losses in the event of currency fluctuations. There is no certainty that any such currency hedges which may be entered into will benefit Questfire. Advantage has entered into certain fixed price contracts effective March, 2013 and ending December, 2014 which will be assumed by Questfire on Closing.

Additional Funding Requirements

Questfire's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Questfire may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Questfire to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Questfire's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Questfire's ability to expend the necessary capital to replace its reserves or to maintain its production.

If Questfire's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to Questfire. Continued uncertainty in domestic and international credit markets could materially affect Questfire's ability to access sufficient capital for its capital expenditures and acquisitions, and as a result, may have a material adverse effect on Questfire's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

Depletion of Reserves and Production Declines

Questfire's oil and natural gas reserves and production, and therefore its cash flows and earnings, will be highly dependent upon Questfire developing and increasing its current reserve base and discovering or acquiring additional reserves. Without the addition of reserves through exploration, acquisition or development activities, Questfire's

reserves and production will decline over time as reserves are depleted. To the extent that cash flow from operations is insufficient and external sources of capital become limited or unavailable, Questfire's ability to make the necessary capital investments to maintain and expand its oil and natural gas reserves will be impaired. There can be no assurance that Questfire will be able to find and develop or acquire additional reserves to replace production at commercially feasible costs, or that Questfire will be able to convert its contingent resources to reserves. There is uncertainty regarding the sustainability of initial production rates and decline rates thereafter and Questfire's current production rates are not necessarily indicative of long term performance or ultimate recovery.

Exploration and Development

Questfire will be engaged in oil and natural gas exploration, which is a high-risk venture with uncertain prospects for success and for which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration or development activities by Questfire will result in discoveries of oil or natural gas that are commercially or economically possible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as overpressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Even if commercial quantities of petroleum or natural gas are discovered, there is no assurance that production therefrom or development thereof will occur or be profitable. Natural resource prices fluctuate widely and are affected by numerous factors such as inflation, interest rates, demand, global or regional political and economic crisis and production costs in major producing regions. The aggregate affect of these factors, all of which will be beyond Questfire's control, is impossible to predict. No assurance can be given that commercial accumulations of oil and natural gas will be discovered as a result of the efforts of Questfire and prospective investors must rely upon the ability, expertise, judgment, discretion, integrity, and good faith of the management of Questfire.

The future value of Questfire is dependent on the success or otherwise of Questfire's activities which will be directed toward the further exploration, appraisal and development of its assets. Questfire will have a right to explore and appraise such assets but does not have a right to produce same until such time as the reserves are determined to be commercial. Exploration, appraisal and development of oil and gas reserves are speculative and involves a significant degree of risk. There is no guarantee that exploration or appraisal of the properties in which Questfire will hold rights will lead to a commercial discovery or, if there is commercial discovery, that Questfire will be able to realize such reserves as intended. Few properties that are explored are ultimately developed into new reserves. If at any stage Questfire is precluded from pursuing its exploration or development programmes, or such programmes are otherwise not continued, Questfire's business, financial condition and/or results of operations and, accordingly, the trading price of Questfire Shares, is likely to be materially adversely affected.

Advanced oil and natural gas related technologies such as three-dimensional seismography, reservoir simulation studies, geo-chemical surveys and horizontal drilling may be used by Questfire to improve its ability to find, develop and produce oil and natural gas.

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

Operations

The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of Questfire. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. There is no assurance that a market will exist for oil or natural gas reserves discovered within Questfire's properties. Access to markets cannot be assured. There is no assurance that Questfire will be able to access the pipeline transportation system for the

transportation to the marketplace of any oil or gas that may be produced from Questfire's properties due to capacity or other reasons.

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government which may be amended from time to time. Petroleum and natural gas operations are affected in varying degrees by government regulation such as restrictions on production, price controls, tax increases, expropriation of property, environmental and pollution controls or changes in conditions under which petroleum or natural gas may be marketed. Questfire's oil and natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment.

Questfire may experience growth through acquisitions. Its continued profitability and growth will depend in part upon its ability to successfully integrate its acquired assets with its existing business. There is no assurance that Questfire will be able to successfully assimilate its acquisitions and its failure to do so could have a material adverse effect on its business, operations results and prospects.

Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property. To the extent Questfire is not the operator of its oil properties, Questfire will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of Questfire to certain properties. In addition, the success of Questfire will be largely dependent upon the performance of its key officers.

Disruptions in Production

Other factors affecting the production and sale of oil and natural gas that could result in decreases in profitability include: (i) expiration or termination of leases, permits or licences, or sales price redeterminations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labour difficulties; (v) worker vacation schedules and related maintenance activities; and (vi) changes in the market and general economic conditions. Weather conditions, equipment replacement or repair, fires, amounts of rock and other natural materials and other geological conditions can have a significant impact on operating results.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and cash flows to be derived therefrom, including many factors beyond the control of Questfire. The reserve and cash flow information set forth in this Filing Statement represent estimates only. The reserves and estimated future net cash flows from the Assets have been independently evaluated by Sproule in the Sproule Report. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs, abandonment and salvage values, royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts for each jurisdiction in which the Assets have reserves that are in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of Questfire. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. Due to the limited history of the Assets' producing wells, reserves have been estimated on a volumetric basis.

The present value of estimated future net cash flows referred to herein should not be construed as the current market value of estimated oil and natural gas reserves attributable to the Assets. The estimated discounted future cash flows from reserves are based upon price and cost estimates which may vary from actual prices and costs and such variance could be material. Actual future net cash flows will also be affected by factors such as the amount and timing of

actual production, supply and demand for oil and natural gas, curtailments or increases in consumption by purchasers and changes in governmental regulations or taxation.

Uninsurable Risks

In the course of exploration, development and production of oil and gas properties, certain risks, and in particular, blow-outs, pollution, craterings, fires and oil spills and premature decline of reservoirs and invasion of water into producing formations may occur all of which could result in personal injuries, loss of life and damage to property of Questfire and others. Hazards such as unusual or unexpected geological formations, pressures or other conditions may be encountered in drilling and operating wells as Questfire will initially have interests in a limited number of properties, such risk is more significant than if spread over a number of properties. It is not always possible to fully insure against such risks and Questfire may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of Questfire. Insurance against damages caused by terrorism, specifically guerrilla activities, is generally not available.

Although Questfire may obtain insurance to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, Questfire may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Questfire. The occurrence of a significant event that Questfire is not insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Questfire's financial position, results of operations or prospects. There can be no assurance that insurance will be available in the future.

Environmental Concerns

Extensive national, provincial and local environmental laws and regulations in Alberta will affect all of the operations of Questfire. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. There can be no assurance that Questfire will not incur substantial financial obligations in connection with environmental compliance.

Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently with oil and natural gas and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures.

Significant liability could be imposed on Questfire for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased by Questfire or non-compliance with environmental laws or regulations. Such liability could have a material adverse effect on Questfire. Moreover, Questfire cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by Questfire for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on Questfire.

Natural Disasters and Weather-Related Risks

Questfire will be subject to operating hazards normally associated with the exploration and production of oil and natural gas, including blow-outs, explosions, oil spills, cratering, pollution, earthquakes, hurricanes and fires. The occurrence of any such operating hazards could result in substantial losses to Questfire due to injury or loss of life and damage to or destruction of oil and natural gas wells, formations, production facilities or other properties.

Title to Assets

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. While it is the practice of Questfire to fully examine the title to the interest under proposed acquisition of leases or working interests therein, this should not be construed as a guarantee of title. There may be title defects that affect lands comprising a portion of the Assets. To the extent title defects do exist, it is possible that Questfire may lose all or a portion of its right, title, estate and interest in and to the properties to which the title relates.

Availability of Drilling Equipment and Access Restrictions

Oil 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 Questfire and may delay exploration and development activities. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay Questfire's proposed exploration, development, and sales activities and could have a material adverse effect on Questfire's financial condition. If the demand for, and wage rates of, qualified rig crews rise in the drilling industry then the oil industry may experience shortages of qualified personnel to operate drilling rigs. This could delay Questfire's drilling operations and adversely affect Questfire's financial condition and results of operations.

Reserve Replacement

Questfire's oil and natural gas reserves and production, and therefore its cash flows and earnings derived therefrom are highly dependent upon Questfire developing and increasing its current reserve base and discovering or acquiring additional reserves. Without the addition of reserves through exploration, acquisition or development activities, Questfire's reserves and production will decline over time as reserves are depleted. To the extent that cash flow or net revenue from operations is insufficient and external sources of capital become limited or unavailable, Questfire's ability to make the necessary capital investments to maintain and expand its oil and natural gas reserves will be impaired. There can be no assurance that Questfire will be able to find and develop or acquire additional reserves to replace production at commercially feasible costs.

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 Questfire Shares will be subject to market trends generally, notwithstanding the financial and operational performance of Questfire.

Additional Financing

Depending on future exploration, development, acquisition and divestiture plans, Questfire may require additional financing. The ability of Questfire to arrange any such financing in the future will depend in part upon the prevailing capital market conditions, risk associated with the international operations, as well as the business performance of Questfire. Periodic fluctuations in energy prices may affect lending policies of Questfire's lenders for new borrowings, if available. This in turn could limit growth prospects in the short run or may even require Questfire to dedicate cash flow, dispose of properties or raise new equity to continue operations under circumstances of declining energy prices, disappointing drilling results, or economic or political dislocation in foreign countries. There can be no assurance that Questfire will be successful in its efforts to arrange additional financing on terms satisfactory to Questfire. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors. If additional financing is raised by the issuance of shares from treasury of Questfire, control of Questfire may change and shareholders may suffer additional dilution.

From time to time Questfire may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may temporarily increase Questfire's debt levels above industry standards.

Governmental Regulation

The oil and gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights, as well as with respect to prices, taxes, export quotas, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for oil and natural gas, increase Questfire's costs and have a material adverse effect on Questfire.

Changes in Legislation

The oil and natural gas industry in Alberta is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and Questfire will be unable to predict what additional legislation or amendments may be enacted. Amendments to current laws, regulations and permits governing operations and activities of oil and natural gas companies, including environmental laws and regulations which are evolving in Alberta, or more stringent implementation thereof, could have a material adverse impact on Questfire and cause increases in expenditures and costs, affect Questfire's ability to expand or transfer existing operations or require Questfire to abandon or delay the development of new oil and natural gas properties.

Also, Canadian federal and provincial tax laws and government incentive programs relating to the oil and gas industry have a material effect on the advisability of investing in Questfire Shares. The return on an investment in securities of Questfire is subject to changes in such laws and incentive programs and there can be no assurance that such laws or programs will not be changed in a manner which adversely affects Questfire or the holding or disposing of Resulting Issuer Shares.

Legal Proceedings

Questfire may be involved in litigation from time to time in the ordinary course of business and legal proceedings could be filed against Questfire in the future. No assumption can be given as to the final outcome of any legal proceedings or that the ultimate resolutions will not have a material adverse effect on Questfire.

Cost of New Technologies

The oil industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before Questfire does. There can be no assurance that Questfire will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by Questfire or implemented in the future may become obsolete. In such case, Questfire's business, financial condition and results of operations could be materially adversely affected. If Questfire is unable to utilize the most advanced commercially available technology, Questfire's business, financial condition and results of operations could be materially adversely affected.

Alternatives to/Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices will reduce the demand for crude oil and other liquid hydrocarbons. Questfire cannot predict the impact of changing demand for oil and natural

gas products and any major changes would have a material adverse effect on Questfire's business, financial condition, results of operations and cash flow.

Dependence on Key Personnel

The success of Questfire is dependent on the services of a number of members of senior management. The experience of these individuals will be a factor contributing to Questfire's continued success and growth. There is a risk that the death or departure of one or more of these individuals could have a material adverse effect on Questfire. The ability of Questfire to conduct its Alberta operations is also highly dependent on the availability of skilled workers.

Conflicts of Interest

There are potential conflicts of interest to which some of the directors and officers of Questfire will be subject in connection with the operations of Questfire. Some of the directors and officers are engaged and will continue to be engaged in the search for oil and natural 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 Questfire. Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with Questfire, to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Dividends

The future payment of dividends on Questfire Shares will be dependent upon the financial requirements of Questfire to finance future growth, the financial condition and other factors which Questfire Board may consider appropriate in the circumstances. Questfire intends to reinvest its earnings in growth of Questfire for the foreseeable future.

Exercise of Rights of First Refusal

Working interest partners will have rights of first refusal under operating agreements respecting certain of the Assets. It is not known at this time what portion of the Assets will ultimately be subject to exercise of such rights of first refusal by those working interest partners.

INFORMATION CONCERNING QUESTFIRE ENERGY CORP.

Name and Incorporation

Questfire Energy Corp. (the "Corporation" or "Questfire") was incorporated under the *Business Corporations Act* (Alberta) ("ABCA") on January 15, 2010 as 1512243 Alberta Ltd. The articles of incorporation were amended on July 16, 2010 to change the name of the Corporation to "Questfire Energy Corp.". The Articles were amended on August 24, 2011 to remove the private company restrictions, to reclassify the common shares as Class A Shares, and to create the Class B Shares. The registered office of the Corporation is located at Suite 1000, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1 and its head office is located at Suite 400, 703 - 6th Avenue S.W., Calgary, Alberta, T2P 0T9.

General Development of the Business

Three Year History

The Corporation was formed to operate in the Western Canadian Sedimentary Basin as an oil and gas exploration, development and production company.

The Corporation raised \$1,895,000 by private placement on November 25, 2010. The Corporation conducted limited operations prior to closing its initial public offering on October 18, 2011 raising gross proceeds of \$6,176,000. Questfire's Class A Shares and Class B Shares were listed and commenced trading on the TSX Venture Exchange on October 26, 2011 under the symbols "Q.A" and "Q.B".

The Corporation raised \$1,510,000 by private placement of the Questfire 2012 Debentures in June and July of 2012. The Corporation issued 302 units pursuant to the private placement, with each unit being comprised of one \$5,000 par value Questfire 2012 Debenture and 5,000 Warrants. The principal amount of each Questfire 2012 Debenture is convertible, in whole or in part, into Class A Shares at the option of the holder at any time prior to the close of business on June 30, 2014 at a conversion price of \$0.50 per Class A Share. Each Warrant entitles the holder thereof to acquire one Class A Share at a price of \$0.75 until June 30, 2014.

Questfire's focus area is W4 & W5 Alberta where it has acquired a 100 percent working interest in 18,535 acres acquired in 2010, 2011 and 2012.

As at March 31, 2013 the Corporation had six full-time employees.

Significant Acquisitions and Dispositions

The Corporation has not made any significant acquisitions or dispositions.

Corporate Strategy

The Corporation acquires interests in oil and gas exploration and development prospects primarily through internal generation and through its participation with industry partners.

The emphasis of the Corporation is to create sustainable and profitable growth in the oil and gas industry in western Canada. To accomplish this, Questfire pursues aggressive, yet focused, farm-ins, acquisitions, exploration, exploitation and development within its geographic focus area in West Central Alberta.

Questfire intends to explore for oil and gas primarily in the W4 and W5 Exploration Areas, and in other areas known to management in Alberta, and through other internally generated exploration and development activities. Management of Questfire has experience in oil and gas exploration in these areas and in other areas of Alberta.

In order to focus its exploration and development drilling programs, the Corporation intends to consider some or all of the following criteria prior to allocating capital to new projects:

- required capital and degree of risk relative to expected production rate and potential reserves volumes;
- quality of the anticipated production and reserves. The Corporation's exploration efforts are expected to be focused towards long-life, low-decline reserves with high reserve life indices;
- favourable payout and return on investment. The Corporation will strive to identify projects which have the ability to achieve payout in less than three years and have the ability to generate a return on investment of at least 15% per annum;
- availability and application of seismic to reduce risk. The Corporation intends to attempt to minimize risk by pursuing play types that are seismically supported;
- availability of operatorship or a good relationship with the operator in non-operated ventures;
- offset and trend land opportunities and the ability to expand the Corporation's holdings upon success; and
- target areas where infrastructure is available and accessible. The Corporation intends to target areas and opportunities where the time from drilling to production is expected to be less than six months.

It is important to recognize that exploration drilling involves substantial risk and no assurance can be given that drilling will prove successful in establishing commercially recoverable reserves. While the Corporation believes that it has the skills and resources necessary to achieve its objectives, participation in the exploration for and development of oil and natural gas has a number of inherent risks.

Strategic acquisitions of oil and gas properties which are synergistic to the Corporation's exploration focus will be a key component of the Corporation's future growth plan. Management has industry experience in a wide range of producing areas of Western Canada, in addition to its initial focus areas. Such diverse experience provides the capability to expand the scope of the Corporation's activities and opportunities through selective asset and corporate acquisitions. The Corporation intends to finance acquisitions through a combination of debt and equity. When reviewing potential participations or acquisitions, the Corporation will consider some or all of the following criteria:

- the opportunity must present identifiable and measurable upside, either through drilling, completions, reservoir management or production/facility optimization;
- producing properties should exhibit low decline and long reserves life, typically greater than six years;
- operatorship or the possibility of becoming operator;
- complementary to exploration efforts;
- ensuring facilities and infrastructure provide near-term market access, with capability of expansion to accommodate increased activity;
- required return on investment from acquired producing properties should be at least 15% per annum, with a recycle ratio greater than two; and
- all acquisitions should enhance the net asset value per share of the Corporation.
- In addition to the above criteria, in circumstances where the Corporation seeks to acquire assets of a material nature with proven reserves, prior to the investment decision being finalized, the Corporation intends to obtain an independent engineering report (whether from the vendor of such assets or otherwise) relating to such proven reserves.

As at the date of this Filing Statement, the authorized share capital of Questfire consists of an unlimited number of Class A Shares, an unlimited number of Class B Shares and an unlimited number of Preferred Shares, issuable in series, of which 12,813,001 Class A Shares and 555,840 Class B Shares are issued and outstanding.

The Class A Shares and Class B Shares will continue to be listed on the Exchange subsequent to the completion of the Transaction. The Class A Shares and Class B Shares were voluntarily halted on February 5, 2013 in anticipation of Questfire's announcement of the Transaction. On January 17, 2013, the most recent trading day prior to the halt

of the securities, the Class A Shares closed at \$0.50 per Class A Share and on January 16, 2013, the most recent trading day prior to the halt of the securities, the Class B Shares closed at \$1.40 per Class B Share.

For further information on the Transaction, see “*Information Regarding the Assets – General Information Concerning the Assets and the Transaction – The Purchase Agreement*”.

Financing Arrangements

Purchase Consideration

Purchase consideration will consist of \$40 million of cash, \$44 million of Debentures and 1.5 million Class B shares (at a deemed issue price per Class B Share of \$6.67). All customary closing adjustments between the effective date of November 1, 2012 and the closing date of the Transaction will be applied to the Debenture.

The Debentures

The Debentures will have a three-year term and will be secured but will be subordinate to the Credit Facilities. Interest will be payable quarterly in arrears at the following per annum rates commencing June 30, 2013:

- 6% for the period from Closing to April 30, 2014;
- 7% for the period from May 1, 2014 to April 30, 2015;
- 9% for the period from May 1, 2015 to maturity.

The Corporation may elect, from time to time, subject to applicable regulatory approval, to satisfy its obligation to pay interest on the Debentures (i) in cash; (ii) by delivering freely tradable Class A Shares to the debenture trustee, for sale, to satisfy the interest obligations in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable, from the proceeds of the sale of such Class A Shares; or (iii) any combination of (i) and (ii) above.

The Debentures will be convertible into Class A Shares at the 20 day volume-weighted average trading price at the option of the holder for a period of 30 days following the occurrence of any of the events listed below:

- (i) if the Corporation chooses to pay interest by delivering shares to the debenture trustee as described above;
- (ii) any event of default;
- (iii) any conversion by the Corporation of Class B Shares into Class A Shares;
- (iv) October 1, 2015;
- (v) April 1, 2016;
- (vi) upon the occurrence of a Change of Control; or
- (vii) other than a non-brokered financing of \$2 million or less, upon an equity financing by the Corporation whereby the holder of a Debenture has the option of conversion, up to a maximum of 50% of the total gross proceeds raised in the financing, unless mutually agreed to otherwise.

The Credit Facilities

Questfire will fund the cash portion of the purchase price by entering into the Credit Facilities.

The Corporation has signed an Indicative Term Sheet dated March 12, 2013 with National Bank of Canada providing for a revolving operating demand loan of \$60 million, with the initial draw at Closing not to exceed \$41 million. Advance of funds is subject to customary conditions including completion of security documentation, satisfactory evidence of title, completion of the Transaction, and additional financing for the Transaction by way of the Debenture.

The bank is required to syndicate the transaction by June 21, 2013 and the first periodic review will be scheduled for June 1, 2013.

The Corporation will be required to maintain a working capital ratio of 1:1. Working capital ratio for this purpose is defined as current assets (including undrawn availability under the credit facility and excluding any unrealized hedging gains) to current liabilities (excluding bank debt, subordinate debt, and any unrealized hedging losses).

The Corporation has retained the services of National Bank Financial Inc. to provide analysis of the Transaction and advice in connection with the market and mergers and acquisitions. The Corporation intends to provide National Bank Financial Inc. a commission of \$200,000 for such services, which is contingent upon Questfire entering into the Credit Facilities and closing of the Transaction.

Statement of Reserves Data and Other Oil and Gas Information

The Corporation has prepared a Statement of Reserves Data and Other Oil and Gas Information effective December 31, 2011, the Report of Independent Qualified Reserves Evaluator, namely, GLJ, dated February 21, 2012 and the Report of Management and Directors dated March 13, 2012. Each of these are available on SEDAR at www.sedar.com and are incorporated by reference herein.

Selected Financial Information

Questfire is a “reporting issuer” pursuant to applicable securities legislation in the provinces of Alberta, British Columbia and Ontario. For a detailed description of Questfire’s financial information, see the Questfire Financial Statements attached hereto as Schedule “F”.

Year ended December 31

Balance Sheet Data as at December 31,	2011 (\$)	2010 (\$)
Total assets	8,643,419	1,873,185
Cash	4,473,765	1,501,562
Working capital ⁽¹⁾	2,725,558	1,477,652
Periods ended December 31,	2011	2010
Revenues	Nil	Nil
Expenses	811,126	58,252
Net loss and comprehensive loss for the year	847,724	56,693
Basic and diluted loss per common share	0.08	0.06

Nine Months ended September 30

Balance Sheet Data as at September 30,	2012 (\$)	2011 (\$)
Total assets	6,390,508	1,796,508
Cash	954,613	633,203
Working capital ⁽¹⁾	697,550	295,330
Nine Months ended September 30,	2012	2011
Revenue	296,167	Nil
Expenses	2,585,817	458,497
Net loss and comprehensive loss for the period	2,134,276	429,077
Basic and diluted loss per common share	0.17	0.05

(1) Working capital excludes flow-through share premium

Management's Discussion and Analysis

The management's discussion and analysis of Questfire for the year ended December 31, 2011 and for the period ended September 30, 2012 are available on SEDAR at www.sedar.com and are incorporated by reference herein. The management's discussion and analysis should be read in conjunction with the Questfire Financial Statements available on SEDAR at www.sedar.com and incorporated by reference herein.

Description of Securities

Class A Shares

The Corporation is authorized to issue an unlimited number of Class A Shares. As at the date hereof, there are 12,813,001 Class A Shares issued and outstanding. The holders of Class A Shares are entitled to dividends if, as and when declared by the board of directors of the Corporation pro-rata with the Class B Shares; to one vote per share at any meeting of the shareholders of the Corporation; and upon liquidation to receive all assets of the Corporation as are distributable to the holders of shares.

Class B Shares

The Corporation is authorized to issue an unlimited number of Class B Shares. As at the date hereof, there are 555,840 Class B Shares issued and outstanding. The holders of Class B Shares are entitled to dividends, if, as and when declared by the board of directors of the Corporation, pro-rata with the Class A Shares (based upon the number of Class A Shares into which the Class B Shares are convertible), to one vote per Share at any meeting of the Shareholders of the Corporation and upon liquidation will convert to Class A Shares and thereby be entitled to receive all assets of the Corporation as are distributable to the holders of shares.

The Class B Shares will be convertible, at the option of the Corporation, at any time after September 30, 2014 and on or before November 30, 2016, into Class A Shares. The number of Class A Shares obtained upon conversion of each Class B Share will be equal to \$10.00 divided by the greater of \$1.00 and the Current Market Price of the Class A Shares at the effective date of conversion.

If the Corporation fails to exercise the option to convert the Class B Shares into Class A Shares by the close of business on November 30, 2016, then the Class B Shares shall be convertible, at the option of the shareholder, at any time on or after December 1, 2016 and on or before December 31, 2016 into Class A Shares. The number of Class A Shares obtained upon conversion of each Class B Share will be equal to \$10.00 divided by the greater of \$1.00 and the Current Market Price of the Class A Shares at the effective date of conversion. Any Class B Shares

outstanding at the close of business on December 31, 2016 shall be automatically converted into Class A Shares. The number of Class A Shares obtained upon conversion of each Class B Share will be equal to \$10.00 divided by the greater of \$1.00 and the Current Market Price of the Class A Shares at the effective date of conversion.

The conversion option may be exercised by shareholders by notice in writing given to the transfer agent of the Corporation accompanied by the share certificate or certificates, if any, representing the Class B Shares in respect of which the holder desires to exercise such conversion privilege.

Questfire 2012 Debentures

The Corporation raised \$1,510,000 by private placement of the units in June and July of 2012. The Corporation issued 302 units pursuant to the private placement, with each unit being comprised of one \$5,000 par value Questfire 2012 Debenture and 5,000 Warrants. The principal amount of each Questfire 2012 Debenture is convertible, in whole or in part, into Class A Shares at the option of the holder at any time prior to the close of business on June 30, 2014 at a conversion price of \$0.50 per Class A Share.

Warrants

The Corporation raised \$1,510,000 by private placement of the units in June and July of 2012. The Corporation issued 302 units pursuant to that private placement, with each unit being comprised of one \$5,000 par value Questfire 2012 Debenture and 5,000 Warrants. Each Warrant entitles the holder thereof to acquire one Class A Share at a price of \$0.75 until June 30, 2014.

Debentures

See “*Information Concerning Questfire Energy Corp. – Financing Arrangements – The Debentures*”.

Preferred Shares

The Corporation is authorized to issue an unlimited number of preferred shares, issuable in series, having such rights, restrictions, conditions and limitations as the board of directors of the Corporation may from time to time determine. The preferred shares shall rank senior to the Class A Shares and Class B Shares with respect to the payment of dividends or distributions of assets or return of capital of the Corporation in the event of a dissolution, liquidation or winding-up of the Corporation. No preferred shares are presently issued and outstanding.

Option Plan

On August 30, 2011, the directors of the Corporation adopted the Option Plan which was approved by the shareholders of the Corporation at the annual meeting on June 7, 2012.

The Plan shall be administered by the Board of Directors of the Corporation, or if appointed, by a special committee of directors appointed from time to time by the Board of Directors. The aggregate number of Shares which may be reserved for issuance under the Plan shall not exceed 10% of the Corporation's issued and outstanding Shares. The number of Shares subject to an option to a participant shall be determined by the Board, but no participant shall be granted an option which exceeds the maximum number of shares permitted by any stock exchange on which the Shares are then listed, or other regulatory body having jurisdiction and no one participant is permitted to hold options entitling such participant to purchase more than 5% of the issued and outstanding Class A Shares. The exercise price of the Shares covered by each option shall be determined by the Board, provided however, that the exercise price shall not be less than the price permitted by any stock exchange on which the Shares are then listed, or other regulatory body having jurisdiction. The maximum length any option shall be ten (10) years from the date the option is granted, provided that participant's options expire ninety (90) days after a participant ceases to act for the Corporation, subject to extension at the discretion of the Board, except upon the death of a participant, in which case the participant's estate shall have twelve (12) months in which to exercise the outstanding options. The Plan includes a provision that should an option expiration date fall within a blackout period or immediately following a

blackout period, the expiration date will automatically be extended for ten (10) business days following the end of the blackout period. The Board of Directors has the absolute discretion to amend or terminate the Plan.

Voting Shares and Principal Holders Thereof

As at the date of this Filing Statement, 12,813,001 Class A Shares and 555,840 Class B Shares were issued and outstanding, each such share carrying the right to one vote on a ballot at a meeting of Class A Shareholders.

To the knowledge of the directors and senior officers of Questfire, as at the date of this Filing Statement, no Person or company beneficially owned, directly or indirectly, or exercised control or direction over, voting securities of Questfire carrying more than 9.9% of the voting rights attached to any class of voting securities of Questfire.

Prior Sales

During the 12 months prior to the date of this Filing Statement, Questfire has issued the following securities:

Date	Number of Securities Issued/Issuable	Type of Securities of Questfire	Issue Price
June 28, 2012	297	Questfire 2012 Debentures ⁽¹⁾	\$5,000
June 28, 2012	1,485,000	Warrants ⁽²⁾	n/a
July 5, 2012	5	Questfire 2012 Debentures ⁽¹⁾	\$5,000
July 5, 2012	25,000	Warrants ⁽²⁾	n/a

Notes:

1. Issued pursuant to the non-brokered private placement of units at a price of \$5,000 per unit, each being comprised of one \$5,000 par value Questfire 2012 Debenture and 5,000 Warrants. The principal amount of each Questfire 2012 Debenture is convertible, in whole or in part, into Class A Shares at the option of the holder at any time prior to the close of business on June 30, 2014 at a conversion price of \$0.50 per Class A Share. See *"Information Concerning Questfire Energy Corp. – Description of Securities – Questfire 2012 Debentures"*.
2. Issued pursuant to the non-brokered private placement of units at a price of \$5,000 per unit, each being comprised of one \$5,000 par value Questfire 2012 Debenture and 5,000 Warrants. Each Warrant entitles the holder thereof to acquire one Class A Share at a price of \$0.75 until June 30, 2014. See *"Information Concerning Questfire Energy Corp. – Description of Securities – Warrants"*.

Stock Exchange Price

The following table sets forth the price ranges and volume traded for the Class A Shares on a monthly basis for each month or part month, as applicable, for the current quarter and the immediately preceding quarter, and on a quarterly basis for the next preceding seven quarters.

Period Covered	High (\$)	Low (\$)	Volume
Q1, 2013			
January 2013	0.70	0.50	5,000
February 2013 ⁽¹⁾	-	-	0
March 2013 ⁽¹⁾	-	-	0
Q4, 2012			
December 2012	-	-	0
November 2012	-	-	0
October 2012	-	-	0
Q3 2012	0.50	0.45	17,500
Q2 2012	0.90	0.40	16,500
Q1 2012	1.20	0.88	23,073
Q4 2011 ⁽²⁾	1.25	0.30	72,500

Notes:

1. On February 5, 2012 Questfire voluntarily halted trading pending announcement of the Transaction. The Transaction was announced on February 6, 2012.
2. The shares commenced trading on the TSXV on October 26, 2011.

The following table sets forth the price ranges and volume traded for the Class B Shares on a monthly basis for each month or part month, as applicable, for the current quarter and the immediately preceding quarter, and on a quarterly basis for the next preceding seven quarters.

Period Covered	High (\$)	Low (\$)	Volume
Q1, 2013			
January 2013	1.75	1.40	900
February 2013 ⁽¹⁾	-	-	0
March 2013 ⁽¹⁾	-	-	0
Q4, 2012			
December 2012	1.75	1.75	7,500
November 2012	2.20	2.10	300
October 2012	-	-	0
Q3 2012	2.20	2.00	1,550
Q2 2012	3.00	2.00	2,300
Q1 2012	4.00	3.50	2,700
Q4 2011⁽²⁾	4.35	3.50	8,500

Notes:

1. On February 5, 2012 Questfire voluntarily halted trading pending announcement of the Transaction. The Transaction was announced on February 6, 2012.
2. The shares commenced trading on the TSXV on October 26, 2011.

COMPENSATION OF DIRECTORS AND OFFICERS

In this section, “Named Executive Officer” (“**NEO**”) means each of the following individuals:

- (a) a Chief Executive Officer (“**CEO**”);
- (b) a Chief Financial Officer (“**CFO**”);
- (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000 for that financial year; and
- (d) each individual who would be a NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Resulting Issuer, nor acting in a similar capacity, as at September 30, 2012.

Executive Compensation

Compensation Discussion and Analysis

The compensation program of the Corporation is designed to attract, motivate, reward and retain knowledgeable and skilled executives required to achieve the Corporation’s corporate objectives and increase shareholder value. The main objective of the compensation program is to recognize the contribution of the executive officers to the overall

success and strategic growth of the Corporation. The compensation program is designed to reward management performance by aligning a component of the compensation with the Corporation's business performance and share value. The philosophy of the Corporation is to pay the management a total compensation amount that is competitive with other Canadian junior resource companies and is consistent with the experience and responsibility level of the management. The purpose of executive compensation is to reward the executives for their contributions to the achievements of the Corporation on both an annual and long term basis.

The compensation program provides incentives to its management and directors to achieve long term objectives through grants of stock options under the Corporation's stock option plan. Increasing the value of the Corporation's Shares increases the value of the stock options. This incentive closely links the interests of the Named Executive Officers (as defined below) and directors to shareholders of the Corporation.

The Board of Directors is satisfied that there were not any identified risks arising from the Corporation's compensation plans or policies that would have had any negative or material impact on the Corporation. The Corporation does not have any policy in place to permit an executive officer or director to purchase financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the executive officer or director.

Option-based Awards

The Board of Directors granted an aggregate of 1,281,000 stock options to directors, officers and consultants during the financial year ended December 31, 2011. The Corporation took into account the number of outstanding options in determining the grant of options in 2011.

The allocation of the number of options granted among the directors and Named Executive Officers (as defined below) of the Corporation is determined by the entire Board of Directors. See "*Compensation of Directors and Officers – Compensation Governance – Incentive Plan Awards*" and "*Compensation of Directors and Officers – Director Compensation – Incentive Plan Awards*".

Compensation Governance

The following are the members of the Corporate Governance and Compensation Committee, as at the date hereof:

John Ramescu	Not Independent
Neil I. Dell	Independent
Roger O. MacLeod	Independent

All members of the Corporate Governance and Compensation Committee are knowledgeable about the Corporation's compensation programs and possess an understanding of compensation theory and practice, personnel management and development, succession planning and executive development. In addition, all members are "financially literate" within the meaning of National Instrument 52-110 and have accounting or related financial management experience or expertise.

The responsibilities of the Corporate Governance and Compensation Committee in respect of compensation matters include reviewing and recommending to the Board of Directors the compensation policies and guidelines for supervisory management and personnel, corporate benefits, bonuses and other incentives, reviewing and approving corporate goals and objectives relevant to Chief Executive Officer compensation; non-CEO officer and director compensation; the review of executive compensation disclosure; succession plans for officers and for key employees; and material changes and trends in human resources policy, procedure, compensation and benefits. The responsibilities of the Corporate Governance and Compensation Committee in respect of corporate governance matters include addressing all governance issues identified by securities regulators and any additional issues as they

arise by virtue of the operations and growth of the Corporation as being emerging progressive issues of corporate governance.

The Corporate Governance and Compensation Committee has unrestricted access to the Corporation's personnel and documents and is provided with the resources necessary, including, as required, the engagement and compensation of outside advisors, to carry out its responsibilities.

Summary Compensation Table

The following table sets forth all annual and long term compensation for the three most recently completed financial years for services in all capacities to the Corporation and its subsidiaries, if any, in respect of individual(s) who were acting as, or were acting in a capacity similar to, a chief executive officer or chief financial officer and the three most highly compensated executive officers whose total compensation exceeded \$150,000 per annum (the "Named Executive Officers").

The Corporation has disclosed information regarding an additional four executive officers, other than the chief executive officer and chief financial officer, rather than an additional three executive officers because the four executive officers disclosed receive identical compensation.

For the nine month period ended September 30, 2012, each of the officers listed in the table below received salary compensation totaling \$93,750 and other compensation totaling \$352.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year Ended December 31	Consulting Fees/Salary (\$)	Share-Based Awards (\$) ⁽¹⁾	Option-Based Awards (\$) ⁽²⁾	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$) ⁽³⁾
					Annual Incentive Plans	Long-Term Incentive Plans			
Richard H. Dahl President and Chief Executive Officer	2011	62,500	Nil	23,618	Nil	Nil	Nil	178	86,296
	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Darren Kisser V.P., Engineering and Operations	2011	62,500	Nil	23,618	Nil	Nil	Nil	178	86,296
	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Alfred J. (Fred) Laudel V.P., Exploration	2011	62,500	Nil	23,618	Nil	Nil	Nil	178	86,296
	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
John Ramescu V.P., Land	2011	62,500	Nil	23,618	Nil	Nil	Nil	156	86,274
	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Bruce K. Shepard V.P., Exploitation	2011	62,500	Nil	23,618	Nil	Nil	Nil	178	86,296
	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Ronald A.	2011	62,500	Nil	23,618	Nil	Nil	Nil	178	86,296

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year Ended December 31	Consulting Fees/Salary (\$)	Share-Based Awards (\$) ⁽¹⁾	Option-Based Awards (\$) ⁽²⁾	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$) ⁽³⁾
					Annual Incentive Plans	Long-Term Incentive Plans			
Williams	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Chief Financial Officer and V.P., Finance	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

1. “**Share-Based Award**” means an award under an equity incentive plan of equity-based instruments that do not have option-like features, including, for greater certainty, Shares, restricted shares, restricted share units, deferred share units, phantom shares, phantom share units, Share equivalent units and stock.
2. “**Option-Based Award**” means an award under an equity incentive plan of options, including, for greater certainty, share options, share appreciation rights and similar instruments that have option-like features. The “grant date fair value” has been determined by using the Black-Scholes option pricing model. See “*Compensation of Directors and Officers – Compensation Governance – Narrative Discussion*”.
3. Mr. Dahl and Mr. Ramescu did not receive any additional compensation for serving as directors of the Corporation.

Narrative Discussion

Calculating the value of stock options using the Black-Scholes option pricing model is very different from a simple “in-the-money” value calculation. In fact, stock options that are well out-of-the-money can still have a significant “grant date fair value” based on a Black-Scholes option pricing model, especially where, as in the case of the Corporation, the price of the share underlying the option is highly volatile. Accordingly, caution must be exercised in comparing grant date fair value amounts with cash compensation or an in-the-money option value calculation.

Incentive Plan Awards

Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth details of all awards outstanding for each Named Executive Officer of the Corporation as of the most recent financial year end, including awards granted before the most recently completed financial year. For the nine month period ended September 30, 2012, neither of the officers listed in the table below received any additional awards.

Name and Title	Option-Based Awards				Share-Based Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of Unexercised in-the-money Option ⁽¹⁾ (\$)	Number of Shares or Units of Shares that have not vested (#)	Market or Payout Value of Share-Based Awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Richard H. Dahl President and Chief Executive Officer	150,000	\$0.20	October 18, 2021	\$120,000	N/A	N/A	N/A
Darren Kisser V.P., Engineering and Operations	150,000	\$0.20	October 18, 2021	\$120,000	N/A	N/A	N/A

Alfred J. (Fred) Laudel V.P., Exploration	150,000	\$0.20	October 18, 2021	\$120,000	N/A	N/A	N/A
John Ramescu V.P., Land	150,000	\$0.20	October 18, 2021	\$120,000	N/A	N/A	N/A
Bruce K. Shepard V.P., Exploitation	150,000	\$0.20	October 18, 2021	\$120,000	N/A	N/A	N/A
Ronald A. Williams Chief Financial Officer and V.P., Finance	150,000	\$0.20	October 18, 2021	\$120,000	N/A	N/A	N/A

Note:

- Unexercised "in-the-money" options refer to the options in respect of which the market value of \$1.00 of the underlying securities as at the financial year end of December 31, 2011 exceeds the exercise or base price of the option.

None of the awards disclosed in the table above have been transferred at other than fair market value.

Incentive Plan Awards - Value Vested or Earned During the Year

The following table sets forth the value of option-based awards and share-based awards which vested or were earned during the most recently completed financial year for each Named Executive Officer. For the nine month period ended September 30, 2012, the value of Option-Based Awards, vested Share-Based Awards and earned Share-Based Awards for each of the officers listed in the table below was nil, N/A and N/A, respectively.

Name and Title	Option-Based Awards - Value vested during the year (\$)⁽¹⁾	Share-Based Awards - Value vested during the year (\$)	Non-Equity Incentive Plan Compensation - Value earned during the year (\$)
Richard H. Dahl President and Chief Executive Officer	0	N/A	N/A
Darren Kisser V.P., Engineering and Operations	0	N/A	N/A
Alfred J. (Fred) Laudel V.P., Exploration	0	N/A	N/A
John Ramescu V.P., Land	0	N/A	N/A
Bruce K. Shepard V.P., Exploitation	0	N/A	N/A
Ronald A. Williams Chief Financial Officer and V.P., Finance	0	N/A	N/A

Note:

- Based in the difference between the market price of the options at the vesting date and the exercise price.

Narrative Discussion

On August 30, 2011, the directors of the Corporation adopted the Option Plan which was approved by the shareholders of the Corporation at the annual meeting on June 7, 2012. For a description of the significant terms of the Option Plan, see “*Information Concerning Questfire Energy Corp. – Option Plan*”.

Pension Plan Benefits

The Corporation does not have in place any deferred compensation plan or pension plan that provides for payments or benefits at, following or in connection with retirement.

Termination and Change of Control Benefits

The Corporation is not a party to any contract, agreement, plan or arrangement that provides for payments to a Named Executive Officer at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Corporation, its subsidiaries or affiliates or a change in a Named Executive Officer’s responsibilities.

Director Compensation

The Corporation currently has four (4) directors, two (2) of which (Richard H. Dahl and John Ramescu) are also Named Executive Officers. For a description of the compensation paid to the Named Executive Officers of the Corporation who also act as directors of the Corporation, see “*Compensation of Directors and Officers – Compensation Governance*”.

Director Compensation Table

The following table sets forth all compensation provided to directors who are not also Named Executive Officers (“**Outside Directors**”) of the Corporation for the most recently completed financial year. For the nine month period ended September 30, 2012, the directors listed below did not receive any compensation from the Corporation.

Name	Fees Earned (\$)	Share- Based Awards \$(⁽¹⁾)	Option- Based Awards \$(⁽²⁾)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
Roger MacLeod	Nil	Nil	11,809	Nil	Nil	Nil	11,809
Neil I. Dell	Nil	Nil	11,809	Nil	Nil	Nil	11,809

Notes:

1. “**Share-Based Award**” means an award under an equity incentive plan of equity-based instruments that do not have option-like features, including, for greater certainty, Shares, restricted shares, restricted share units, deferred share units, phantom shares, phantom share units, Share equivalent units and stock.
2. “**Option-Based Award**” means an award under an equity incentive plan of options, including, for greater certainty, share options, share appreciation rights and similar instruments that have option-like features. The “grant date fair value” has been determined by using the Black-Sholes option pricing model.

Incentive Plan Awards

Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth details of all awards outstanding for each Outside Director of the Corporation as of the most recent financial year end, including awards granted before the most recently completed financial year. For the

nine month period ended September 30, 2012, the directors listed below did not receive any Option-Based Awards or Share-Based Awards from the Corporation.

Name	Option-Based Awards				Share-Based Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of Unexercised in-the-money Option ⁽¹⁾ (\$)	Number of Shares or Units of Shares that have not vested (#)	Market or Payout Value of Share-Based Awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Roger MacLeod	75,000	\$0.20	October 18, 2021	\$60,000	N/A	N/A	N/A
Neil I. Dell	75,000	\$0.20	October 18, 2021	\$60,000	N/A	N/A	N/A

Notes:

1. Unexercised "in-the-money" options refer to the options in respect of which the market value of \$1.00 of the underlying securities as at the financial year end of December 31, 2011 exceeds the exercise or base price of the option.

None of the awards disclosed in the table above have been transferred at other than fair market value.

Incentive Plan Awards - Value Vested or Earned During the Year

The following table sets forth the value of option-based awards and share-based awards which vested or were earned during the most recently completed financial year for Outside Directors of the Corporation. For the nine month period ended September 30, 2012, the value of Option-Based Awards, vested Share-Based Awards and earned Share-Based Awards for each of the officers listed in the table below was nil, N/A and N/A, respectively.

Name	Option-Based Awards - Value vested during the year (\$) ⁽¹⁾	Share-Based Awards - Value vested during the year (\$)	Non-Equity Incentive Plan Compensation - Value earned during the year (\$)
Roger MacLeod	0	N/A	N/A
Neil I. Dell	0	N/A	N/A

Note:

1. Based in the difference between the market price of the options at the vesting date and the exercise price.

Other Compensation

Other than as set forth herein, the Corporation did not pay any other compensation to executive officers or directors (including personal benefits and securities or properties paid or distributed which compensation was not offered on the same terms to all full time employees) during the last completed financial year other than benefits and perquisites which did not amount to \$10,000 or greater per individual.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth securities of the Corporation that are authorized for issuance under equity compensation plans as at the end of the Corporation's most recently completed financial year.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding outstanding securities reflected in Column 1)⁽¹⁾
Equity compensation plans approved by securityholders	1,281,000 Shares	\$0.20 per Share	55,884 Shares
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
Total	1,281,000 Shares	\$0.20 per Share	55,884 Shares

Note:

1. The aggregate number of Shares that may be reserved for issuance under the Plan shall not exceed 10% of the Corporation's issued and outstanding shares.

Arm's Length Transaction

The proposed Transaction is an Arm's Length Transaction.

Indebtedness of Directors and Officers

No individual who is, or at any time during the most recently completed financial year of Questfire was, a director, executive officer, or senior officer of Questfire, nor any proposed nominee for election as a director of Questfire, nor any associate of any one of them:

- (a) is, or at any time since the beginning of the most recently completed financial year of Questfire has been, indebted to Questfire or any of its subsidiaries; or
- (b) was indebted to another entity, which such indebtedness is, or was at any time during the most recently completed financial year of Questfire, the subject of a guarantee, support agreement, letter of credit, or other similar arrangement or understanding provided by Questfire or any of its subsidiaries.

Legal Proceedings

Management knows of no legal proceedings, contemplated or actual, involving Questfire which could materially affect Questfire.

Material Contracts

Except for contracts entered into by Questfire in the ordinary course of business or otherwise disclosed herein, the only material contracts entered into or to be entered into by Questfire which can reasonably be regarded as presently material are the following:

1. the Purchase Agreement;
2. the Credit Facilities; and
3. the Debenture Indenture.

Copies of the above agreements may be inspected during regular business hours at the registered office of Questfire at Suite 400, 703 – 6th Ave SW, Calgary, Alberta T2P T2P 0C9, until the Closing of the Transaction and for a period of thirty days thereafter.

Auditors and Transfer Agent

The auditors of Questfire are Collins Barrow Calgary LLP, 1400, 777 – 8th Ave. S.W., Calgary AB T2P 3R5.

Olympia Trust Company, at its principal office in Calgary, Alberta, is the registrar and transfer agent for the Class A Shares and the Class B Shares and the Trustee under the indenture for the Questfire 2012 Debentures.

Additional Information

Additional information relating to Questfire may be found on SEDAR at www.sedar.com including additional financial information which is provided in the Questfire Financial Statements and management's discussion and analysis for its most recently completed financial year. Shareholders may contact Questfire at any time to receive a copy of the Questfire Financial Statements and management's discussion and analysis for its most recently completed financial year, all of which is incorporated by reference in this Filing Statement. Any such request should be made to Ronald Williams, Vice President, Finance and Chief Financial Officer of Questfire, Suite 400, 703 - 6th Avenue S.W., Calgary, Alberta, T2P 0T9 and facsimile (403) 262-9887.

INFORMATION CONCERNING THE ASSETS

General Information Concerning the Assets and the Transaction

The Transaction

On November 29, 2012 Questfire and Advantage entered into a non-binding letter of intent regarding a possible purchase of certain oil and gas assets. Questfire commenced due diligence and on December 13, 2012 the letter of intent was amended to, among other things, provide for a revised schedule of assets to be purchased.

On February 5, 2013, Questfire and Advantage entered into the definitive Purchase Agreement pursuant to which the Parties agreed Questfire would acquire the Assets. On March 12, 2013 the parties amended the Purchase Agreement to provide for the current terms.

In connection with closing of the Transaction Questfire will pay \$40 million of cash and will issue to Advantage the Debenture and 1.5 million Class B shares. All customary closing adjustments between the effective date of November 1, 2012 and the closing date of the Transaction will be applied to the Debenture.

Terms of the Debentures

See “*Information Concerning Questfire Energy Corp. – Financing Arrangements – The Debentures*”.

The Purchase Agreement

The Transaction is to be effected in accordance with the terms of the Purchase Agreement. The Purchase Agreement is attached hereto as Schedule “A”. Closing of the Transaction is subject to a number of terms and conditions including receipt of any and all necessary approvals. Closing is scheduled to occur on April 30, 2013, or any other Business Day as Questfire and Advantage may agree.

The Purchase Agreement contains certain customary representations and warranties of each of Questfire and Advantage. In addition, Advantage has agreed, among other things, to maintain and operate the Assets in a reasonable and prudent manner until the Closing Time. The respective obligations of each of Questfire and Advantage to complete the purchase and sale of the Assets are subject to the satisfaction of a number of conditions including, but not limited to: the accuracy of representations and warranties at the Closing Time; the receipt of required approvals pursuant to the *Competition Act* (Canada); the receipt of TSX Venture Exchange approval for the Transaction and the issuance of the Debenture and the Class B shares; no material change to the Assets prior to the Closing Time (subject to certain exceptions contained in the Purchase Agreement); no orders, decrees or rulings issued by a Governmental Authority or actions taken restraining, enjoining or otherwise prohibiting the completion of the Transaction which has not been vacated or dismissed prior to the Closing Time; the execution of a governance agreement giving Advantage the right to designate one representative, such representative to be agreed to by the Purchaser, acting reasonably, to be appointed to the board of directors of Questfire for the period of time commencing at the Closing Time and ending on the date that the principal amount of the Debenture and accrued interest thereon is paid in full by the Purchaser; and the delivery of the agreements, certificates and other instruments and documents required to be delivered at the Closing Time pursuant to the Purchase Agreement. If any of the conditions precedent to completion of the Transaction have not been satisfied, complied with or waived by Questfire or Advantage, as applicable, at or before the Closing Time, then Questfire or Advantage, as applicable, may terminate the Purchase Agreement by written notice to the other party prior to the Closing Time stating the reason for termination.

Pursuant to the Purchase Agreement, Advantage and the Purchaser have agreed to indemnify each other for certain matters relating to the Purchase Agreement and the Assets including breaches of representations and warranties and certain obligations related to the Assets, as more particularly described in the Purchase Agreement. Completion of

the proposed transaction is subject to a number of conditions including, without limitation, approval of the TSX Venture Exchange.

Reserves Data and Other Oil and Gas Information

Sproule Associates Limited ("**Sproule**") has prepared a consolidated statement of reserves data and other oil and gas information for AOG effective December 31, 2011 which was prepared March 9, 2012 and was filed on SEDAR with the Advantage Annual Information Form dated March 23, 2012 (the "**Sproule 2011 Report**"). At the request of Advantage, Sproule has prepared the Sproule Report, being a computer recalculation of the Sproule 2011 Report which isolates only the Assets being purchased by Questfire and utilizes the Sproule August 31, 2012 price forecasts for all products. A summary of the reserves data and other oil and gas information from the Sproule Report is attached hereto as Schedule "D".

Selected Financial Information

For a detailed description of the financial information related to the Assets, see the Asset Financial Statements attached hereto as Schedule "C". The Asset Financial Statements have neither been audited nor reviewed by the Corporation's auditors or the auditors of the Vendor.

Year ended December 31

Operating Statement Data for the Periods Ended December 31,	Neither Audited nor Reviewed		
	2012 (\$)	2011 (\$)	2010 (\$)
Petroleum and Natural Gas Revenue	52,299,841	85,866,318	104,582,238
Royalties	(5,639,079)	(12,399,796)	(15,417,626)
Operating and Transportation Expenses	(27,877,820)	(34,711,904)	(37,143,186)
Operating Income	18,782,942	38,754,618	52,021,426

Nine Months ended September 30

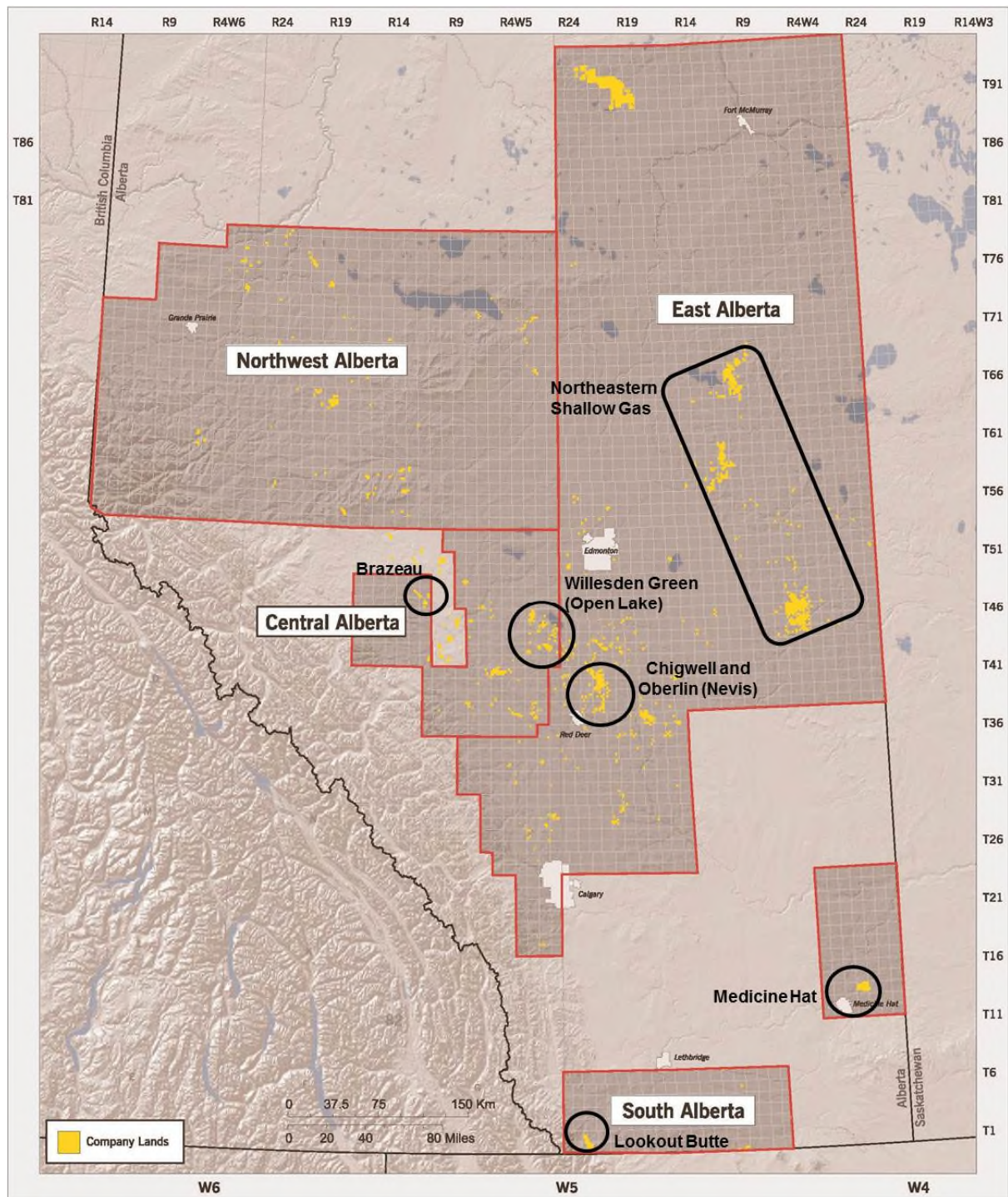
Operating Statement Data for Nine Months Ended September 30,	Neither Audited nor Reviewed	
	2012 (\$)	2011 (\$)
Petroleum and Natural Gas Revenue	37,473,913	66,094,844
Royalties	(3,903,436)	(10,000,282)
Operating and Transportation Expenses	(20,970,215)	(25,131,262)
Operating Income	12,600,262	30,963,300

Description of the Assets

The properties are spread geographically throughout the Western Canadian Sedimentary Basin. This sedimentary basin covers a large portion of the four western Canadian provinces, with all of Corporation's properties concentrated in Alberta. These properties produce from a variety of various aged geological formations and reservoirs. The Corporation operates over 75% of its properties, which allows the Corporation to control the nature and timing of the capital investments necessary to maximize the potential in developing these assets.

The properties can be divided on the broad basis of commodity and of production type. Light or medium gravity oil and natural gas liquids account for 20% of Total Current Production and 17% of gross proved reserves, and natural gas accounts for 80% of Total Current Production and 83% of gross proved reserves.

The following map shows the geographic dispersion of the Assets in Alberta.



Property Descriptions

Southern Alberta

Lookout Butte, Alberta

The Lookout Butte property is located approximately 90 kilometres southwest of Lethbridge, Alberta. Production occurs primarily from the Mississippian Rundle Formation where natural gas has been trapped in a foothills overthrust structure in front of Waterton Park. AOG has a 100% working interest in the Rundle gas production. Production began in 1963 and production decline is low at approximately 12% per year. A well drilled in 2004 in the southern portion of the pool when shut in exhibits significant pressure recharge from undrained reserves beneath adjacent Waterton and Glacier National parks. The property includes a 100% operated working interest plant and associated gas gathering system which dehydrates the gas before final processing at Shell's Waterton gas plant. Production from this field at year end 2012 was 1,037 boe/d.

The Sproule Report assigns 25.9 bcf of gross proved natural gas reserves and 1008.6 Mbbls of gross proved crude oil and NGL reserves to Lookout Butte. In addition, 11.4 bcf of gross probable natural gas reserves and 452.8 Mbbls of gross probable crude oil and NGL reserves have been assigned to this property.

Medicine Hat, Alberta

The Medicine Hat property lies 20 kilometres northeast of the City of Medicine Hat in the heart of the south-eastern shallow gas area. AOG has a 100% working interest in 24 sections of land from where production is taken from all of the main shallow gas producing formations including the Medicine Hat "A", "C" and "D" sands, as well as both the Upper and Lower Milk River sands. These sands occur at approximately 500 metres of depth and typical of shallow gas, these sands are resource plays which require a large number of wells to extract the very large in place reserves at relatively low per well production rates. As a result, they have a long production life (long reserve life index or "**RLI**"). The wells are gathered by an extensive network of low pressure pipelines which feed into large central gas compression facilities. This property has been downspaced and co-mingled to allow for multiple gas wells per section from multiple producing horizons per well bore. Current production from this property averaged 810 boe/d or 4.9 MMcf/d of gas production.

The Sproule Report assigns 23.1 bcf of gross proved natural gas reserves to the Medicine Hat property. In addition, 11.7 bcf of gross probable natural gas reserves have been assigned to this property.

West Central Alberta

Willesden Green (Open Lake), Alberta

Willesden Green property is located approximately 35 kilometres north of the Town of Rocky Mountain House. There are two principle areas in this property, being the Jurassic Rock Creek gas play on the east side of the property and the Cretaceous Ostracod/Glaucinite oil on the north side of the property. The Rock Creek is a mixed lithology reservoir in which liquids rich gas is trapped stratigraphically in individual lenses of sand. 3D seismic is used to explore for this porosity and a number of future targets have been identified. The Ostracod is developed in a linear sand bar and produces 39°API oil. Additional drilling targeting both the Second White Specks and Glaucinite are being evaluated. Current production from this area was 695 boe/d.

The Sproule Report assigns 3.2 bcf of gross proved natural gas reserves and 378 Mbbls of gross proved crude oil and NGL reserves to the Willesden Green property. In addition, 1.5 bcf of gross probable natural gas reserves and 181 Mbbls of gross probable crude oil and NGL reserves have been assigned to this property.

Brazeau, Alberta

The Brazeau area is located between 50 and 80 kilometres west of the town of Drayton Valley. The property produces sour light oil and natural gas from Devonian aged Nisku pinnacle reefs. The majority of the production is from a non-operated 50% working interest in the Nisku C, D and E pools. Additional gas production occurs from several non-operated Rock Creek, Basal Quartz and Notikewin pools. Current Production from this area was 430 boe/d.

The Sproule Report assigns 3.3 bcf of gross proved natural gas reserves and 332 Mbbls of gross proved crude oil and NGL reserves to the Brazeau area. In addition, 1.7 bcf of gross probable natural gas reserves and 189 Mbbls of gross probable crude oil and NGL reserves have been assigned to this area.

Northeast and East Central Alberta

Chigwell and Oberlin (Nevis), Alberta

AOG has two coal bed methane ("**CBM**") fields in the Chigwell and Oberlin (Nevis) areas of Alberta which produce natural gas from Horseshoe Canyon Formation coal beds and adjacent associated sandstones. These fields lie approximately 60 kilometers northeast and east of the City of Red Deer, Alberta respectively. The wells on these fields are completed on a commingled basis in multiple layers of individual coals which range in thickness from 1 to 3 meters along with associated and adjacent gas charged sandstones. The fields are for the most part developed on the basis of 4 vertical wells per section. These wells are shallow with completed intervals ranging between 150 and 550 meters in depth. The wells are connected with low pressure gathering system to central compression facilities which allows the fields to be drawn down to very low operating pressure of between 35 and 70 kpa. Advantage operates the Oberlin property while the Chigwell property is a combination of operated and non-operated with a wide range of working interests. Current production from these fields was 1,192 boe/d.

The Sproule Report assigns 19.3 bcf of gross proved natural gas reserves to these CBM properties. In addition, 8.0 bcf of gross probable natural gas reserves have been assigned to this area.

Northeastern Shallow Gas

Advantage has shallow gas properties located in the eastern side of Alberta, including the Wainwright property, which is located north of the town of Wainwright, and the Tweedie and Cache properties which are located west of the town of Bonnyville. These properties produce from multiple horizons generally all at depths of 750 meters or less. The principle producing intervals are Cretaceous Mannville Formation sands, Viking Formation sands and Second White Specks sands and silts. Current Production from these fields was 473 boe/d.

The Sproule Report assigns 9.6 bcf of gross proved natural gas reserves and 3.9 Mbbls of gross proved crude oil and NGL reserves to these fields. In addition, 3.2 bcf of gross probable natural gas reserves and 5.5 Mbbls of gross probable crude oil and NGL reserves have been assigned.

INFORMATION CONCERNING THE RESULTING ISSUER

Corporate Structure

Name and Incorporation

Following the completion of the Transaction, the Resulting Issuer will own all of the Assets but, other than as set forth below, will remain unchanged.

Following the completion of the Transaction, the registered office of the Corporation will be Suite 1000, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1 and its head office will be located at Suite 400, 703 - 6th Avenue S.W., Calgary, Alberta, T2P 0T9.

Intercompany Relationships

After giving effect to the Transaction, the Resulting Issuer will continue to have no subsidiaries.

Narrative Description of Business

Stated Business Objectives

Following completion of the Transaction, the Resulting Issuer intends to develop and exploit natural gas and oil drilling and recompletion projects on the Assets as well as on the Corporation's existing land base. The focus of the Corporation's capital spending programs in 2013 and 2014 will be predominately on low to medium risk light oil projects identified by management. The Assets have been non-core to Advantage and were not allocated a large portion of the Advantage capital budget; however, the assets will form the core assets of Questfire. Questfire will also evaluate and pursue further acquisition opportunities that enhance and complement the Corporation's overall business plan.

The specific business objectives include, but are not necessarily limited to, the following:

1. *Repayment of the Debenture within the 3 year term.* The outstanding Debenture principal at closing of the Transaction is anticipated to be approximately \$44 million. The Corporation will make every effort to repay the Debentures as quickly as possible to minimize the possible dilution resulting from issuance of Class A Shares upon any conversion of the Debentures according to their terms.
2. *Grow production base.* Materially grow Questfire's production base over the next 3 to 5 years through drilling and recompletion projects and further acquisitions.
3. *Increase oil and NGL production.* Increase the proportion of oil and NGL in the production base to approximately 50%, with natural gas comprising the remaining 50%.
4. *Pursue acquisition and disposition opportunities.* Pursue acquisition and disposition opportunities to consolidate and grow core areas, which the management of Questfire believes will lead to increased overall operating efficiencies and reduced per unit operating costs.
5. *Reduce overall debt levels to achieve greater financial flexibility.* The Corporation has a maximum debt to forward cash flow ratio target of 2.0. The Corporation's objective is to reduce the debt to cash flow ratio below 2.0 by the end of 2014.

A characteristic of successful companies is the ability to quickly react to changing market conditions and to recognize and capture new opportunities. Questfire's management team intends to closely monitor the business and market conditions and may modify the above business objectives as conditions dictate. The overall objective will remain unchanged, being to create shareholder value.

Milestones

The following milestones would need to be met in order to achieve the business objectives of the Resulting Issuer:

Ability to raise common equity:

Questfire intends to raise up to \$30 million of common equity prior to the end of 2015. These proceeds would be applied primarily to repay the Debenture. Accelerated repayment of the Debenture will in turn free up cash flow to allow acceleration of the Corporation's capital spending program. The ability to raise equity depends on many factors, including commodity prices, overall investor sentiments and the performance of Questfire. Questfire's management team has experience in public oil and gas companies and has been involved in numerous public market financings and initial public offerings.

Light Oil Drilling and Recompletion Success:

Questfire's management team has significant experience in the development and exploitation of oil and gas prospects in Western Canada. To date, management has identified approximately 30 recompletion candidates and 26 drilling opportunities on the Assets and existing Questfire land base. The majority of these opportunities are 100% working interest, are operated and have low to medium risk profiles. Questfire's initial focus in 2013 will be light oil recompletions and drilling primarily at Willesden Green (Open Lake), a 100% working interest property in West Central Alberta. Initial results and success rates will dictate where Questfire focuses its efforts into 2014. Questfire anticipates capital spending of \$30 to \$50 million prior to the end of 2014. See "Information Concerning the Resulting Issuer – Exploration and Development".

Commodity Pricing:

Questfire intends to fund the majority of its capital spending program from cash flow. Cash flow will be highly dependent on commodity prices. The commodity price forecasts used by Questfire in its budget forecasts are the average of the January 1, 2013 price forecasts generated by three large, well-recognized and independent engineering firms based in Calgary; Sproule, GLJ Petroleum Consultants and McDaniels & Associates Consultants Ltd. These price forecasts are as follows:

Price forecasts used by Questfire:

Year	Aeco Spot Nat. Gas (\$CAD/GJ)	Edmonton Par (\$CAD/bbl)
2013	\$3.17	\$85.68
2014	\$3.60	\$90.61
2015	\$3.96	\$91.60
2016	\$4.46	\$95.48
2017	\$4.86	\$96.59

The Corporation will mitigate commodity price risk with an active hedging program. Following the close of the Transaction, certain fixed price hedges entered into by Advantage will be transferred to Questfire as detailed below. Following Closing, Questfire anticipates entering into additional hedging contracts related to 2014 and into 2015.

Hedges to be transferred to Questfire (post Closing):

Year	Aeco Spot Nat. Gas (\$CAD/GJ)	WTI Oil Price (\$CAD/bbl)
2013 March – Dec.	14,000 GJ/day @ \$3.05/GJ	250 bbls/day @ \$97.25/bbl
2014 Jan. – Dec.	8,000 GJ/day @ \$3.36/GJ	200 bbls/day @ \$94.80/bbl

If commodity prices underperform Questfire's forecasts, the Corporation will modify its capital spending budget accordingly. The members of the Corporation's management team each have 20 – 30+ years of industry experience and have been through numerous commodity price cycles. Maintaining discipline and controls with respect to capital spending and debt to cash flow, as well as minimizing operating costs, are effective strategies that management intends to employ regardless of commodity price.

Acquisitions and Dispositions:

Questfire intends to maintain an active acquisition and disposition program whereby assets may be sold in lower priority non-core areas and, conversely, assets may be acquired to expand and consolidate core areas. The Corporation will continue to evaluate conventional assets that become available for sale with preference given to gas weighted, low operating costs assets with low decline production and long reserve life. The Corporation's management team has a history of developing successful organic growth in past companies, including Stonefire

Energy Corp. and Tempest Energy Corp. so Questfire will not be completely reliant upon acquisitions to propel its growth.

Exploration and Development

The Corporation's management team intends to pursue an active recompletion and drilling program focused on light oil opportunities identified on the Assets, as well as on Questfire's existing 100% working interest 18,535 acre land base. The Corporation's capital spending budgets will be dependent on cash flow and the ability to raise equity. The Corporation has prepared budgets with a range of near-term capital spending, production averages, debt and cash flow estimates as follows:

Year	Capital Expenditures (\$MM)	Ave. Prod. (boe/d)	Annual Cashflow (\$MM)	Exit Debt/CF
2013	\$13.0 - \$15.0	5,762 - 5,782	\$23.3 - \$24.0	2.3 - 3.2
2014	\$18.0 - \$37.0	5,835 - 6,623	\$30.3 - \$39.1	1.1 - 2.1
2015	\$30.0 - \$46.0	5,849 - 6,935	\$37.9 - \$50.0	0.8 - 1.0

The table below is a summary of the current inventory of Recompletion and Drilling opportunities by area for the Assets as well as on Questfire's existing land base. The majority of these projects are 100% working interest, operated and light oil focused. Many of these projects are adjacent to existing infrastructure, including the Corporation's operated facilities and gathering systems. The high working interest will allow for relatively quick execution and, with success, the proximity to infrastructure will allow for relatively quick production additions.

Questfire Exploration and Development Prospect Inventory:

Area	Gross Locations	Average Working Interest	Targets	Capex (\$M)
Advantage Non-Core Assets				
Open Lake (Operated)				
Recompletions	12	95%	Rock Creek, Glauc, Ellerslie, Ostracod, Viking	3,394
Open Lake (Operated)				
Drilling	8	100.00%	Ostracod Oil	12,000
Glauc "A" Unit No. 1				
Hz Drilling	6	8.60%	HZ Glauc Oil	2,657
Westrose (Operated)				
Recompletions (1900 mTVD)	4	71%	2nd Specs, Ostracod, Rock Creek Oil	665
Chigwell (Operated)				
(1300 - 1600 mTVD) Recompletions	6	83.00%	2nd Specs, Glauc Oil	1,256
Lookout Butte (Operated)				
Recompletion (3000 mTVD)	1	50.00%	Blairmore Oil	375

Area	Gross Locations	Average Working Interest	Targets	Capex (\$M)
Existing Questfire Lands				
Thorsby (Operated)				
(1700 m TVD)	12	100.00%	Glauc Oil	20,700
Pembina (Operated)				
3D seismic		100.00%	Glauc Oil	750
Drilling	2	100.00%	Glauc Oil	2,800
Bow Island (Operated)				
24 API sweet	2	100.00%	Sunburst Oil	1,800
Drilling				
Niton (Operated)				
34 API Sweet	1 Recomplete	100.00%	Ostracod oil	500
Drilling	1 Hz Drill	100.00%	Ostracod oil	3,200
Richdale (Operated)				
30 API Sweet	3D seismic	100.00%	Banff Oil	750
(1100 m TVD)	1 Drill	100.00%	Banff Oil	900
Total:				51,747

The table above shows the potential for in excess of \$51 million of identified drilling and re-completion projects. The Corporation's management team has identified a further inventory of contingent light oil drilling locations with an "unrisked" total net capital requirement of \$44 million. The range of capital spending in Questfire's budget scenarios for 2013 and 2014 are \$31 to \$52 million, which fits well with the current prospect inventory. With increasing natural gas prices, the Corporation may allocate portions of the capital budget starting in 2015 to low risk natural gas projects. The Assets have numerous lower-risk natural gas drilling and recompletion opportunities from shallow recompletion and infill drilling opportunities at Medicine Hat and Oberlin, to deep infill and horizontal drilling opportunities in the Rundle formation at Lookout Butte.

For further information on the Assets, see "*Information Concerning the Assets – Reserves and Other Oil and Gas Information*".

Description of Securities

The Resulting Issuer securities will be the existing Questfire share capital, see "*Information Concerning Questfire Energy Corp. – Description of Securities*".

Pro Forma Capitalization

The following table sets forth the *pro forma* share and loan capital of the Resulting Issuer as at September 30, 2012 after giving effect to the completion of the Transaction and all matters ancillary thereto.

Designation of Security	Amount authorized or to be authorized	Amount outstanding after giving effect to the Transaction
Class A Shares ⁽¹⁾	Unlimited	12,813,001 (\$4,193,633)

Designation of Security	Amount authorized or to be authorized	Amount outstanding after giving effect to the Transaction
Class B Shares ^{(2) (7)}	Unlimited	2,055,840 (\$11,800,448)
Preferred Shares ⁽³⁾	Unlimited	Nil (\$0)
Warrants ⁽⁴⁾	N/A	1,510,000 (\$28,295)
Questfire 2012 Debentures ⁽⁵⁾	N/A	302 (\$1,406,380)
Debentures ^{(6) (7)}	N/A	44,000 (\$44,000,000) ⁽⁸⁾

Notes:

1. See “*Information Concerning Questfire Energy Corp. – Description of Securities – Class A Shares*”.
2. Prior to the Transaction there were Class B Shares issued in the aggregate carrying value of \$1,800,448. Class B Shares contain both a debt and equity element under IFRS, the components of which are classified separately. The carrying value of the debt component of Class B Shares as at September 30, 2012 was \$3,881,800 and the equity component was (\$2,081,352). An additional 1,500,000 Class B Shares will be issued on Closing and the carrying value of these additional 1,500,000 Class B Shares is estimated to be \$10,000,000. The carrying value, net of issuance costs, of the \$10,000,000 of Class B Shares will need to be allocated between debt and equity. See “*Information Concerning Questfire Energy Corp. – Description of Securities – Class B Shares*”.
3. See “*Information Concerning Questfire Energy Corp. – Description of Securities – Preferred Shares*”.
4. Issued June 28 and July 5, 2012. Each Warrant entitles the holder to acquire one Class A Share at an exercise price of \$0.75 until June 30, 2014. See “*Information Concerning Questfire Energy Corp. – Description of Securities – Warrants*”.
5. The principal amount of each Questfire 2012 Debenture is convertible, in whole or in part, into Class A Shares at the option of the holder at any time prior to the close of business on June 30, 2014 at a conversion price of \$0.50 per Class A Share. The Questfire 2012 Debentures, issued in the aggregate amount of \$1,510,000, contain both a debt and equity element under IFRS, the components of which are classified separately. The carrying value of the debt component at September 30, 2012 was \$1,326,613 and the equity component was \$79,767. See “*Information Concerning Questfire Energy Corp. – Description of Securities – Questfire 2012 Debentures*”.
6. See “*Information Concerning Questfire Energy Corp. – Financing Arrangements – The Debentures*”.
7. Figures do not deduct estimated issuance costs, expenses and commissions associated with the Transaction estimated to be, in the aggregate, \$1,200,000.
8. The carrying value, net of share issuance costs, will need to be allocated between debt and equity. This amount is subject to customary closing adjustments between the effective date of November 1, 2012 and the closing date of the Transaction.
9. There are 1,281,000 Class A Shares issuable pursuant to outstanding incentive share options. See “*Information Concerning Questfire Energy Corp. – Escrowed Securities*”.

Fully Diluted Share Capital

The following table sets out the share capital of the Resulting Issuer, on a fully-diluted basis, immediately upon completion of the Transaction:

Class A Shares	Amount Outstanding after giving effect to the Transaction	%⁽⁸⁾
Class A Shares issued and outstanding as at the date of the Filing Statement ⁽¹⁾	12,813,001	68.8%
Class A Shares issuable pursuant to Warrants ⁽²⁾	1,510,000	8.1%
Class A Shares issuable pursuant to Questfire 2012 Debentures ⁽³⁾	3,020,000	16.2%
Class A Shares issuable pursuant to incentive share options ⁽⁴⁾	1,281,000	6.9%
Total	18,624,001⁽⁶⁾⁽⁷⁾	100%
Class B Shares		
Class B Shares issued and Outstanding as at the date of this Filing Statement ⁽⁵⁾	555,840	27.0%
Class B Shares issued pursuant to the Purchase Agreement ⁽⁵⁾	1,500,000	73.0%
Total	2,055,840	100%

Notes:

1. See "Information Concerning Questfire Energy Corp. – Description of Securities – Class A Shares".
2. See "Information Concerning Questfire Energy Corp. – Description of Securities – Warrants".
3. See "Information Concerning Questfire Energy Corp. – Description of Securities – Questfire 2012 Debentures".
4. See "Information Concerning Questfire Energy Corp. – Option Plan".
5. See "Information Concerning Questfire - Description of Securities – Class B Shares".
6. In addition, an indeterminable number of Class A Shares are issuable pursuant to conversion of the Debentures, which will only occur under specific circumstances and at then-current trading prices. See "Information Concerning Questfire Energy Corp. – Financing Arrangements – The Debentures".
7. In addition, depending on the Current Market Price, a maximum of 20,558,400 Class A Shares are issuable pursuant to the conversion of the Class B Shares, either: (A) at the option of the Corporation, at any time after September 30, 2014 and on or before November 30, 2016; and (B) if the Corporation fails to exercise the option to convert the Class B Shares into Class A Shares by the close of business on November 30, 2016, then at the option of the holder of a Class B Share, at any time on or after December 1, 2016 and on or before December 31, 2016. See "Information Concerning Questfire - Description of Securities – Class B Shares".
8. Percentages may not add due to rounding.

Available Funds and Principal Purposes

Funds Available

As of March 31, 2013, Questfire had a working capital deficit of approximately \$2,600,000. The estimated pro forma consolidated working capital of the Resulting Issuer after taking into account the bank lines of credit at Closing would be \$16,200,000.

The following table sets forth the estimated available funds (based upon total current assets less total current liabilities) plus the amounts and sources of other funds available to Questfire prior to, or concurrently with, the completion of the Transaction, after giving effect to the Transaction.

	Available Funds (Post Acquisition Close)
Questfire Working Capital Deficit ⁽¹⁾	(\$2,600,000)
Bank Line of Credit	\$60,000,000
Cash component of the Acquisition to be drawn against Bank line	(\$40,000,000)
Less Transaction Expenses ⁽²⁾	(\$1,200,000)
TOTAL	\$16,200,000

Notes:

1. As of March 31, 2013. Unaudited - Based on estimates from Questfire.
2. Estimated Transaction Expenses of \$600,000 have been incurred or accrued in Questfire's Working Capital at March 31, 2013.

Proposed Use of Available Funds – 2013

Description	Amount to be Expended(1)
Drilling and Completions	\$4,900,000
Recompletions:	\$3,500,000
Facilities	\$1,500,000
Land and Seismic	\$1,500,000
Abandonments and Reclamation	\$1,500,000
Miscellaneous	\$ 500,000
Working Capital	\$ 2,800,000
Total	\$16,200,000

Due to the nature of the oil and gas industry, budgets are regularly reviewed in light of the success of the expenditures and other opportunities that may become available to the Resulting Issuer. In addition, the ability of the Resulting Issuer to carry out operations will depend upon the decisions of other working interest owners in its properties. Accordingly, while the Resulting Issuer anticipates that it will have the ability to spend the funds available to it as stated in this Filing Statement, there may be circumstances where, for sound business reasons, a reallocation of the funds may be necessary. The Resulting Issuer anticipates that the funds available to it upon completion of the Transaction will be sufficient to carry out its business following completion of the Transaction, although it is anticipated that additional funds will be secured via future private placements from time to time as well as cash flow from operations.

Dividends

The proposed directors of the Resulting Issuer anticipate that the Resulting Issuer will retain all future earnings and other cash resources for the future operation and development of its business, and accordingly, do not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Resulting Issuer's Board after taking into account many factors including the Resulting Issuer's operating results, financial condition and current and anticipated cash needs.

Principal Security Holders

Other than Advantage, who will hold 1,500,000 Class B Shares, being 10.1% of the rights to vote at a meeting of shareholders of the Corporation, to the knowledge of the management of Questfire, no person will beneficially own, directly or indirectly, or exercise control or direction over, Class A Shares and Class B Shares carrying more than 10% of the voting rights attached to all Class A Shares and Class B Shares after giving effect to the Transaction.

Directors, Officers and Promoters

Name, Address, Occupation and Security Holdings

The following are the names and municipalities of residence of those persons who are proposed to be directors, officers and promoters of the Resulting Issuer following the Transaction, the positions and offices they are to hold with the Resulting Issuer, their principal occupations within the five preceding years, and the number of Resulting Issuer Shares which will be beneficially held by each of them upon the completion of the Transaction. Each director will hold office until the next annual general meeting of the Resulting Issuer unless his office is earlier vacated in accordance with the provisions of the ABCA or the Articles of the Resulting Issuer.

Name, municipality of residence and proposed position with Resulting Issuer	Principal Occupation for Past Five Years	Date of first appointment as a Director or Officer of Questfire	Resulting Issuer Shares held at Closing Date	Percentage of Resulting Issuer Shares held at Closing Date
Richard H. Dahl ⁽¹⁾⁽²⁾ Calgary, Alberta President, Chief Executive Officer and Director	President and Chief Executive Officer of the Corporation since January 2010; prior thereto, Mr. Dahl was founder, President, Chief Executive Officer and director of Stonefire Energy Corp., a public oil and gas company listed on TSX Venture Exchange, from July 2005 to January 2010.	2010	1,272,001	9.9
John Ramescu ⁽³⁾⁽²⁾ Calgary, Alberta V.P., Land	Vice-President, Land of the Corporation since November 2010; prior thereto, founder, Vice President, Land and director of Stonefire Energy Corp. from July 2005 to January 2010.	2010	630,000	4.9
Neil I. Dell ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta Director	Technical Advisor with Camcor Partners Inc. since March 2011; prior thereto, Vice President of Small Business Services at GLJ Petroleum Consultants Ltd. from 1993 until 2010.	2011	250,000	2.0
Roger O. MacLeod ⁽¹⁾⁽³⁾ Calgary, Alberta Director	Partner with Davis LLP (law firm) since November 2008; prior thereto, Partner with Burstall Winger LLP (law firm) since January 2003.	2010	625,000	4.9
Darren D. Kisser Calgary, Alberta V.P., Engineering and Operations	Vice President, Engineering and Operations of the Corporation since November 2010; prior thereto, founder and Vice President, Engineering and Operations of Stonefire Energy Corp. from July 2005 to January 2010.	2010	1,255,000	9.8
Alfred J. (Fred) Laudel Calgary, Alberta V.P., Exploration	Vice President, Exploration of the Corporation since November 2010; prior thereto, Mr. Laudel was a founder and Vice President, Exploration of Stonefire Energy Corp. from October 2005 to January 2010.	2010	1,200,000	9.4

Name, municipality of residence and proposed position with Resulting Issuer	Principal Occupation for Past Five Years	Date of first appointment as a Director or Officer of Questfire	Resulting Issuer Shares held at Closing Date	Percentage of Resulting Issuer Shares held at Closing Date
Bruce K. Shepard Calgary, Alberta V.P., Exploitation	Vice President, Exploitation of the Corporation since November 2010; prior thereto, founder and Manager of Exploration of Stonefire Energy Corp. from November 2005 to January 2010.	2010	1,255,000	9.8
Ronald A. Williams Calgary, Alberta Chief Financial Officer and V.P., Finance	Vice President, Finance and Chief Financial Officer of the Corporation since November 2010; prior thereto, founder, Vice President, Finance and Chief Financial Officer of Stonefire Energy Corp. from March 2006 to January 2010.	2010	1,155,000	9.0
Graham Norris Calgary, Alberta Corporate Secretary	Associate with Davis LLP since August 2010; prior thereto, articling student with Davis LLP since July 2009	2011	-	-

Notes:

1. Member of the Audit Committee.
2. Member of the Reserves Committee. Mr. Dell is the chair of the Reserve Committee.
3. Member of the Corporate Governance and Compensation Committee.
4. Pursuant to a Governance Agreement, Advantage is entitled to appoint up to two additional directors, to be mutually agreed by Questfire, following Closing.

As of the date hereof, the directors and officers of the Resulting Issuer, as a group, beneficially own, directly or indirectly, 7,642,001 Resulting Issuer Shares.

Management

The following sets forth further particulars on those individuals who will be members of management and key personnel of the Resulting Issuer, including the positions they will hold with the Resulting Issuer, the proportion of their time to be devoted to the Resulting Issuer, and their relevant educational background. It is anticipated that none of the following individuals will enter into non-competition or non-disclosure agreements with the Resulting Issuer.

Advantage will be entitled to appoint two additional members to the Board, which are to be determined after Closing and mutually agreed to by Questfire.

Richard H. Dahl, President, Chief Executive Officer and Director

Mr. Dahl is a professional engineer with over 25 years of experience in all aspects of oil and gas engineering, production and operations throughout Western Canada. Mr. Dahl was founder, President, Chief Executive Officer and director of Stonefire Energy Corp., a public oil and gas company listed on TSX Venture Exchange, from July 2005 to January 2010. Prior thereto, Mr. Dahl was a founder and Vice-President, Engineering and Operations of Tempest Energy Corp., a public oil and gas company listed on the TSX, from October 2000 until December 2004. Prior thereto Mr. Dahl held the position of Vice-President, Engineering and Operations with Tier One Energy Corp., a public oil and gas company listed on the Alberta Stock Exchange, from August 1997 until Tier One was sold in November 1999. From 1987 to 1997, he worked as an Engineer in the Alberta oil and gas industry with Dome

Petroleum Ltd., Amoco Canada Petroleum Company, Ltd., HCO Energy Ltd. and Grad & Walker Energy Corporation in progressively senior roles. Mr. Dahl graduated with a Bachelor of Science degree in Civil Engineering from the University of Calgary in 1987. He is a member of APEGGA and The Society of Petroleum Engineers. Mr. Dahl is 50 years of age, will be an employee of the Resulting Issuer and will devote 100% of his time to the Resulting Issuer. As Chief Executive Officer, Mr. Dahl will be responsible for leading the management team, reporting directly to the Board of Directors and investor relations.

John Ramescu, Vice President, Land and Director

Mr. Ramescu has over 27 years of industry experience. Mr. Ramescu was founder, Vice President, Land and director of Stonefire Energy Corp., a public oil and gas company listed on TSX Venture Exchange, from July 2005 to January 2010. Prior thereto, Mr. Ramescu was a founder and Vice-President, Land with Tempest Energy Corp. from January 2001 to December 2004. Prior thereto, Mr. Ramescu was Vice-President, Land and Business Development with Vermilion Resources Ltd., a public oil and gas company listed on the TSX, from November 1996 to December 2000. Prior to joining Vermilion in November 1996, Mr. Ramescu held the position of Land Manager with Ranger Oil Limited from August 1993 to October 1996. Prior thereto, Mr. Ramescu worked as a Landman with Amoco Canada Petroleum Company, Ltd., Dome Petroleum Limited and Opinac Exploration Limited. Mr. Ramescu graduated with a Bachelor of Commerce (Finance) degree from the University of Calgary in 1985 and is a member of the CAPL. Mr. Ramescu is 54 years of age, will be an employee of the Resulting Issuer and will devote 100% of his time to the Resulting Issuer. As Vice President, Land, Mr. Ramescu will be responsible for all land related activities and will report directly to the President and Chief Executive Officer of the Resulting Issuer.

Ronald A. Williams, Vice President, Finance and Chief Financial Officer

Mr. Williams is a Chartered Accountant with over 21 years of oil and gas industry experience, principally in the areas of audit, finance and taxation, as well as property and corporate acquisitions. Mr. Williams was a founder, Vice President, Finance and Chief Financial Officer of Stonefire Energy Corp., a public oil and gas company listed on TSX Venture Exchange, from March 2006 to January 2010. Prior thereto, Mr. Williams was Director, Finance for Vermilion Energy Trust, an international energy trust traded on the Toronto Stock Exchange and had been with Vermilion from July 1999 to February 2006. From 1997 to 1999 Mr. Williams held the position of Controller at Carmanah Resources Ltd., a junior oil and gas producer traded on the Toronto Stock Exchange. Prior thereto, Mr. Williams was a Tax Manager with Ernst & Young LLP from 1996 to 1997 and obtained his Chartered Accountant designation while articling with Collins Barrow Calgary LLP from 1991 to 1995. Mr. Williams graduated with a Bachelor of Commerce degree from the University of Calgary in 1992. Mr. Williams is a director of ArPetrol Ltd., an oil and gas company listed on the TSX Venture Exchange. Mr. Williams is 45 years of age, will be an employee of the Resulting Issuer and will devote 100% of his time to the Resulting Issuer. As Vice President, Finance and Chief Financial Officer, Mr. Williams will be responsible for all accounting related activities and will report directly to the President and Chief Executive Officer of the Resulting Issuer.

Alfred J. (Fred) Laudel, Vice President, Exploration

Mr. Laudel has accumulated over 31 years of experience in the exploration and development of Alberta's oil and gas reserves. Mr. Laudel was a founder and Vice President, Exploration of Stonefire Energy Corp., a public oil and gas company listed on TSX Venture Exchange, from October 2005 to January 2010. Prior thereto, Mr. Laudel was Manager of New Ventures with Tempest Energy Corp. from September 2002 to October 2005. Prior thereto, Mr. Laudel was a senior geologist with Real Resources Inc., an oil and gas company listed on the TSX, from February 2000 to September 2002 where he led the company into a new W5M core area. From 1993 to 1998, Mr. Laudel was a project geologist at EOG Resources Canada Inc., where he was instrumental in building a core property in southern Alberta. Mr. Laudel has also held senior geologist positions at Newquest Energy Inc., Paloma Petroleum Ltd. and Gulf Canada Resources Limited. Mr. Laudel graduated from the University of Calgary with a Bachelor of Science (Geography) in 1978 and a Bachelor of Science (Geology) in 1983 and is a member of the Canadian Society of Petroleum Geologists. Mr. Laudel is 58 years of age, will be an employee of the Resulting Issuer and will devote 100% of his time to the Resulting Issuer. As Vice President, Exploitation, Mr. Laudel will be responsible for all exploration related activities and will report directly to the President and Chief Executive Officer of the Resulting Issuer.

Darren Kisser, Vice President, Engineering and Operations

Mr. Kisser is a Professional Engineer with over 21 years of diversified experience in the oil and gas industry with junior, intermediate and senior producers. His areas of expertise include drilling, completions, facilities, production and exploitation engineering, as well as field production operations and surface land acquisition. Mr. Kisser was a founder and Vice President, Engineering and Operations of Stonefire Energy Corp., a public oil and gas company listed on TSX Venture Exchange, from July 2005 to January 2010. Prior to Stonefire, Mr. Kisser directed his own private engineering consulting company from February 2005 to July 2005. Previous management positions held by Mr. Kisser include Manager of Operations at Tempest Energy Corp. from July 2002 to January 2005 and Drilling and Completions Superintendent at Vermilion Resources Ltd. from April 1998 to June 2002, as well as senior engineering and operations positions with Norcen Energy Resources Ltd. and Wintershall Canada Ltd. Mr. Kisser holds a B.Sc. Degree in Petroleum Engineering (With Distinction) from the University of Alberta, and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA) and the Society of Petroleum Engineers (SPE). Mr. Kisser is 43 years of age, will be an employee of the Resulting Issuer and will devote 100% of his time to the Resulting Issuer. As Vice President, Engineering and Operations, Mr. Kisser will be responsible for all engineering and operations related activities and will report directly to the President and Chief Executive Officer of the Resulting Issuer.

Bruce K. Shepard, Vice President, Exploitation

Mr. Shepard has over 32 years of exploration and exploitation experience in both technical and managerial roles. Mr. Shepard was a founder and Manager of Exploration of Stonefire Energy Corp., a public oil and gas company listed on TSX Venture Exchange, from November 2005 to January 2010. Prior thereto, Mr. Shepard was Senior Explorationist with Tempest Energy Corp. from June 2003 to November 2005, during which time he was responsible for the exploration and development activity within the company's Central Alberta core region. Prior thereto, Mr. Shepard was a consultant geologist from March 1999 to May 2003. His main clients during this period were Tom Brown Resources Ltd. and Sunfire Energy Corp. Prior to consulting, Mr. Shepard was Exploration Manager at Newquest Energy Inc. from October 1995 to February 1999. Prior thereto, Mr. Shepard worked as a geologist for various oil and gas exploration and production companies including Samedan Oil of Canada Inc., Deminex (Canada) Ltd., Consolidated Norex Resources Corp., Nugas Ltd., Maxus Energy Canada Ltd., and Pan Canadian Petroleum Co. Ltd. Mr. Shepard graduated with a Bachelor of Science degree from the University of Calgary in 1979. He is currently an active member of the Canadian Society of Petroleum Geologists and the American Association of Petroleum Geologists. Mr. Shepard is 56 years of age, will be an employee of the Resulting Issuer and will devote 100% of his time to the Resulting Issuer. As Vice President, Exploration, Mr. Shepard will be responsible for all exploitation related activities and will report directly to the President and Chief Executive Officer of the Resulting Issuer.

Roger O. MacLeod, Director

Mr. MacLeod is a partner with the law firm Davis LLP, where he has practiced since November 2008 with a focus on corporate and securities law. Prior thereto he was a partner at Burstall Winger LLP where he practiced since May 1996. He graduated from the University of Western Ontario with his Bachelor of Laws degree in 1987. Mr. MacLeod was a director of Stonefire Energy Corp. from July 2005 to January 2010. He was Secretary of Serrano Energy Ltd. from August 2006 to May 2010. He was a director of Nevarro Energy Ltd. from December 1997 to August 2006. He was Secretary of Tempest Energy Corp. from October 2000 to November 2005 and Secretary of Tier One Energy Corp. from October 1996 to October 1999.

Neil I. Dell, Director

Mr. Dell has spent the last 31 years from October 1979 until September 2010 at GLJ Petroleum Consultants Ltd. in increasing positions of responsibility, and as Vice President of Small Business Services from 1993 until 2010. His primary responsibility was to assist small business private and public companies with independent year end evaluation services across Western Canada and assist them with corporate bank filing and public exchange filing. Since March 2011 Mr. Dell has been on retainer with Camcor Partners Inc. as a Technical Advisor. Mr. Dell has been a director of Glenogle Energy Inc., a private oil and gas company, since October 2010. Mr. Dell holds a

Degree in Civil Engineering from the University of Saskatchewan, and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA) and the Society of Petroleum Engineers (SPE).

Graham Norris, Corporate Secretary

Mr. Norris has been an associate with the law firm of Davis LLP since 2010, focusing on general corporate and commercial law, with an emphasis on securities law, corporate finance and mergers and acquisitions.

Rodney Keller, Project Manager (Consultant)

Mr. Keller has over 43 years of experience in the oil and gas industry in various capacities, including project planning and management in the areas of operation, environmental impact assessment, aerial reconnaissance, surface land/public relations, surveying, construction, drilling, completion and workovers, pipelining, reclamation and instruction (teaching PITS courses on well control). Mr. Keller has been the President of Advance Energy Ltd., a private oil and gas consulting firm, since 1975 and was President of Advance Survey Enterprises, a private oil and gas consulting firm from 1970 to 1985, whose clients included numerous junior, intermediate and major national and international oil and gas exploration and production companies. Mr. Keller obtained a Diploma in Survey Technology from NAIT in 1969 and is a certified Airline Transport Pilot. In addition, Mr. Keller is a certified Surface Land Agent.

Corporate Cease Trade Orders or Bankruptcies

Other than as set forth below, no proposed director, officer or promoter of the Resulting Issuer, or a securityholder anticipated to hold a sufficient number of securities to materially affect the control of the Resulting Issuer, or any personal holding company of such persons, has, within the last ten years, been a director, officer or promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemption for a period of more than 30 consecutive days or was declared a bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person.

Penalties or Sanctions

No proposed director, executive officer or promoter of the Resulting Issuer, or a securityholder anticipated to hold a sufficient number of securities to materially affect the control of the Resulting Issuer, or any personal holding company of such persons, has, to the knowledge of the Resulting Issuer, been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely to be considered important to a reasonable security holder making a decision about the Transaction.

Personal Bankruptcies

No proposed director, executive officer or promoter of the Resulting Issuer, or a securityholder anticipated to hold a sufficient number of securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, or any personal holding company of such persons, has, within the ten years prior to the date of this Filing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Conflicts of Interest

The proposed directors and officers of the Resulting Issuer may, from time to time, serve as directors or officers of other issuers or organizations or may be involved with the business and operations of other issuers or organizations, in which case a conflict of interest may arise. If a conflict arises, it will be addressed in accordance with applicable securities laws.

Other Reporting Issuer Experience

The following table sets out information for the proposed directors, officers and promoters of the Resulting Issuer that are, or have been within the five years prior to the date hereof, directors, officers or promoters of other reporting issuers. In the following table, "TSX" means Toronto Stock Exchange, "TSXV" means TSX Venture Exchange Inc., "OTCBB" means Over-The-Counter Bulletin Board, "CNSX" means the Canadian National Stock Exchange and "Frankfurt" means the Frankfurt Stock Exchange.

Name	Name of Reporting Issuer	Name of Market	Position	From	To
Richard H. Dahl	Stonefire Energy Corp.	TSXV	President, CEO and Director	July 2005	January 2010
John Ramescu	Stonefire Energy Corp.	TSXV	Vice President, Land and Director	July 2005	January 2010
Roger O. MacLeod	Stonefire Energy Corp.	TSXV	Director	July 2005	January 2010
	Serrano Energy Ltd.	TSXV	Secretary	August 2006	May 2010
Ronald A. Williams	Stonefire Energy Corp.	TSXV	Vice President	July 2005	January 2010
			Financial and Chief Financial Officer		
	ArPetrol Ltd.	TSXV	Director	March 2011	Present
Darren Kisser	Stonefire Energy Corp.	TSXV	Vice President Engineering and Operations	July 2005	January 2010
Alfred J. (Fred) Laudel	Stonefire Energy Corp.	TSXV	Vice President Exploration	July 2005	January 2010

Executive Compensation

General Provisions

In this section, "Named Executive Officer" ("**NEO**") means each of the following individuals:

- (a) a Chief Executive Officer ("**CEO**");
- (b) a Chief Financial Officer ("**CFO**");
- (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year; and

- (d) each individual who would be a NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Resulting Issuer, nor acting in a similar capacity, during the year.

Summary Compensation Table

It is expected that the compensation of the NEOs will be reviewed after Closing and adjusted to the prevailing market compensation level.

Long Term Incentive Plan

It is not currently proposed that the Resulting Issuer will grant any long term incentive plan awards to the Named Executive Officers during the first year following completion of the Transaction.

Stock Options

It is not currently anticipated that the Resulting Issuer will grant any stock options to the Named Executive Officers during the first year following completion of the Transaction. Any decision to grant stock options will be made by the Board of Directors and will be made subject to the terms and conditions of the Option Plan.

Pension and Retirement Plans

It is not currently proposed that the Resulting Issuer will establish any retirement plans, pension plans or other form of retirement compensation for its Named Executive Officers or other key employees during the first year following completion of the Transaction.

Termination of Employment, Change in Responsibilities and Employment Contracts

It is not currently proposed that the Resulting Issuer will enter into by the Closing Date any employment contract with any Named Executive Officer or any arrangement where a Named Executive Officer is entitled to receive more severance payments of cash or equity compensation in the event of the resignation, retirement or any other termination of the Named Executive Officer's employment with the Resulting Issuer, a change of control of the Resulting Issuer, or a change in the Named Executive Officer's responsibilities following any change of control of the Resulting Issuer.

Compensation of Directors

Following the Transaction, it is not anticipated that directors of the Resulting Issuer will receive any compensation for acting as directors.

Indebtedness of Directors and Officers

No individual who is, or at any time since the beginning of the most recently completed financial year of Questfire was, a director or officer of Questfire, no proposed director or officer of the Resulting Issuer, and no associate of any such director, officer or proposed nominees, is indebted to Questfire (other than for "routine indebtedness" as defined by applicable securities legislation) or has any indebtedness that is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Questfire.

Investor Relations Arrangements

Questfire has not reached any written or oral agreement or understanding with any person to provide any promotional or investor relations services for the Resulting Issuer.

Options to Purchase Securities

Stock Option Plan

The existing Option Plan of Questfire will continue to be the Option Plan for the Resulting Issuer following completion of the Transaction. See “*Information Concerning Questfire – Stock Option Plan*” for details of Questfire’s existing Option Plan.

Escrowed Securities

The following securities of the Corporation are held in escrow:

Name	Designation of Class Held in Escrow	Number of Securities	Percentage of Class	
			Prior to the Transaction	After Giving Effect to the Transaction
Richard H Dahl	Class A Shares	258,750	2.0%	2.0%
Ingrid Dahl	Class A Shares	258,750	2.0%	2.0%
Kristofer Dahl	Class A Shares	11,250	0.1%	0.1%
Ingrid Dahl, held in trust for Zoe Dahl	Class A Shares	11,250	0.1%	0.1%
Mathew Dahl	Class A Shares	11,250	0.1%	0.1%
John Ramescu	Class A Shares	281,250	2.2%	2.2%
Linda Ramescu	Class A Shares	281,250	2.2%	2.2%
Alfred J Laudel	Class A Shares	537,750	4.2%	4.2%
Darren Darcy Kisser	Class A Shares	562,500	4.4%	4.4%
Bruce Shepard	Class A Shares	562,500	4.4%	4.4%
Ronald A Williams	Class A Shares	258,750	2.0%	2.0%
Janet Williams	Class A Shares	258,750	2.0%	2.0%
Roger Macleod	Class A Shares	281,250	2.2%	2.2%
Neil Dell	Class A Shares	112,500	0.9%	0.9%
		3,687,750	28.80%	28.80%

Note:

- Each security holder resides in the municipality of Calgary, Alberta.

Escrow Agreement

Pursuant to an agreement (the “**Escrow Agreement**”) dated September 21, 2011 among the Corporation, Olympia and certain current shareholders (including all of the directors and officers of the Corporation and their spouses, who hold Class A Shares), 8,195,001 Class A Shares were placed in escrow upon the closing of the initial public offering at that time.

Pursuant to the terms of the Escrow Agreement, ten (10%) percent of such Class A Shares were released from escrow upon receipt of notice from the TSX Venture Exchange confirming the listing of the Class A Shares on the TSX Venture Exchange. The remaining ninety (90%) percent of such Class A Shares were to be released from escrow in fifteen per cent (15%) tranches during consecutive six month intervals over a 36 month period following receipt of such notice. As a result, 3,687,750 Class A Shares currently remain in escrow at the date hereof. The above escrow release schedule is subject to acceleration in accordance with National Policy 46-201 *Escrow for Initial Public Offerings* and the policies of the TSX Venture Exchange in the event that the Corporation subsequently meets certain listing requirements.

Escrowed Options

The Board of Directors has granted an aggregate of 1,281,000 stock options to directors, officers and consultants. These options were granted during the financial year ended December 31, 2011. Of these 1,281,000 options,

427,000 vested in October 2012, 427,000 will vest in October 2013 and 427,000 will vest in October 2014. See “*Information Concerning Questfire Energy Corp. – Option Plan*”.

Auditor, Transfer Agent and Registrar

Auditor

The auditor of the Resulting Issuer following completion of the Transaction will continue to be Collins Barrow Calgary LLP, 1400, 777 – 8th Ave. S.W. Calgary AB T2P 3R5.

Transfer Agent and Registrar

The registrar and transfer agent for the Resulting Issuer will continue to be Olympia Trust Company, through its office located in Calgary, Alberta.

GENERAL MATTERS

Sponsorship

Questfire was not required to obtain a Sponsor under the Exchange Requirements.

Experts

At the date hereof, Sproule and GLJ, the authors of the Sproule Report and GLJ Report, respectively, own, directly or indirectly, in the aggregate, no securities of Questfire. No employee, partner or associate of Sproule or GLJ are expected to be elected, appointed or employed as a director, officer or employee of Questfire or of any associate or affiliate of Questfire.

As at the date hereof, partners and associates of Collins Barrow Calgary LLP, Questfire's current auditors, own, respectively, directly or indirectly, in the aggregate, no securities of Questfire. No partner or associate of Collins Barrow Calgary LLP is or is expected to be elected, appointed or employed as a director, officer or employee of Questfire or of any associate or affiliate of Questfire.

At the date hereof, lawyers with Davis LLP, counsel to Questfire, own, directly or indirectly, in the aggregate, 625,000 Class A Shares of Questfire and \$100,000 principal amount of Questfire 2012 Debentures. No lawyer with Davis LLP is or is expected to be elected, appointed or employed as a director, officer or employee of Questfire or of any associate or affiliate of Questfire other than Roger MacLeod, director and Graham Norris, Secretary.

Other Material Facts

There are no material facts about Questfire, the Assets or the Transaction which are not otherwise disclosed in this Filing Statement.

Questfire Board Approval

The contents and the sending of this Filing Statement have been approved by the Questfire Board.

CERTIFICATE OF QUESTFIRE ENERGY CORP.

April 26, 2013

The foregoing document constitutes full, true and plain disclosure of all material facts relating to the securities of Questfire Energy Corp. assuming the completion of the Transaction.

signed “Richard H. Dahl”

Richard H. Dahl
President and Chief Executive Officer

signed “Ronald Williams”

Ronald Williams
Vice President, Finance and Chief Financial Officer

ON BEHALF OF THE QUESTFIRE BOARD

signed “Roger MacLeod”

Roger MacLeod

signed “Neil Dell”

Neil Dell

**SCHEDULE “A”
PURCHASE AGREEMENT**

ASSET PURCHASE AND SALE AGREEMENT

BETWEEN

ADVANTAGE OIL & GAS LTD.

(As Vendor)

- and -

QUESTFIRE ENERGY CORP.

(As Purchaser)

Dated as of the 5th day of February, 2013

TABLE OF CONTENTS

	Page
ARTICLE 1 INTERPRETATION.....	1
1.1 Definitions	1
1.2 Schedules	14
1.3 Headings	15
1.4 Interpretation Not Affected by Headings.....	15
1.5 Words Importing Number or Gender.....	15
1.6 Use of Derivative Terms.....	15
1.7 Use of Industry Terms	15
1.8 Use of "Including"	16
1.9 Meaning of "Gross Negligence" and "Wilful Misconduct"	16
1.10 Accounting Matters	16
1.11 Statutory References.....	16
1.12 Contractual References.....	16
1.13 Monetary References	16
1.14 References to Time	16
1.15 Date for Payments or Other Actions.....	16
ARTICLE 2 PURCHASE AND SALE AND CLOSING	17
2.1 Purchase and Sale	17
2.2 White Map Area	17
2.3 Closing.....	17
2.4 Form of Payment	17
2.5 Purchase Price.....	17
2.6 GST and Other Sales Taxes	18
2.7 Adjustments	19
2.8 Deposit.....	21
2.9 Competition Act Filing.....	21
2.10 Included Seismic Data	22
2.11 Audit of Operating Statements	22
ARTICLE 3 CONDITIONS OF CLOSING	22
3.1 Purchaser's Conditions.....	22
3.2 Vendor's Conditions	23
3.3 Efforts to Fulfil Conditions Precedent.....	25
ARTICLE 4 CLOSING DELIVERIES	25
4.1 Deliveries by Vendor at Closing.....	25
4.2 Deliveries by Purchaser at Closing.....	25
4.3 Specific Conveyances.....	26
ARTICLE 5 REPRESENTATIONS AND WARRANTIES.....	28
5.1 Representations and Warranties of Vendor	28
5.2 Limitation Regarding Vendor's Representations and Warranties.....	31
5.3 Representations and Warranties of Purchaser	32
5.4 Limitation Regarding Purchaser's Representations and Warranties	37
5.5 Survival of Representations and Warranties.....	37

Table of Contents (Continued)

	Page
ARTICLE 6 INDEMNITIES.....	37
6.1 Vendor's Indemnities	37
6.2 Purchaser's Indemnities for Representations and Warranties	38
6.3 Future Obligations	38
6.4 Purchaser's Environmental Indemnity	38
6.5 Time Limitation	38
6.6 Limitation of Remedies	39
6.7 No Consequential Damages.....	39
6.8 Procedures – General Indemnities	39
ARTICLE 7 PRE-CLOSING PERIOD.....	41
7.1 Maintenance of Assets	41
7.2 Administration Fee	41
7.3 Limitation of Liability	41
7.4 Consent of Purchaser	41
7.5 Maintenance of Deposit Lands	42
7.6 Consent of Vendor.....	42
7.7 Indemnification of Vendor	43
ARTICLE 8 POST-CLOSING MATTERS	43
8.1 Post-Closing Matters	43
8.2 Delivery of Title and Operating Documents and Miscellaneous Interests	44
8.3 Removal of Signs.....	44
8.4 Limitation of Liability for Post-Closing Operations.....	45
8.5 Updated Reserves Report	45
ARTICLE 9 DUE DILIGENCE.....	45
9.1 Title Review	45
9.2 Environmental Review	45
ARTICLE 10.....	46
RIGHTS OF FIRST REFUSAL.....	46
10.1 Rights of First Refusal	46
ARTICLE 11 EMPLOYEE MATTERS	47
11.1 <i>[redacted for confidentiality reasons]</i>	47
11.2 Privacy Matters	47
ARTICLE 12 GENERAL	48
12.1 Further Assurances	48
12.2 Entire Agreement.....	49
12.3 Governing Law; Arbitration	49
12.4 Assignment; Enurement.....	49
12.5 Time of Essence.....	50
12.6 Notices	50
12.7 Invalidity of Provisions.....	51
12.8 Waiver	51
12.9 No Merger.....	51
12.10 Amendment.....	51

Table of Contents
(Continued)

	Page
12.11 Confidentiality and Public Disclosures.....	51
12.12 Securities Act Disclosure.....	53
12.13 Additional Purchaser Covenants.....	53
12.14 Counterpart Execution	54

Schedules:

Schedule A	- Part 1 - Lands, Petroleum and Natural Gas Rights - Part 2 - Wells
Schedule B	- Production and Marketing Contracts
Schedule C	- Major Facilities
Schedule D	- Outstanding AFEs
Schedule E	- Form of General Conveyance
Schedule F	- Rights of First Refusal
Schedule G	- Form of Officer's Certificate
Schedule H	- White Map Area
Schedule I	- Included Seismic Data
Schedule J	- Disclosure
Schedule K	- Excluded Assets
Schedule L	- Area of Mutual Interest
Schedule M	- Form of Debenture Indenture and Form of Debenture
Schedule N	- Deposit Lands
Schedule O	- Surplus, Idle and Active Equipment
Schedule P	- Hedging Programs
Schedule Q	- Form of Governance Agreement

ASSET PURCHASE AND SALE AGREEMENT

THIS AGREEMENT made as of the 5th day of February, 2013.

BETWEEN:

ADVANTAGE OIL & GAS LTD., a body corporate, having an office in the City of Calgary, Alberta, ("**Vendor**")

- and -

QUESTFIRE ENERGY CORP., a body corporate, having an office in the City of Calgary, Alberta, ("**Purchaser**")

WHEREAS Vendor wishes to sell the Assets to Purchaser, and Purchaser wishes to purchase the Assets from Vendor, subject to and in accordance with the terms and conditions of this Agreement.

NOW THEREFORE the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires:

- (a) "**Abandonment and Reclamation Obligations**" means all Losses and Liabilities and other duties and obligations, whether arising under contract, Applicable Law or otherwise, relating to:
 - (i) the abandonment of the Wells (and no other wells), and restoration and reclamation of the surface sites thereof and any other lands used to gain access thereto;
 - (ii) the closure, decommissioning, dismantling and removal of any structures, buildings, pipelines, facilities, equipment and other tangible depreciable property and assets comprising the Tangibles, together with the restoration and reclamation of the lands on or in which any of the foregoing are or were located and any other lands used to gain access thereto; and
 - (iii) the restoration, remediation or reclamation of the surface or subsurface of any lands other than those lands described in paragraphs (i) and (ii).
- (b) "**AFEs**" means authorities for expenditure, cash calls, operations notices, amounts budgeted pursuant to joint operating agreements, unit agreements, mail ballots and similar notices and calls for funds.
- (c) "**Affiliate**" means, with respect to a particular Person, another Person that controls, is controlled by, or is under common control with that particular Person. For the purposes of this definition, a Person "controls" another Person (other than an individual) if the first Person:
 - (i) holds more than 50% of the voting securities of such other Person; or

- (ii) has power to appoint a majority of the board of directors or comparable body of such other Person; or
- (iii) is entitled to more than 50% of the profits of such other Person or, in the event of a dissolution, to more than 50% of the assets of such other Person;

or otherwise has the power to direct or cause the direction of management or policies of such other Person, in each case, regardless of whether such right or power is held or exercisable directly or through intermediaries or whether such right or power is held beneficially or as a trustee, guardian or similar capacity. In addition, if such other Person is a partnership and all of the partners therein would be considered "Affiliates" of each other as provided above in this Clause 1.1(c), such partnership shall be deemed to be an Affiliate of each such partner and each other Person that is or would be deemed to be an Affiliate of each such partner.

- (d) **"Agreement"** means this asset purchase and sale agreement, including the attached Schedules.
- (e) **"Applicable Canadian Securities Laws"** means, collectively or individually, as the context may require, the securities and corporate legislation of each of the provinces and territories of Canada, and the rules, regulations, policies, instruments, orders, rulings and notices published and/or promulgated thereunder by the applicable securities regulatory authorities (including the TSXV and the Toronto Stock Exchange), as they may be amended from time to time.
- (f) **"Applicable Law"** means, in relation to any Person, property or circumstance, all laws and statutes, including regulations, rules, by-laws, ordinances and other statutory instruments enacted thereunder; all judgments, decrees, rulings and orders of courts, tribunals, commissions and other similar bodies of competent jurisdiction; all orders, rules, directives, policies and guidelines having force of law issued by any Governmental Authority, including Applicable Canadian Securities Law; and all terms and conditions of any Permits; that are in effect as of the relevant time and are applicable to such Person, property or circumstance.
- (g) **"Applicable Privacy Laws"** means all Applicable Law relating to privacy and the collection, use and disclosure of Personal Information in all applicable jurisdictions, including the *Personal Information Protection and Electronic Documents Act* (Canada), and any comparable provincial law, including the *Personal Information Protection Act* (Alberta).
- (h) **"Arbitration Act"** means the *Arbitration Act* (Alberta).
- (i) **"Assets"** means the Petroleum and Natural Gas Rights, the Tangibles, the Included Seismic Data, and the Miscellaneous Interests but excluding the Excluded Assets.
- (j) **"Base Price"** has the meaning ascribed to that term in Clause 2.5(a).
- (k) **"Business Day"** means a day, other than a Saturday, a Sunday or a statutory holiday in Calgary, Alberta, on which banks are open generally to conduct commercial business in Calgary, Alberta.
- (l) **"Cash Deposit"** has the meaning ascribed to that term in Clause 2.8.
- (m) **"Claim"** means any claim, demand, lawsuit, notice, action, proceeding, notice of non-compliance or violation, order or direction, arbitration or governmental proceeding or investigation.
- (n) **"Claiming Party"** has the meaning ascribed to that term in Clause 6.8.

- (o) **"Class B Shares"** means the Class "B" shares in the capital of Purchaser.
- (p) **"Closing"** means the completion of the Transaction.
- (q) **"Closing Date"** means the later of:
 - (i) April 1, 2013;
 - (ii) the third Business Day following the receipt of the later of Competition Act Approval and TSXV Approval;or any other Business Day as Vendor and Purchaser may agree, provided that, following Closing, references to the Closing Date shall mean the date on which Closing actually occurred.
- (r) **"Closing Place"** means the offices of Vendor's Solicitors or any other place as Vendor and Purchaser may agree.
- (s) **"Closing Statement"** has the meaning ascribed to that term in Clause 2.7(c).
- (t) **"Closing Time"** means 11:00 a.m. on the Closing Date or any other time as Vendor and Purchaser may agree.
- (u) **"Commissioner"** means the Commissioner of Competition appointed under the Competition Act.
- (v) **"Common Shares"** means the Class "A" shares in the capital of Purchaser.
- (w) **"Competition Act"** means the *Competition Act* (Canada) R.S.C. 1985, c.C-34, as amended and any regulations made thereunder.
- (x) **"Competition Act Approval"** means:
 - (i) the Commissioner shall have issued, and Purchaser shall have received, an advance ruling certificate pursuant to section 102 of the Competition Act in respect of the Transaction in form and substance acceptable to Purchaser, acting reasonably; or
 - (ii) Purchaser shall have received a No Action Letter, and
 - (A) the relevant waiting period in section 123 of the Competition Act shall have expired or been earlier terminated; or
 - (B) the obligation to give the requisite notice has been waived by the Commissioner or a Person authorized by the Commissioner pursuant to subsection 113(c) of the Competition Act; andin addition to the occurrence of (i) or (ii)(A) or (B) above, in the interim period prior to the Closing Time, there shall have been no threatened or actual application by the Commissioner for an order under section 92, section 100 or section 104 of the Competition Act.
- (y) **"Competition Act Notice"** means notification of the Transaction pursuant to: (i) a written request for the Commissioner to issue an advance ruling certificate under section 102 of the Competition Act or alternatively a No Action Letter and waiver pursuant to section 113(c) of the Competition

Act; or (ii) section 114 of the Competition Act, including information required to be supplied pursuant to a request under section 114(2) of the Competition Act.

- (z) **"Computer Data Base Data"** means:
- (i) Roughneck Preventative Maintenance Database data;
 - (ii) PVR Field Data Capture Database data;
 - (iii) Alberta One-Call Pipeline Database data;
 - (iv) Pressure Equipment Integrity Management System Database data;
 - (v) Pipeline Operations Manual Database data;
 - (vi) a digital copy of Vendor's RBC Virtual Data Room files;
 - (vii) one hard copy and one digital copy of the Reserves Report; and
 - (viii) QByte data files and, to the extent reasonable and practical, copies of accounting Excel files related to the Assets.
- (aa) **"Confidentiality Agreement"** means the agreement entitled "Confidentiality Agreement" dated October 3, 2012 between Vendor and Purchaser.
- (bb) **"Data Room"** means all of the data, information, records and other materials included in the virtual electronic data room set up by or with RBC Rundle and the physical rooms established by Vendor and RBC Rundle, together with all other data, information, records and other materials relating to Vendor and the Assets, to which Purchaser, its Affiliates or its, or its Affiliates', representatives have been provided access prior to the date of this Agreement.
- (cc) **"Debenture"** means the convertible senior secured debenture, for the Debenture Amount, issued by Purchaser in favour of Vendor upon the terms of the Debenture Indenture, and in the form, attached to the Debenture Indenture.
- (dd) **"Debenture Amount"** means Twenty Seven Million Dollars (\$27,000,000.00) plus or minus the net amount of the adjustments provided for in Clause 2.7 as set forth in the Closing Statement, minus the amount of the Cash Deposit and the Deposit Interest.
- (ee) **"Debenture Indenture"** means the trust indenture to be dated as of the Closing Date, to be entered into between Purchaser and Olympia Trust Company, providing for the issue of the Debenture.
- (ff) **"Deposit"** means, collectively, the Cash Deposit and the Non-Cash Deposit.
- (gg) **"Deposit Interest"** means any interest actually earned on the Cash Deposit while held by Vendor's Solicitors up to the time of the release or application thereof as provided in this Agreement.
- (hh) **"Deposit Lands"** means the lands set forth and described in Schedule "N".
- (ii) **"Designated Employees"** means the employees of Vendor listed in the Employee Schedule.

- (jj) **"Disclosed Information"** includes:
 - (i) the information in respect of Vendor and the Assets set forth and included in the Data Room;
 - (ii) such other information in respect of the Vendor, the Assets and the provisions of this Agreement as is disclosed or made available by Vendor to Purchaser from time to time prior to Closing; and
 - (iii) the matters in Schedule J.
- (kk) **"Disclosed Personal Information"** has the meaning ascribed to that term in Clause 11.2(a).
- (ll) **"Effective Time"** means 12:01 a.m. on November 1, 2012.
- (mm) **"Employee Schedule"** has the meaning ascribed to that term in Clause Article 11.
- (nn) **"Encumbrance"** means a Security Interest, an option to purchase, a right of first refusal, right of first offer or other pre-emptive or preferential right to purchase, a farm-out agreement under which earning has not occurred, a royalty, a net profits interest, a carried working interest, a right to convert a royalty to a working interest on payout of a well, a penalty or forfeiture arising as a result of non-participation in a drilling or other operation and any other adverse claim or encumbrance, whether similar or dissimilar to the foregoing.
- (oo) **"Environment"** means the components of the earth and includes ambient air, land, surface and sub-surface strata, groundwater, surface water, all layers of the atmosphere, all organic and inorganic matter and living organisms, and the interacting natural systems that include such components.
- (pp) **"Environmental Liabilities"** means all past, present and future Losses and Liabilities, Claims and other duties and obligations, whether arising under contract, Applicable Law or otherwise, arising from or associated with:
 - (i) all Abandonment and Reclamation Obligations;
 - (ii) any damage, contamination or other adverse situations pertaining to the Environment howsoever and by whomsoever caused and regardless of whether such damage, contamination or other adverse situations occur or arise in whole or in part prior to, at or subsequent to the date of this Agreement;
 - (iii) the storage, use, holding, collection, accumulation, assessment, generation, manufacture, processing, treatment, stabilization, disposition, handling, transportation, release, emission or discharge of Petroleum Substances, oilfield wastes, water, hazardous substances, environmental contaminants and all other substances and materials regulated under any Applicable Law, including any forms of energy;
 - (iv) compliance with or the consequences of any non-compliance with, or violation or breach of, any Applicable Law pertaining to the Environment or to the protection of the Environment;

- (v) occupational and health and safety matters, including compliance with or the consequences of any non-compliance with, or violation or breach of, any Applicable Law pertaining to occupational health or safety;
- (vi) sampling, monitoring or assessing the Environment or any potential impacts thereon from any past, present or future activities or operations; or
- (vii) the protection, reclamation, remediation or restoration of the Environment;

that relate to or arise by virtue of the Assets or the ownership thereof or any past, present or future operations and activities conducted in connection with the Assets or on or in respect of the Lands or any lands pooled or unitized therewith but excluding, for greater certainty, any Losses, Liabilities or Claims to the extent they are related to or arising from the Excluded Assets.

(qq) **"ERCB"** means the Alberta Energy Resources Conservation Board.

(rr) **"Excluded Assets"** means Vendor's entire right, title and interest in and to:

- (i) all Petroleum and Natural Gas Rights falling within, the lands outlined in red on Part 1 of Schedule K, together with all Tangibles and Miscellaneous Interests exclusively relating thereto or exclusively used in connection therewith;
- (ii) those additional items listed in Part 2 of Schedule K; and
- (iii) any assets sold by the Vendor to Longview Oil Corp. prior to the Effective Time.

(ss) **"Final Statement of Adjustment"** has the meaning ascribed to that term in Clause 2.7(e).

(tt) **"Financial Impact"** means either a decrease in the value of the Assets or an increase in the Losses and Liabilities pertaining to the Assets, net of any insurance carried by or on behalf of Vendor or Purchaser.

(uu) **"General Conveyance"** means an agreement in the form set forth in Schedule E.

(vv) **"Governance Agreement"** means an agreement in the form set forth in Schedule Q.

(ww) **"Governmental Authority"** means any:

- (i) governmental entity or authority of any nature, including any governmental ministry, agency, branch, department or official, and any court, regulatory board or other tribunal; or
- (ii) individual or body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, regulatory or taxing authority or power of any nature;

having or purporting to exercise jurisdiction or power over any Person, property, operation, transaction or other matter or circumstance.

(xx) **"GST"** means the goods and services tax provided for in the *Excise Tax Act* (Canada) and any other tax imposed or levied by the Government of Canada on or in respect of the sale or supply of goods or services in addition to or replacement for such goods and service tax.

- (yy) **"Identified ROFRs"** means the ROFRs identified in Schedule F.
- (zz) **"IFRS"** means generally accepted accounting principles in Canada, as amended from time to time, as applicable to the Vendor and for greater certainty includes International Financial Reporting Standards as and to the extent applicable to the Vendor.
- (aaa) **"Included Seismic Data"** means all of Vendor's right, title and interest, including trading rights, in and to:
- (i) all proprietary Seismic Data owned by the Vendor and relating to the seismic lines set forth and described in Part 1 of Schedule "I"; and
 - (ii) all partner or joint Seismic Data owned by the Vendor and relating to the seismic lines set forth and described in Part 2 of Schedule I, but excluding any such data which cannot be transferred by Vendor to Purchaser due to the occurrence of one or both of the following:
 - (A) the consent of a Third Party is not obtained; or
 - (B) a transfer fee is payable to any Third Party and Purchaser has not agreed in writing to be liable for such fee.
- (bbb) **"Indemnified Matter"** has the meaning ascribed to that term in Clause 6.8.
- (ccc) **"Indemnifying Party"** has the meaning ascribed to that term in Clause 6.8.
- (ddd) **"Lands"** means all lands areally within the White Map Area, including the lands identified in Part 1 of Schedule A and, subject to any limitations identified or set forth in Part 1 of Schedule A or in any applicable Title and Operating Documents, the Petroleum Substances, within, upon or under such lands but, for certainty, excluding therefrom all the lands areally outlined in red on Part 1 of Schedule K.
- (eee) **"Leases"** means all leases, licences, permits and other documents of title set forth and described in Schedule "A", by virtue of which the holder thereof is entitled to drill for, win, take, own or remove the Petroleum Substances within, upon or under the Lands or lands with which the Lands are pooled or unitized, or by virtue of which the holder thereof is deemed to be entitled to a share of Petroleum Substances removed from the Lands or lands with which the Lands are pooled or unitized, including, if applicable, all renewals and extensions of such documents and all documents issued in substitution therefor but only insofar as the same relate to the Lands.
- (fff) **"Losses and Liabilities"** means all losses, costs, expenses, interest, charges, assessments, damages, liabilities, fines and penalties, including all reasonable costs incurred in investigating, defending or negotiating the settlement or resolution of any Claim or threatened Claim, and specifically including reasonable legal and other professional fees and expenses on a "solicitor and his own client" or comparable basis, regardless of whether the foregoing arise under or by virtue of common law, in equity, under Applicable Law, under contract, negligence, strict liability, breach of duty or otherwise.
- (ggg) **"Major Facilities"** means the plant, machinery, equipment, facilities and other tangible depreciable property and assets identified or described in Schedule C under the heading "Major Facilities."

(hhh) "**Miscellaneous Interests**" means, subject to the limitations and exclusions below in this definition, all of Vendor's right, title and interest in and to all property and rights that pertain directly to the Petroleum and Natural Gas Rights or the Tangibles, (but other than the Petroleum and Natural Gas Rights and the Tangibles themselves), including:

- (i) the Title and Operating Documents and all other contracts and agreements and all rights in relation thereto, including the Production and Marketing Contracts;
- (ii) the Surface Rights;
- (iii) the well bores and down-hole casing for the Wells (and no other wells);
- (iv) the Permits;
- (v) records, files, reports, data, correspondence and other information, including lease, contract, well, production and facilities files and records; and
- (vi) the Computer Data Base Data;

However, the Miscellaneous Interests do not include:

- (A) any of the foregoing property or rights to the extent that they:
 - (I) include or pertain to any seismic data other than the Included Seismic Data;
 - (II) include or pertain to Vendor's proprietary technology, evaluations, forecasts or interpretations (whether geological, engineering, economic or otherwise); or
 - (III) are owned or licensed by Third Parties with restrictions that prohibit the sale, transfer or disclosure thereof to Purchaser;
 - (B) any office equipment of Vendor, including all furniture, fixtures, general office equipment and office computer equipment and software licenses;
 - (C) any deposits or other security related to Permits or any operations or royalties pertaining to the Assets; or
 - (D) Petroleum Substances that are or were in the course of production from the Lands or any lands pooled or unitized therewith, but not, as of the Effective Time, beyond the point of delivery to the buyer thereof.
- (iii) "**Non-Cash Deposit**" has the meaning ascribed to that term in Clause 2.8.
- (jjj) "**Officer's Certificate**" means a certificate given by an officer of Purchaser or Vendor which shall be substantially in the form specified in Schedule G.
- (kkk) "**Operating Statements**" means the summarized financial information prepared by Vendor to be provided to Purchaser in respect of the Assets as prepared in accordance with the financial reporting framework specified in subsection 3.11(5) of National Instrument 52-107 for the periods required as per subsection 8.4(1) of National Instrument 51-102.

- (lll) **"Other Sales Taxes"** means all sales, value-added or similar taxes or other transfer taxes, fees and charges, other than GST, imposed or levied by any Governmental Authority on or in respect of the sale or supply of goods or services.
- (mmm) **"Party"** means a party to this Agreement, and **"Parties"** means both of the parties to this Agreement.
- (nnn) **"Permits"** means, all licences, permits, approvals and authorizations granted or issued by any Governmental Authorities and relating to the construction, ownership, use or operation of the Assets.
- (ooo) **"Permitted Encumbrances"** means:
- (i) liens for taxes, assessments and governmental charges that are not due and payable or delinquent or the validity of which is being contested in good faith;
 - (ii) liens incurred or created in the ordinary course of business as security in favour of a Person that is conducting the development or operation of the property to which such liens relate;
 - (iii) mechanics', builders' and materialmen's liens in respect of services rendered or goods supplied for which payment is not yet due and payable or delinquent or the validity of which is being contested in good faith;
 - (iv) easements, rights of way, servitudes and other similar rights in land, including rights of way and servitudes for highways and other roads, railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light, power, telephone, telegraph and cable television conduits, poles, wires and cables;
 - (v) the right reserved to or vested in any municipality or Governmental Authority by the terms of any lease, licence, franchise, grant or permit or by any statutory provision, to terminate any such lease, licence, franchise, grant or permit or to require annual or other periodic payments as a condition of the continuance thereof;
 - (vi) rights of general application reserved to or vested in any Governmental Authority to levy taxes on Petroleum Substances or any of them or the income therefrom, or to control, limit or regulate production rates or the operation or use of any property;
 - (vii) statutory exceptions to title and the reservations, limitations, provisos and conditions in any original grants from the Crown of any mines and minerals;
 - (viii) the terms and conditions of the Title and Operating Documents, *provided that*, in the case of the Assets relating to those Lands listed in Part 1 of Schedule A, any Encumbrance created under or pursuant to any such Title and Operating Documents prior to the date of this Agreement will be a Permitted Encumbrance only if set out and described in Schedule "A";
 - (ix) any Security Interest held by any Third Party affecting Vendor's interest in and to the Assets in respect of which Vendor delivers a release, discharge or no-interest letter to Purchaser at or prior to Closing;

- (x) contracts for the purchase, processing, transportation or storage of Petroleum Substances or for the contract operation of any of the Assets that are terminable without penalty on 31 days or less notice;
 - (xi) all ROFRs arising under or pursuant to any of the Title and Operating Documents;
 - (xii) all Encumbrances, obligations, duties, terms and conditions identified or set forth in a Schedule, or specifically consented to or approved by Purchaser prior to the date of this Agreement or deemed approved or accepted by Purchaser in accordance with a provision of this Agreement;
 - (xiii) any Security Interest held by any Third Party encumbering any Third Party interest in and to the Assets or any part or portion thereof;
 - (xiv) Third Party trust interests which are not attributed to Vendor in Part 1 of Schedule A and which do not adversely affect the value of Assets; and
 - (xv) all areas of mutual interest provisions contained in the Title and Operating Documents or to which the Lands are otherwise subject including, but not limited to, those specifically identified in Schedule L;
- (ppp) **"Person"** includes any individual, body corporate, partnership (limited or general), trust, trustee, executor or similar official, Governmental Authority or other entity.
- (qqq) **"Personal Information"** means information about an identifiable individual.
- (rrr) **"Petroleum and Natural Gas Rights"** means all of Vendor's right, title and interest in and to:
- (i) rights in, or rights to drill for and to produce, save and market, Petroleum Substances;
 - (ii) royalty interests, net profit interests and similar interests in Petroleum Substances or the proceeds of the sale of Petroleum Substances or to payments calculated by reference thereto;
 - (iii) fee simple interests and other estates in Petroleum *in situ*; and
 - (iv) rights to acquire any of the foregoing in paragraphs (i), (ii) and (iii);
- insofar as the foregoing relate to the Lands or the White Map Area or any lands pooled or unitized therewith, whether or not described in Part 1 of Schedule A.
- (sss) **"Petroleum Substances"** means crude oil, natural gas, natural gas liquids and other related hydrocarbons and all other substances related to any of the foregoing, whether liquid, solid or gaseous, and whether hydrocarbons or not, including sulphur.
- (ttt) **"Pre-Closing Period"** means the period from the date of this Agreement to the Closing Date.
- (uuu) **"Prime Rate"** means the rate of interest equal to the annual rate of interest announced from time to time by the main Calgary branch of the Bank of Nova Scotia as the reference rate then in effect for determining interest rates on Canadian dollar commercial loans in Canada.

- (vvv) **"Production and Marketing Contracts"** means those agreements and other arrangements identified in Schedule B.
- (www) **"Public Record"** means all information filed by or on behalf of Purchaser with the Securities Commissions in compliance, or intended compliance, with any Applicable Canadian Securities Laws.
- (xxx) **"Purchase Price"** has the meaning ascribed to that term in Clause 2.5(a).
- (yyy) **"Purchaser Financial Statements"** means the: (i) audited annual financial statements of Purchaser as at and for the years ended December 31, 2011 and 2010 and the auditors' reports thereon; and (ii) unaudited interim financial statements of Purchaser as at and for the three and nine months ended September 30, 2012.
- (zzz) **"Purchaser's Knowledge"** means the actual knowledge or awareness, as the case may be, of the current officers of Purchaser whose normal responsibilities relate to the Deposit Lands, after due enquiry, and does not include knowledge and awareness of any other Person or Persons.
- (aaaa) **"Questfire Employee"** has the meaning ascribed to that term in Clause **Error! Reference source not found.**
- (bbbb) **"Quit Claim and Conveyance"** means an irrevocable quit claim and conveyance by Purchaser in favour of the Vendor of Purchaser's entire right, title and interest, free and clear of all Encumbrances other than Permitted Encumbrances (in both cases as those terms are used herein in respect of the Assets, as applicable) in and to the Deposit Lands.
- (cccc) **"Related Persons"** means, in respect to a Party, that Party's Affiliates, together with that Party's and its Affiliates' directors, officers, employees and other personnel and agents.
- (dddd) **"Reserve Report"** means the Sproule Associates Ltd. reserve report in respect of Vendor's non-core assets dated effective October 1, 2012.
- (eeee) **"ROFR"** means a right of first refusal, pre-emptive right of purchase or similar right to acquire the Assets or certain of them that may become operative by virtue of this Agreement or the completion of the Transaction.
- (ffff) **"Securities Commissions"** means the securities commissions or similar securities regulatory authorities in each of the provinces in Canada in which Purchaser is a reporting issuer.
- (gggg) **"Security Interest"** means a pledge, lien, charge, mortgage, assignment by way of security, conditional sale, title retention arrangement or other security interest.
- (hhhh) **"Seismic Data"** means, and shall include, to the extent available:
- (i) for 2D data, (as available and as they exist):
 - (A) Field data obtained from each shotpoint location;
 - (B) Final processed (stack) data;
 - (C) Surveyor's notes, driller's reports and observer's reports;

- (D) Shotpoint maps and segp1 survey; and
- (E) Processed record sections; and
- (ii) for 3D data, (as available and as they exist):
 - (A) Field data obtained from each shotpoint location;
 - (B) Final processed (stack) data;
 - (C) Surveyor's notes, driller's reports and observer's reports;
 - (D) Bin maps and segp1 survey; and
 - (E) Sample processed record sections.
- (iii) **"Share Consideration"** means One Million Five Hundred Thousand (1,500,000) Class B Shares, having a deemed aggregate value, for the purposes of the Transaction, equal to the Share Consideration Amount.
- (iii) **"Share Consideration Amount"** means [*the value of the Share Consideration Amount has been redacted*].
- (kkkk) **"Specific Conveyances"** means all conveyances, assignments, transfers, novations, trust declarations and other documents or instruments that are reasonably required or desirable, in accordance with normal oil and gas industry practices, to convey, assign and transfer the Assets to Purchaser and to make Purchaser a party to, and to novate Purchaser into, the Title and Operating Documents in the place and stead of Vendor with respect to the Assets.
- (llll) **"Surface Rights"** means all rights to occupy, cross or otherwise use or enjoy the surface of the Lands and any lands pooled or unitized therewith or any other lands: (1) upon which the Tangibles are situate, (2) used in connection with the ownership or operation of the Petroleum and Natural Gas Rights, the Tangibles or the Wells, or (3) used to gain access to any of the Lands (or any lands pooled or unitized therewith), the Tangibles or the Wells, including without limitation any fee simple interests.
- (mmmm) **"Take or Pay Obligations"** means obligations to sell or deliver Petroleum Substances or any of them without being entitled in due course to receive and retain full payment for such Petroleum Substances.
- (nnnn) **"Tangibles"** means all of Vendor's right, title and interest in and to:
 - (i) the Major Facilities; and
 - (ii) all tangible depreciable property, apparatus, plant, equipment, machinery, field inventory and facilities used or intended for use in, or otherwise useful in exploiting any Petroleum Substances from or within the Lands (whether the Petroleum and Natural Gas Rights to which such Petroleum Substances are allocated are owned by Vendor or by others or both) and located within, upon or in the vicinity of the Lands (or any lands pooled or unitized therewith), including all gas plants, oil batteries, buildings, production equipment, pipelines, pipeline connections, meters, generators, motors, compressors,

treaters, dehydrators, separators, pumps, tanks, boilers, communication equipment, all salvageable equipment pertaining to any Wells listed in Part 2 of Schedule A and the surplus equipment set forth and described in Schedule "O".

(oooo) **"Third Party"** means any Person other than Vendor or Purchaser.

(pppp) **"Thirteenth Month Adjustment"** means the accounting procedure performed annually by any operator of certain of the Assets for the purpose of redistributing operating expenses, processing fee revenues, royalties and gas cost allowances and other costs, expenses or revenues among the owners or users of those Assets.

(qqqq) **"Title and Operating Documents"** means:

- (i) all leases, subleases, permits and licences (and any replacements, renewals or extensions thereof or leases or other instruments derived therefrom) pertaining to the Lands by virtue of which the holder thereof is granted certain rights with respect to Petroleum Substances within, upon or under the Lands or any lands pooled or unitized therewith or by virtue of which the holder thereof is deemed to be entitled to a share of Petroleum Substances removed from the Lands or any lands pooled or unitized therewith;
- (ii) agreements relating to the acquisition, ownership, operation or exploitation of the Petroleum and Natural Gas Rights, Tangibles, the Included Seismic Data or the Wells, including:
 - (A) operating agreements, royalty agreements, farm-out or farm-in agreements, option agreements, participation agreements, pooling agreements, unit agreements, unit operating agreements, sale and purchase agreements and asset exchange agreements;
 - (B) agreements for the sale of Petroleum Substances;
 - (C) agreements pertaining to the Surface Rights;
 - (D) agreements for the construction, ownership and operation of gas plants, gathering systems and other tangible depreciable property and assets;
 - (E) service agreements for the treating, gathering, storage, transportation or processing of Petroleum Substances or other Petroleum Substances, the injection or subsurface disposal of substances, the use of well bores or the operation of any Tangibles or Wells by a Third Party; and
 - (F) Permits and other approvals, authorizations or licences required under Applicable Law.

(rrrr) **"Transaction"** means the purchase of the Assets by Purchaser from Vendor on and subject to the terms and conditions, and as more fully described, in this Agreement.

(ssss) **"TSXV"** means the TSX Venture Exchange.

(tttt) **"TSXV Approval"** means the final approval letter of the TSXV in respect of:

- (i) the issuance of the Debenture to Vendor and the issuance and listing of the Common Shares issuable to Vendor pursuant to the terms of the Debenture;
 - (ii) the issuance of the Class B Shares to Vendor, the listing of the Class B shares on the TSXV and the issuance and listing of the Common Shares issuable to Vendor pursuant to the terms of the Class B Shares; and
 - (iii) the Transaction.
- (uuuu) "**Unscheduled Assets**" has the meaning set forth in Clause 2.2.
- (vvvv) "**Vendor's Knowledge**" means the actual knowledge or awareness, as the case may be, of the current officers of Vendor whose normal responsibilities relate to the Assets, after due enquiry, and does not include knowledge and awareness of any other Person or Persons.
- (www) "**Vendor's Solicitors**" means Burnet, Duckworth & Palmer LLP in its capacity as legal counsel to Vendor.
- (xxxx) "**Wells**" means all producing, shut-in, water source, observation, disposal, injection, abandoned, suspended and similar wells located on or within the Lands or any lands pooled or unitized therewith, whether or not completed, including the wells identified or described in Part 2 of Schedule A, together with all well licenses relating thereto, but notwithstanding the foregoing in this subclause 1.1 (eeee), excluding thereout:
- (i) reclamation certified abandoned wells; and
 - (ii) any abandoned wells on expired mineral rights which are not set forth and described in Part 2 of Schedule "A".
- (yyyy) "**White Map Area**" means the areas outlined areally in red on Schedule H but excluding the Excluded Assets.

1.2 Schedules

Appended to this Agreement are the following Schedules:

Schedule A	- Part 1 - Lands, Petroleum and Natural Gas Rights - Part 2 - Wells
Schedule B	- Production and Marketing Contracts
Schedule C	- Major Facilities
Schedule D	- Outstanding AFEs
Schedule E	- Form of General Conveyance
Schedule F	- Rights of First Refusal
Schedule G	- Form of Officer's Certificate
Schedule H	- White Map Area
Schedule I	- Included Seismic Data
Schedule J	- Disclosure
Schedule K	- Excluded Assets
Schedule L	- Area of Mutual Interest
Schedule M	- Form of Debenture Indenture and Form of Debenture
Schedule N	- Deposit Lands

Schedule O	- Surplus, Idle and Active Equipment
Schedule P	- Hedging Programs
Schedule Q	- Form of Governance Agreement

These Schedules are incorporated into and form part of this Agreement. If any term or condition of such Schedules conflicts or is inconsistent with any term or condition in the main body of this Agreement, the term or condition in the main body of this Agreement shall prevail to the extent of the conflict or inconsistency.

Without limiting the provisions of Clause 2.2, from time to time prior to Closing, Vendor may, with the consent of Purchaser, supplement or amend the Schedules to this Agreement with respect to any matter that, if existing, occurring or known at the date of this Agreement, would have been required to be set forth or described in such Schedules. On being furnished to Purchaser by Vendor and agreed to by Purchaser, the updated Schedules shall become part of this Agreement in lieu of their respective predecessor Schedules (if any) for all purposes of this Agreement.

1.3 Headings

The use of "Article", "Clause", "sub-clause", "paragraph" and "Schedule" followed by a number or letter or combination thereof refers to the specified article, clause, sub-clause, paragraph or schedule of or to this Agreement.

1.4 Interpretation Not Affected by Headings

The division of this Agreement into articles, clauses, sub-clauses, paragraphs and other subdivisions and the insertion of headings for any of the foregoing are for convenience and reference only and shall not affect the construction or interpretation of this Agreement.

1.5 Words Importing Number or Gender

When the context reasonably permits, words in this Agreement that suggest the singular shall be construed to suggest the plural and vice versa, and words in this Agreement that suggest gender or gender neutrality shall be construed to suggest the masculine, feminine and neutral genders.

1.6 Use of Derivative Terms

If a derivative form of a term or expression that is already specifically defined in this Agreement is also used in this Agreement, then such derivative form shall have a meaning that corresponds to the applicable defined term or expression.

1.7 Use of Industry Terms

Terms and expression that are not specifically defined in this Agreement, but which have generally accepted meanings in the custom and usage of the petroleum and natural gas industry in Western Canada as of the date of this Agreement, shall have such generally accepted meanings when used in this Agreement unless the contrary is specified or provided for elsewhere in this Agreement.

1.8 Use of "Including"

The use of "including" or "includes" or similar words in this Agreement, when following any general statement, term or matter, is not to be construed to limit such general statement, term or matter to the specific items immediately following such word to those or similar items, whether or not non-limiting language (such as "without limitation" or "but not limited to" or words of similar import) is used, but rather such references shall be construed to refer to all items that could reasonably fall within the broadest possible scope of such general statement, term or matter.

1.9 Meaning of "Gross Negligence" and "Wilful Misconduct"

For the purposes of this Agreement, no act or omission by a Party or its Related Persons shall be construed as gross negligence or wilful misconduct if the act or omission is taken or omitted to be taken at the request or direction of, or with the prior consent or approval of, the other Party.

1.10 Accounting Matters

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under IFRS and all determinations of an accounting nature required to be made shall be made in a manner consistent with IFRS applied on a consistent basis.

1.11 Statutory References

Any reference in this Agreement to a law, statute, regulation, rule, by-law or other requirement of law or any governmental consent, approval, permit or other authorization shall be deemed to refer to such law, statute, regulation, rule, by-law or other requirement of law or such governmental consent, approval, permit or other authorization as it has amended, supplemented, re-enacted, varied, amended or otherwise modified or replaced from time to time up to the applicable time.

1.12 Contractual References

Any reference in this Agreement to another contract, agreement, instrument or other document shall be deemed to refer to such contract, agreement instrument or other document as it has been amended, modified, replaced or supplemented from time to time up to the applicable time

1.13 Monetary References

Any reference in this Agreement to a monetary amount, including the use of the term "Dollar" or the symbol "\$", shall mean the lawful currency of Canada unless the contrary is specified or provided for elsewhere in this Agreement.

1.14 References to Time

Any reference in this Agreement to any particular time shall mean the local time in Calgary, Alberta on the relevant day.

1.15 Date for Payments or Other Actions

Where any payment or calculation is to be made, or any other action is to be taken, on or as of a day that is not a Business Day, that payment or calculation is to be made, or that other action is to be taken, as applicable, on or as of the next following Business Day.

ARTICLE 2 PURCHASE AND SALE AND CLOSING

2.1 Purchase and Sale

Vendor hereby agrees to sell, assign, transfer and convey the Assets to Purchaser, and Purchaser hereby agrees to purchase and receive the Assets from Vendor, on, subject to and in accordance with the terms of this Agreement.

2.2 White Map Area

- (a) The Parties acknowledge that although Vendor has prepared, and Purchaser has reviewed, the Schedules attached hereto diligently and with good faith, they recognize that there may be unintended omissions or misdescriptions. As such, the Parties acknowledge and agree that it is their intention that, in addition to those Assets included and specified in the Schedules hereto, the Assets shall include Vendor's entire interest in and to all Petroleum and Natural Gas Rights, Tangibles and Miscellaneous Interests (as those terms are defined herein) which fall within the White Map Area, any of such additional unscheduled Assets, if any, being the "**Unscheduled Assets**", and that the Purchase Price includes consideration for such Unscheduled Assets.
- (b) To the extent that any Unscheduled Assets are identified by either Party after the Closing Date, the Parties shall use all reasonable efforts to replace the affected Schedules attached hereto with corrected Schedules, which corrected Schedules shall be deemed to be the applicable Schedule as of the date hereof, and to take such additional steps as are necessary to specifically convey Vendor's interest in such Unscheduled Assets to Purchaser.

2.3 Closing

- (a) Subject to all other provisions of this Agreement, Closing shall take place at the Closing Place at the Closing Time.
- (b) Subject to all other provisions of this Agreement, risk for, title to, and beneficial ownership of, the Assets shall pass from Vendor to Purchaser upon Closing.
- (c) If funds due at Closing are transferred via wire transfer, Closing shall not occur unless and until Vendor is satisfied that such funds have been received into the bank account designated by it for such purposes.

2.4 Form of Payment

All payments to be made pursuant to this Agreement shall be made in immediately available funds by wire transfer or, to the extent permissible, bank draft. Vendor shall provide Purchaser with the applicable wire transfer information no later than five Business Days prior to the Closing Date.

2.5 Purchase Price

- (a) The aggregate consideration to be paid by Purchaser to Vendor for the Assets (the "**Purchase Price**") shall be [redacted] (the "**Base Price**"), plus or minus the net amount of the adjustments provided for in Clause 2.7.
- (b) At the Closing Time:

- (i) Purchaser shall pay to Vendor the sum of Fifty Five Million Dollars (\$55,000,000.00);
 - (ii) Purchaser shall issue the Debenture to Vendor;
 - (iii) Purchaser shall issue the Share Consideration to Vendor; and
 - (iv) the Parties shall direct Vendor's Solicitors to release the Cash Deposit and Deposit Interest to Vendor, which amounts shall be applied in partial satisfaction of the Purchase Price, and to release the Non-Cash Deposit to Purchaser.
- (c) The Purchase Price shall be allocated among the Assets as follows:
- (i) to the Tangibles, [redacted]% of the Base Price, minus \$10.00;
 - (ii) to the Miscellaneous Interests, \$10.00;
 - (iii) to the Included Seismic Data, [redacted]% of the Base Price;
- with the balance of the Purchase Price ([redacted]%) allocated to the Petroleum and Natural Gas Rights.
- (d) In the determination of the Purchase Price payable for the Assets, Vendor and Purchaser are in agreement that the extent and value of past, present and future Environmental Liabilities is unknown as of the Closing Date, and the Vendor and Purchaser have not attributed a specific or agreed to value with regard to either (i) such liabilities, or (ii) the indemnities provided for in this Agreement, nor shall there be any adjustments made to the Purchase Price in relation thereto.

2.6 GST and Other Sales Taxes

- (a) The Base Price does not include an amount on account of GST or any Other Sales Taxes payable in respect of the Transaction.
- (b) Purchaser represents and warrants to Vendor that it is now, or will be at Closing registered under Subdivision (d) of Division V of Part IX of the *Excise Tax Act* (Canada). Vendor and Purchaser will make a joint election under section 167 of the *Excise Tax Act* (Canada) so that the GST will not be payable on the transfer of Assets. The Purchaser and Vendor will both execute the GST 44 "Election Concerning the Acquisition of a Business or Part of a Business" (the "**GST 44 Election**") for Closing to effect that election. Purchaser will file that form with its GST return for the reporting period in which Closing occurs. Purchaser will provide Vendor with such supporting documentation as Vendor may reasonably request in order to confirm that such election has been made and properly filed. The GST registration number of Purchaser is [redacted]. The GST registration number of Vendor is [redacted]. Purchaser shall indemnify Vendor for any tax (including GST), penalty and interest assessed against Vendor due to Vendor not collecting GST as a result of entering into the GST 44 Election, or failure by the Purchaser to file the GST 44 Election as required by subsection 167 (1.1) of the *Excise Tax Act* (Canada). This indemnification shall be in effect until 4 years after the later of the due date for the Purchaser's GST Return, Form GST34-2, for the reporting period which includes the Closing and the date such return is actually filed.
- (c) At Closing, Purchaser shall be solely responsible for all Other Sales Taxes, excluding for certainty income taxes, which may be imposed by any governmental authority and pertaining to

its acquisition of the Assets or to the circulation and registration of the Specific Conveyances and shall remit any such amounts to the applicable governmental authority according to the Regulations.

2.7 Adjustments

- (a) All benefits and obligations of any kind or nature received, accruing, payable or paid in respect of the Assets, including maintenance, development, capital and operating costs and proceeds from the sale of production, shall be apportioned on an accrual basis between Vendor and Purchaser as of the Effective Time, subject to the following:
 - (i) all rentals and similar payments, and all property taxes, freehold mineral taxes and other taxes (excluding taxes based on income, net revenue or capital) paid, payable or levied on or in respect to the Assets, the ownership thereof or Petroleum Substances produced therefrom or allocated thereto shall be apportioned between Vendor and Purchaser on a per diem basis as of the Effective Time;
 - (ii) no adjustments shall be made on account of any taxes calculated by reference to or assessed based on income, net revenue or capital that are payable by Vendor or Purchaser and net revenue and capital amounts accruing for all periods prior to the Closing Date shall be reported by Vendor for income tax purposes;
 - (iii) all costs relating to any work performed or goods and services provided in respect of the Assets will be deemed to have accrued as of the date the work was performed or the goods or services were provided, regardless of the time at which those costs become payable;
 - (iv) all deposits, prepaid amounts and other security and financial assurances provided by Vendor to Governmental Authorities or other Third Parties in respect to the Assets, the operation thereof, Petroleum Substances produced therefrom or allocated thereto or services provided in connection therewith do not comprise part of the Assets and shall be for the sole benefit and the account of Vendor;
 - (v) Petroleum Substances (excluding tank bottoms and pipeline fill) that were produced from or allocated to the Assets and that were beyond the wellhead as of the Effective Time do not comprise part of the Assets and shall remain the property of, and be for the benefit and the account of Vendor; and
 - (vi) Vendor shall be required to provide a credit in the Closing Statement for estimated revenues or other benefits attributable to the Assets after the Effective Time to the Closing Date.
- (b) For the purposes of Clause 2.5(c), all adjustments between the Parties pursuant to this Clause 2.7 shall be allocated to the Petroleum and Natural Gas Rights.
- (c) Vendor shall prepare a statement based on Vendor's good faith estimate of all adjustments to be made between the Parties under Clause 2.7(a) (the "**Closing Statement**") and deliver a copy of such statement to Purchaser no later than the 3rd Business Day immediately prior to the Closing Date.

- (d) The Closing Statement shall include Vendor's good faith estimate of the administration fee payable by Purchaser to Vendor as contemplated in Clause 7.2 in respect of the entire period provided for therein.
- (e) Within 180 days following Closing, Vendor shall prepare (or cause to be prepared) and deliver to the other Party a written statement (the "**Final Statement of Adjustment**") setting forth any adjustments to be made between the Parties under Clause 2.7(a) that were not included in the Closing Statement or, if included in the Closing Statement, were not accurately included therein, including required adjustments to the estimated administration fee included in the Closing Statement, together with the net amount payable by one Party to the other in respect of such adjustments. Except as provided in Clause 2.7(f), no further adjustments shall be made between the Parties after settlement of the adjustments set forth in the Final Statement of Adjustment.
- (f) After delivery of the Final Statement of Adjustment, the Parties shall make further adjustments between them, or correct previously made adjustments made between them, under Clause 2.7(a) as and when identified by either of the Parties, provided that, no adjustments shall be made under Clause 2.7(a), including corrections to previously made adjustments, more than one year after Closing except:
 - (i) in response to a notice by one Party to the other Party within the one year period immediately following Closing, which notice shall identify in reasonable detail an adjustment permitted under Clause 2.7(a) that was not previously made between the Parties or, if previously made, was not made accurately;
 - (ii) in connection with a Thirteenth Month Adjustment, but only if a Claim in respect of such Thirteenth Month Adjustment is made by one Party to the other Party within two years after Closing. If such notice is not given within such period, no adjustment in this regard shall be made;
 - (iii) as a consequence of an audit relating to the Assets that was conducted by a Third Party (other than a Governmental Authority) having rights to do so pursuant to the Title and Operating Documents, but only if a Claim in respect of such an audit is made by one Party to the other Party within two years after Closing. If such notice is not given within such period, no adjustment in this regard shall be made; or
 - (iv) an audit initiated by a Governmental Authority, but only if a Claim in respect of such an audit is made by one Party to the other Party within four years after Closing. If such notice is not given within such period, no adjustment in this regard shall be made.
- (g) At any time during the one year period immediately following Closing, each Party shall have the right, at its own cost and upon at least five Business Days prior notice to the other Party, to examine, copy and audit the accounting and financial records of the other Party relating to the Assets for the purpose of verifying the calculation or re-calculation of the adjustments provided for in this Clause 2.7, provided that: (i) in the case of inquiries relating to a Thirteenth Month Adjustment or an audit conducted by a Third Party (other than a Governmental Authority), such period shall extend to the end of the two year period immediately following Closing; and (ii) in the case of inquiries relating to an audit initiated by a Governmental Authority, such period shall extend to the end of the four year period immediately following Closing. Each Party shall cooperate with the other Party in order to provide reasonable access to its records to the other Party for the purposes of this Clause 2.7(g).

- (h) If the Parties fail to agree on the applicability of any adjustment claimed by one of the Parties pursuant to this Clause 2.7 or the calculation or re-calculation of any adjustments provided for in this Clause 2.7, then, on notice to the other Party, a Party may require that the matter be resolved by arbitration in the manner provided for in Clause 12.3(c).
- (i) Amounts payable under this Clause 2.7 shall be paid within 10 days of delivery of the Final Statement of Adjustment or receipt of notice by a Party that is liable to pay such amount as provided above in this Clause 2.7, subject to the limitations in Clause 2.7(f), provided that, if there is a dispute regarding any liability for or the amount of any permitted (or purportedly permitted) adjustment as provided in Clause 2.7(h), the amount in dispute shall be paid within 10 days of settlement or other resolution of such dispute. If a Party fails to pay any such amount when it first becomes due and payable, then, in addition to and without prejudice to its obligation to pay such unpaid amount, such Party shall pay to the other Party interest on such unpaid amount calculated at an annual rate of interest equal to the Prime Rate on a day-to-day basis for the period from the day on which such unpaid amount first became due and payable, to the day on which payment of such unpaid amount, together with such interest, is received by the other Party.
- (j) For certainty, no adjustments claimed or made between the Parties following Closing shall have any effect upon, or cause any adjustment or variance to, the terms of the Debenture Indenture, the Debenture, or the Debenture Amount.

2.8 Deposit

Vendor and Purchaser acknowledge that, concurrently with the execution of this Agreement, Purchaser has:

- (a) paid to Vendor's Solicitors the sum of [redacted] (the "**Cash Deposit**"); and
- (b) delivered to Vendor's Solicitors the Quit Claim and Conveyance (the "**Non-Cash Deposit**");

and Vendor, Purchaser and Vendor's Solicitors have executed an escrow agreement pursuant to which the Deposit will be held by Vendor's Solicitors and released to Vendor or Purchaser, as the case may be in accordance with the provisions of this Agreement. If Closing occurs, Vendor and Purchaser shall instruct Vendor's Solicitors to: (i) release the Cash Deposit and the Deposit Interest to Vendor, in which case, such amounts will be applied towards the Purchase Price as contemplated in Clause 2.5(b); and (ii) deliver the Non-Cash Deposit to Purchaser. If this Agreement is terminated prior to Closing, Vendor and Purchaser shall direct the Vendor's Solicitors to release the Deposit and the Deposit Interest as contemplated in Clause 3.1 or 3.2, as the case may be.

2.9 Competition Act Filing

- (a) Purchaser shall file with the Commissioner a request for an advance ruling certificate pursuant to the Competition Act (or, in the event that the Commissioner is not prepared to issue such certificate, a No Action Letter and waiver under paragraph 113(c) of the Competition Act relieving the Parties from the obligation to file under Part IX of the Competition Act) and Vendor shall furnish Purchaser with such information and assistance as may be reasonably requested in order to prepare and file such request for an advance ruling certificate.
- (b) The Parties shall use commercially reasonable efforts to respond promptly to any request or notice from any Governmental Authority requiring the Parties, or any one of them, to supply

additional information that is relevant to the Commissioner's assessment of the Transaction including, without limitation, pursuant to section 114(2) of the Competition Act.

- (c) Purchaser shall pay all filing fees payable to Governmental Authorities in respect of the applications and filings made in connection with obtaining the Competition Act Approval. Each Party will pay all other costs incurred by it in connection with obtaining the Competition Act Approval.
- (d) Subject to Applicable Law, each Party shall provide the other Party (or its external counsel in respect of competitively-sensitive, privileged or confidential matters) with reasonable opportunity to review and comment on all filings, applications and submissions to be made by it with or to the Commissioner, the Competition Bureau or any other Governmental Authority relevant to the Competition Act Approval, and to review all notices and correspondence received from the Competition Bureau with respect to all such filings, applications and submissions made under the Competition Act and such other Party shall use its commercially reasonable efforts to cooperate with and assist such Party in the preparation and making of all such filings, applications and submissions and obtaining the Competition Act Approval.
- (e) Notwithstanding any other provision herein, in no event will Purchaser be required hereunder or otherwise to agree to any hold separate, divestiture or other order, decree or restrictions on the business of the Purchaser or any other business or the conduct thereof, or future transaction.

2.10 Included Seismic Data

- (a) At Closing, Vendor shall assign ownership of all Included Seismic Data to Purchaser.
- (b) Purchaser shall be responsible for and shall pay all costs associated with providing or copying the Included Seismic Data.

2.11 Audit of Operating Statements

In addition to the amounts payable by Purchaser to Vendor pursuant to Clause 2.5(b), at the Closing Time Purchaser shall reimburse Vendor for all out of pocket costs incurred by Vendor in respect of the audit of the Operating Statements.

ARTICLE 3 CONDITIONS OF CLOSING

3.1 Purchaser's Conditions

- (a) The obligation of Purchaser to complete the Transaction and purchase the Assets from Vendor is subject to the following conditions precedent, which are inserted into and made part of this Agreement for the exclusive benefit of Purchaser and may be waived only by Purchaser:
 - (i) the representations and warranties of Vendor set forth in Clause 5.1 shall be true and correct in all material respects when made and as of the Closing Time, unless some other time is specified, and all obligations and covenants of Vendor in this Agreement that are to be performed or complied with prior to or at the Closing Time (other than in respect of the agreements, certificates and other instruments and documents to be delivered at the Closing Time by Vendor pursuant to Clause 4.1) shall have been performed or complied with in all material respects,

- (ii) at the Closing Time, Vendor shall have duly delivered the agreements, certificates and other instruments and documents required pursuant to Clause 4.1;
 - (iii) no Governmental Authority shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the completion of the Transaction which has not been vacated or dismissed prior to the Closing Time;
 - (iv) the Competition Act Approval shall have been obtained without conditions;
 - (v) the TSXV Approval shall have been obtained without conditions, other than any conditions acceptable to Vendor in its sole and absolute discretion; and
 - (vi) no material change to the Assets, except as shall have been consented to in writing by the Purchaser, shall have occurred between the execution of this Agreement and the Closing Date which would materially or adversely affect the value of the Assets and Vendor shall have delivered to Purchaser an Officer's Certificate to that effect at Closing, provided that neither a decrease in the market price of any Petroleum Substances, changes in the reservoir, nor production of Petroleum Substances in the ordinary course of business shall be considered substantial damage for the purposes of this subclause.
- (b) If any of the conditions precedent Clause 3.1(a) have not been satisfied, complied with or waived by Purchaser at or before the Closing Time, then Purchaser may terminate this Agreement by written notice to Vendor prior to the Closing Time stating the reason for termination;
- (c) Following any termination of this Agreement by Purchaser pursuant to Clause 3.1:
- (i) Vendor and Purchaser shall forthwith instruct Vendor's Solicitors to return the Cash Deposit and Deposit Interest, and to deliver the Non-Cash Deposit, to Purchaser;
 - (ii) Purchaser and Vendor shall be released and discharged from the further performance of any duties or obligations under this Agreement, except as provided in this Clause 3.1(c) and Clauses 11.2 and 12.11; and
 - (iii) Purchaser shall have no Claim against Vendor under this Agreement or in connection with the Assets or otherwise in connection with the Transaction or the termination of this Agreement, other than pursuant to Clauses 11.2 and 12.11, and Purchaser's sole and exclusive right and recourse against Vendor shall be limited to the refund of the Deposit and the Deposit Interest.

3.2 Vendor's Conditions

- (a) The obligation of Vendor to complete the Transaction and sell and convey the Assets to Purchaser is subject to the following conditions precedent, which are inserted into and made part of this Agreement for the exclusive benefit of Vendor and may be waived by Vendor:
- (i) the representations and warranties of Purchaser set forth in Clause 5.3 shall be true and correct in all material respects when made and as of the Closing Time, unless some other time is specified, and all obligations and covenants of Purchaser in this Agreement that are to be performed or complied with prior to or at the Closing Time (other than in respect to the payments, agreements, certificates and other instruments and documents to

be made and delivered at the Closing Time by Purchaser pursuant to Clause 4.2) shall have been performed or complied with in all material respects;

- (ii) at the Closing Time, Purchaser shall have duly made and delivered the payments, agreements, certificates and other instruments and documents required pursuant to Clause 4.2;
 - (iii) no Governmental Authority shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the completion of the Transaction which has not been vacated or dismissed prior to the Closing Time; and
 - (iv) the Competition Act Approval shall have been obtained without conditions; and
 - (v) the TSXV Approval shall have been obtained, without conditions, other than any conditions acceptable to Vendor in its sole and absolute discretion.
- (b) If any of the conditions precedent in Clause 3.2(a) has not been satisfied, complied with or waived by Vendor at or before the Closing Time, Vendor may terminate this Agreement by written notice to Purchaser prior to the Closing Time.
- (c) If Vendor terminates this Agreement as provided in Clause 3.2(b), Purchaser and Vendor shall be released and discharged from the further performance of any duties or obligations under this Agreement except as provided in this Clause 3.2(c) and Clauses 11.2 and 12.11; subject to the following:
- (i) If Vendor terminates this Agreement as provided in Clause 3.2(b) as a consequence of the conditions precedent set forth in Clause 3.2(a)(i) or (ii) not having been satisfied, then Vendor and Purchaser shall forthwith instruct Vendor's Solicitors to release the Cash Deposit and Deposit Interest, and to deliver the Non-Cash Deposit, to Vendor and:
 - (A) Vendor shall be entitled to retain the Cash Deposit and Deposit Interest; and
 - (B) Vendor shall be entitled to Purchaser's entire right title and interest in and to the Deposit Lands, as evidenced by the Quit Claim and Conveyance;
- as liquidated damages, being the Parties' good faith estimate of the damages that Vendor will suffer as a consequence of the termination of this Agreement in such circumstances, and Vendor's sole and exclusive right and recourse against Purchaser shall be limited to the Cash Deposit, the Deposit Interest and the Non-Cash Deposit, *provided that*: (i) in furtherance of the Quit Claim and Conveyance and the forfeiture by Purchaser of its interest in the Deposit Lands as provided herein, Purchaser shall forthwith thereafter deliver to Vendor such further specific conveyances as are required to transfer Purchaser's interest in the Deposit Lands to Vendor, as well as all of Purchaser's files and records in respect of the Deposit Lands; and (ii) Vendor shall not have any Claims against Purchaser under this Agreement or in connection with the Assets or otherwise in connection with the Transaction, other than Purchaser's entitlement to the Deposit and the Deposit Interest or pursuant to Clauses 7.7, 11.2 and 12.11, which shall survive any such termination.
- (ii) If Vendor terminates this Agreement as provided in Clause 3.2(b) as a consequence of the conditions precedent set forth in Clause 3.2(a)(iii) or **Error! Reference source not**

found. not having been satisfied or complied with, Vendor and Purchaser shall forthwith instruct Vendor's Solicitors to return the Cash Deposit and Deposit Interest, and to deliver the Non-Cash Deposit, to Purchaser and neither Party shall have any Claims against any other Party under this Agreement or in connection with the Assets or otherwise in connection with the Transaction, other than Purchaser's entitlement to the Deposit and the Deposit Interest or pursuant to Clauses 11.2 and 12.11, which shall survive any such termination.

3.3 Efforts to Fulfil Conditions Precedent

Purchaser and Vendor shall proceed diligently and in good faith and use their reasonable efforts to satisfy and comply with the conditions precedent in Clauses 3.1(a) and 3.2(a) and shall provide the other Party with any reasonable assistance in the satisfaction of and compliance with the conditions precedent in Clauses 3.1(a) and 3.2(a) that the other Party may reasonably request.

ARTICLE 4 CLOSING DELIVERIES

4.1 Deliveries by Vendor at Closing

At the Closing Time, Vendor shall deliver, or cause to be delivered, to Purchaser:

- (a) the General Conveyance duly executed by Vendor;
- (b) a true copy of a resolution of the board of directors of Vendor approving and authorizing the execution of this Agreement by Vendor and the performance by Vendor of its obligations under this Agreement;
- (c) an Officer's Certificate signed by an officer of Vendor;
- (d) a direction, duly executed by Vendor, instructing the Vendor's Solicitors to release the Cash Deposit and Deposit Interest to Vendor, and to deliver the Non-Cash Deposit to Purchaser, as contemplated in Clause 2.5(b);
- (e) releases and registerable discharges or no interest letters in respect of all registered Security Interests pertaining to the Assets that are to be discharged at Closing;
- (f) the Specific Conveyances as contemplated in Clause 4.3;
- (g) Vendor's audited Operating Statements;
- (h) the Governance Agreement, duly executed by Vendor;
- (i) transfers in favour of Purchaser of the hedging programs set forth and described in Schedule "P"; and
- (j) such other items as may be specifically required hereunder or as may be reasonably requested by Purchaser.

4.2 Deliveries by Purchaser at Closing

At the Closing Time, Purchaser shall pay or deliver, or cause to be paid or delivered, to Vendor:

- (a) the amounts specified in Clauses 2.5(b)(i) in the manner contemplated in Clause 2.4;
- (b) an Officer's Certificate signed by an officer of Purchaser;
- (c) a direction, duly executed by Purchaser, instructing the Vendor's Solicitors to release the Deposit and Deposit Interest to Vendor, and to deliver the Non-Cash Deposit to Purchaser, as contemplated in Clause 2.5(b);
- (d) a true copy of a resolution of the board of directors of Purchaser approving and authorizing:
 - (i) the execution of this Agreement by Purchaser and the performance by Purchaser of its obligations under this Agreement;
 - (ii) the issuance by Purchaser of the Debenture;
 - (iii) the issuance by Purchaser of the Share Consideration; and
 - (iv) the reservation and issuance of Common Shares by Purchaser upon conversion, redemption or maturity of the Debenture, as payment of interest on the Debenture and upon conversion of the Class B Shares comprising the Share Consideration, or any of them;
- (e) copies of the written consents to the issuance of the Debenture executed by the holders of Purchaser's existing debentures;
- (f) the Governance Agreement, duly executed by Vendor;
- (g) evidence of the Competition Act Approval and TSXV Approval;
- (h) the Debenture Indenture duly executed by Purchaser;
- (i) the Debenture duly executed by Purchaser;
- (j) a share certificate issued in the name of Vendor in respect of the Share Consideration;
- (k) the General Conveyance duly executed by Purchaser; and
- (l) such other items as may be specifically required hereunder or as may be reasonably requested by Vendor.

4.3 Specific Conveyances

- (a) Vendor, at its own cost, shall prepare the Specific Conveyances a reasonable time prior to Closing and shall provide same for Purchaser's review and comment. All such Specific Conveyances shall be executed by Vendor and delivered to Purchaser at the Closing Time, provided that, if and to the extent that any Specific Conveyances are not delivered by Vendor to Purchaser at the Closing Time, Vendor shall prepare and deliver to Purchaser the remaining Specific Conveyances as soon as is reasonably practicable after Closing.
- (b) It shall not be necessary for any Specific Conveyances that are delivered by Vendor at the Closing Time to have been executed prior to or at Closing by parties thereto other than Vendor itself.

- (c) To the extent that Purchaser is required to execute any Specific Conveyances, it shall do so promptly after the delivery of such Specific Conveyances whether at or after the Closing Time, as the case may be.
- (d) In respect of any Specific Conveyances that require execution by Third Parties, promptly after Closing or the delivery of such Specific Conveyances after Closing, as the case may be, and, if necessary, the execution of such Specific Conveyances by Purchaser, Vendor shall co-operate with Purchaser and provide all reasonable assistance that Purchaser may reasonably request in connection with Purchaser's procurement of the execution of such Specific Conveyances by the parties thereto other than Vendor and Purchaser.
- (e) In respect of any Specific Conveyances that do not require execution by Third Parties, Purchaser shall deliver such Specific Conveyances to the appropriate recipients thereof promptly after Closing or the delivery of such Specific Conveyances after Closing, as the case may be, and, if necessary, execution by Purchaser, including the registration with the appropriate Governmental Authorities of any such Specific Conveyances that require registration.
- (f) Purchaser shall bear all costs, fees and deposits of every nature and kind in distributing and registering any Specific Conveyances and in providing any assurances or security required to convey, transfer and assign the Assets to Purchaser and to have Purchaser recognized as the holder thereof.
- (g) Notwithstanding the forgoing in this Clause 4.3, in the case of any Specific Conveyances that are Permit or Crown lease transfers which may be filed electronically with the applicable Governmental Authority, Vendor shall provide draft (saved but not submitted) copies of same to Purchaser at least fourteen (14) days prior to Closing. Purchaser shall provide any comments regarding same no later than five (5) days prior to Closing. Promptly following Closing, Vendor shall submit electronic transfers for such Permits and Crown leases and Purchaser shall accept (or shall cause its nominee to take such action to accept) such electronic transfers from Vendor without delay, provided that, if Purchaser in good faith determines or believes that any of the electronic transfers are not complete and accurate, or the applicable Governmental Authority refuses to process any such transfers because of some defect therein, the Parties shall cooperate to duly complete or to correct such incomplete or inaccurate electronic transfers as soon as practicable and, thereafter, Vendor shall promptly re-submit such electronic transfers and Purchaser shall accept (or shall cause its nominee to take any action required to accept) such electronic transfers from Vendor without delay.
- (h) If, for any reason, ERCB or any other Third Party requires Purchaser or its nominee to make a deposit, provide any undertakings, information or other documentation or to take any action as a condition of or a prerequisite for the approval the transfer of any Permits or the transfer or assignment of any of the Assets to Purchaser, immediately after receiving notice of such requirements and at its sole cost, Purchaser shall make such deposits, provide such undertakings, information or other documentation and take such action, as the case may be.
- (i) If Purchaser fails to make a deposit with ERCB or any other Third Party as provided under Clause 4.3(h) within five (5) days of Purchaser's receipt of notification that such deposit is required, Vendor shall have the right, but not the obligation, to make such deposit on behalf of Purchaser and Purchaser acknowledges and agrees that Vendor shall be Purchaser's agent with full power and authority to make such deposit for and on behalf of Purchaser. Purchaser shall reimburse Vendor for the amount of any such deposit made by Vendor and pay interest on the amount of such deposit at an annual rate equal to the Prime Rate from the date on which Vendor

paid the deposit to the date on which the reimbursement for such deposit and payment of the corresponding interest is made in full. In addition to all other rights that may be available to Vendor for the collection of such amounts from Purchaser, Vendor shall have the right to set-off the amount of any such deposit, including interest as provided in this Clause 4.3(i), against any monies payable by Vendor to Purchaser pursuant to this Agreement.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties of Vendor

Vendor hereby makes the following representations and warranties to and in favour of Purchaser:

- (a) Vendor is a corporation duly formed and existing under the laws of the Province of Alberta and registered to carry on business in the jurisdictions in which the Assets are situate, except where failure to so register would not adversely affect the ability of Vendor to complete the Transaction on the basis contemplated in this Agreement;
- (b) the execution, delivery and performance of this Agreement by Vendor has been duly and validly authorized by all requisite action on the part of its directors, officers or shareholders, as the case may be, and will not result in any violation of, be in conflict with, or constitute a default under, the constating documents of Vendor;
- (c) the execution, delivery and performance of this Agreement by Vendor will not result in any violation of, be in conflict with or constitute a default under: (i) any term or provision of any agreement or instrument to which Vendor is party or by which Vendor is bound; or (ii) any Applicable Law that is specifically applicable to Vendor; except, in either case, where such conflict or default would not adversely affect the ability of Vendor to complete the Transaction on the basis contemplated in this Agreement;
- (d) this Agreement and all other agreements delivered or to be delivered in connection herewith constitute, or when delivered shall constitute, valid and binding obligations of Vendor, enforceable against Vendor in accordance with their respective terms;
- (e) no authorization or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by Vendor of this Agreement, other than authorizations, approvals or exemptions previously obtained and currently in force or to be obtained as and when required during the Pre-Closing Period and the Competition Act Approval;
- (f) Vendor has not incurred any obligation or liability, contingent or otherwise, for brokers' or finders' fees in respect of this Agreement or the Transaction for which Purchaser shall have any obligation or liability;
- (g) Vendor is not a non-resident of Canada for the purposes of section 116 of the *Income Tax Act* (Canada);
- (h) Vendor is a registrant in respect of GST under the *Excise Tax Act* (Canada);
- (i) to Vendor's Knowledge, by the Closing Date Vendor or its representative shall have made available to Purchaser or its representatives, whether through the Data Room or otherwise, all

relevant records, books, accounts, documents, files, information, materials and filings pertaining to the ownership of the Assets, including all of the relevant Title and Operating Documents and other agreements and documents comprising the Miscellaneous Interests, that are in Vendor's possession and control as at the execution of this Agreement for the purpose of Purchaser's due diligence review of Vendor's title to the Assets;

- (j) Vendor has not received notice of any Claim, and to Vendor's Knowledge there are no unsatisfied judgments, Claims or threatened Claims, against Vendor in respect of or in connection with Assets or the operation thereof other than as disclosed in Schedule J;
- (k) except for or pursuant to any Permitted Encumbrances: (i) Vendor has not alienated or encumbered the Assets or any part or portion thereof; and (ii) at the Closing Time the Assets shall be free and clear of all Encumbrances created by, through or under Vendor;
- (l) to the extent pertaining to the Assets and to Vendor's knowledge (i) all Crown and lessor royalties; (ii) all ad valorem and property taxes, and (iii) all production, severance and similar taxes, charges and assessments based upon or measured by the ownership or production of Petroleum Substances or any of them or the receipt of proceeds from the sale thereof; that became due and payable to Third Parties on or prior to the date of this Agreement have been fully paid, except, in each case, for amounts that are being disputed in good faith;
- (m) there are no Take or Pay Obligations pertaining to the Assets;
- (n) except in connection with the AFEs listed in Schedule D, and excluding operating expenses incurred in the normal conduct of operations of the Assets, as of the Effective Time, there are no AFEs or other financial commitments pertaining to the Assets under which individual expenditures in excess of \$[redacted] are or may be required to be made by Purchaser by virtue of Closing, taking into account, when applicable, the application of Clause 2.7;
- (o) other than as disclosed in Schedule B, the Assets are not bound by any contract or other arrangement for the sale, gathering, processing, storage, compression, transmission, fractionation of, or the provision of any similar services in respect of, any Petroleum Substances, and Vendor is not a party to any such contract or arrangement for which Purchaser will become liable as a consequence of Closing, except for, in each case, the Production and Marketing Contracts or contracts or arrangements which are terminable without penalty on 92 days or less notice;
- (p) other than as disclosed in Schedule J, Vendor has not received and to Vendor's Knowledge:
 - (i) there are no orders or directives from Governmental Authorities that are specific to the Assets or any portion thereof, relate to Environmental Liabilities and require any work, repairs, construction or capital expenditures with respect to the Assets which have not been complied with in all material respects as of the date of this Agreement; and
 - (ii) there are no demands or notices issued by any Governmental Authority with respect to the breach of any Applicable Law relating to the Environment that are specifically applicable to the Assets or any portion thereof which remain outstanding in any material respect on the date of this Agreement;
- (q) to Vendor's knowledge the Vendor has not received notice from Governmental Authorities to plug and abandon any Well which has not been plugged and abandoned in accordance with Applicable Law;

- (r) each Well listed in Part 2 of Schedule A for which Vendor is operator has been, and, to Vendor's Knowledge, each Well listed in Part 2 of Schedule A for which it is not operator has been, operated in all material respects in accordance with good oil and gas field practices and the material requirements of Applicable Law;
- (s) the Tangibles for which Vendor is operator have been, and, to Vendor's Knowledge, the Tangibles for which it is not operator have been, operated in all material respects in accordance with good oil and gas field practices and the material requirements of Applicable Law;
- (t) except as may be identified in Schedule F, to Vendor's Knowledge the Assets are not subject to any ROFRs;
- (u) Vendor's "Licensee Liability Rating" or "LLR", as determined by the ERCB and/or pursuant to ERCB rules, regulations, guidelines, directives, interim directives and policies, is not less than 1.0 and will not be less than 1.0 following Closing and the transfer of the Assets as contemplated in this Agreement and Vendor is not aware of any fact or circumstance that would prevent or delay the transfer of any Permits relating to or forming part of the Assets as contemplated in this Agreement;
- (v) except as may be identified in Schedule L, to Vendor's Knowledge there are no active area of mutual interest provisions in any of the Title and Operating Documents or other agreements or documents to which the Assets are subject;
- (w) subject to the Permitted Encumbrances, after Closing Purchaser shall be entitled to hold and enjoy the Assets without any lawful interruption by Vendor or any Person claiming by, through or under it;
- (x) Vendor has not received notice of default and is not, to Vendor's Knowledge, in any default under any obligation, agreement, document, order, writ, injunction or decree of any court or of any Government Authority or administrative agency, which might result in impairment or loss of the interest of Vendor in and to the Assets or which might otherwise materially adversely affect the Assets;
- (y) excepting production limits of general application in the oil and gas industry, none of the Wells is subject to production or other penalties imposed by any Applicable Laws;
- (z) except as set forth in Schedule A or Schedule J, as at the date hereof it has not received any written notice that any of the Leases are subject to any accrued drilling or offset obligations which have not been satisfied or permanently waived;
- (aa) it has paid or caused to be paid all relevant Crown royalties, freehold deposits and rentals and freehold and overriding royalties in respect to the Assets which have become due and payable prior to the date hereof which it is directly obligated to pay;
- (bb) except as set forth in Schedule A, none of the Wells is subject to a production or similar penalty arising under a contract as a result of an election by it not to participate in a drilling or other operation;
- (cc) except to the extent which would not have a material adverse effect on the Assets as a whole: (i) all permits, licenses, approvals, and authorizations required in respect of the Assets which it operates and to the Vendor's Knowledge, all permits, licenses, approvals, and authorizations

required in respect of the Assets for which it does not operate, have been issued or obtained; and
(ii) there is no material breach or violation thereof; and

- (dd) subject to the rents, conditions and stipulations in the Title and Operating Documents and to the Permitted Encumbrances, Purchaser may upon Closing enter into and upon, hold and enjoy the Assets for the residue of their respective terms and all renewals or extensions thereof for Purchaser's own use and benefit, without any lawful interruption of or by Vendor or any Affiliate of Vendor.

5.2 Limitation Regarding Vendor's Representations and Warranties

- (a) Unless another date is specified, each of Vendor's representations and warranties set forth in Clause 5.1 is made as of the date of this Agreement and shall be deemed to be repeated as of the Closing Date.
- (b) Except as expressly set forth in Clause 5.1, Vendor makes no representation or warranty regarding:
 - (i) itself;
 - (ii) the accuracy or completeness of any data or information supplied by or on behalf of Vendor under this Agreement or otherwise in connection with the Transaction including all Data Room contents, any responses to queries made by Purchaser to Vendor and arising from Purchaser's due diligence or otherwise, and the Operating Statements;
 - (iii) the Assets, including:
 - (A) the title or interest of Vendor in and to the Assets;
 - (B) the quality, quantity or recoverability of Petroleum Substances within or under the Lands or any lands pooled or unitized therewith;
 - (C) the value of the Assets or the future cash flow therefrom, including any past, present or future Losses and Liabilities, including Environmental Liabilities, pertaining to the Assets;
 - (D) the quality, condition, fitness for any particular purpose or merchantability of any equipment or other tangible depreciable property included in the Assets or of any of the Lands or any lands pooled or unitized therewith; or
 - (E) the effectiveness, standing or condition of any Miscellaneous Interests;

and Vendor hereby expressly negates, and Purchaser hereby waives, all other representations or warranties relating to any such Person, property, circumstance or matter, regardless of whether made directly or indirectly, in verbal, written or electronic form, by Vendor or any of its directors, officers, employees or other personnel, consultants, agents, auditors, counsel or representatives, or implied under or arising by operation of law.

- (c) Purchaser acknowledges and confirms that except for the representations and warranties set forth in Clause 5.1, it is acquiring the Assets on an "as is, where is" basis and that it has performed its own due diligence and evaluations and that it has relied, and will continue to rely, upon its own

due diligence and evaluations with respect to all matters pertaining to Vendor, the Assets and the Transaction.

5.3 Representations and Warranties of Purchaser

Purchaser hereby makes the following representations and warranties to and in favour of Vendor:

- (a) Purchaser is a corporation duly formed and existing under the laws of Alberta and registered to carry on business in the jurisdictions in which the Assets are situate;
- (b) Purchaser has all requisite power and capacity to purchase and accept the Assets in accordance the provisions of this Agreement;
- (c) the execution, delivery and performance of this Agreement and the Debenture Indenture by Purchaser has been duly and validly authorized by all requisite action on the part of its directors, officers or shareholders, as the case may be, and will not result in any violation of, be in conflict with, or constitute a default under, the constating documents of Purchaser;
- (d) the execution, delivery and performance of this Agreement and the Debenture Indenture by Purchaser will not result in any violation of, be in conflict with or constitute a default under: (i) any term or provision of any agreement or instrument to which Purchaser is party or by which Purchaser is bound; or (ii) any Applicable Law that is specifically applicable to Purchaser; except, in either case, where such conflict or default would not adversely affect the ability of Purchaser to complete the Transaction or comply with the terms of the Debenture Indenture on the basis contemplated in this Agreement;
- (e) this Agreement, the Debenture Indenture and all other agreements delivered or to be delivered in connection herewith constitute, or when delivered shall constitute, valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with their respective terms;
- (f) no authorization or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by Purchaser of this Agreement, other than authorizations, approvals or exemptions previously obtained and currently in force or to be obtained as and when required during the Pre-Closing Period and the Competition Act Approval;
- (g) Purchaser is not a "non-Canadian" as that term is defined in the *Investment Canada Act* (Canada);
- (h) Purchaser's "Licensee Liability Rating" or "LLR", as determined by the ERCB and/or pursuant to ERCB rules, regulations, guidelines, directives, interim directives and policies, is not less than 1.0 and will not be less than 1.0 following Closing and the transfer of the Assets as contemplated in this Agreement and Purchaser is not aware of any fact or circumstance that would prevent or delay the transfer of any Permits relating to or forming part of the Assets as contemplated in this Agreement;
- (i) Purchaser has not incurred any obligation or liability, contingent or otherwise, for brokers' or finders' fees in respect of this Agreement or the Transaction for which Vendor shall have any obligation or liability;
- (j) Purchaser is entering into this Agreement and will acquire the Assets for itself and not as agent or representative for any Third Party;

- (k) Purchaser is a registrant in respect of GST under the *Excise Tax Act* (Canada);
- (l) in respect of the property and assets of Purchaser, including the Deposit Lands and Purchaser's interests therein:
 - (i) Purchaser has not received notice of any Claim, and to Purchaser's Knowledge there are no unsatisfied judgments, Claims or threatened Claims, against Purchaser in respect thereof or the operation thereof;
 - (ii) except for or pursuant to any Encumbrances which would be Permitted Encumbrances as such term is used in relation to the Assets: (i) Purchaser has not alienated or encumbered the Deposit Lands, its interests therein or any part or portion thereof; and (ii) at the relevant time they shall be free and clear of all Encumbrances created by, through or under Purchaser;
 - (iii) to Purchaser's knowledge (i) all Crown and lessor royalties; (ii) all ad valorem and property taxes, and (iii) all production, severance and similar taxes, charges and assessments based upon or measured by the ownership or production of Petroleum Substances or any of them or the receipt of proceeds from the sale thereof; that became due and payable to Third Parties on or prior to the date of this Agreement have been fully paid, except, in each case, for amounts that are being disputed in good faith;
 - (iv) Purchaser has not received and to Purchaser's Knowledge:
 - (A) there are no orders or directives from Governmental Authorities that are specific to the Deposit Lands or any portion thereof, relate to Environmental Liabilities (as such term is used in relation to the Assets) and require any work, repairs, construction or capital expenditures with respect thereto which have not been complied with in all material respects as of the date of this Agreement; and
 - (B) there are no demands or notices issued by any Governmental Authority with respect to the breach of any Applicable Law relating to the Environment that are specifically applicable to the Deposit Lands or any portion thereof which remain outstanding in any material respect on the date of this Agreement;
 - (v) to Purchaser's Knowledge its interests in the Deposit Lands are not subject to any rights of first refusal;
 - (vi) subject to the Permitted Encumbrances, as such term is used in relation to the Assets, in the event of termination of this Agreement by Vendor in the circumstances contemplated in Clause 3.2(c)(i), Vendor shall be entitled to hold and enjoy the Deposit Lands without any lawful interruption by Purchaser or any Person claiming by, through or under it;
 - (vii) Purchaser has not received notice of default and is not, to Purchaser's Knowledge, in any default under any obligation, agreement, document, order, writ, injunction or decree of any court or of any Government Authority or administrative agency, which might result in impairment or loss of the interest of Purchaser in and to the Deposit Lands or which might otherwise materially adversely affect Purchaser's interest therein;

- (viii) it has paid or caused to be paid all relevant Crown royalties, freehold deposits and rentals and freehold and overriding royalties in respect to the Deposit Lands which have become due and payable prior to the date hereof which it is directly obligated to pay;
- (ix) any and all operations of Purchaser, and to the best of Purchaser's knowledge, after due enquiry, any and all operations by third parties, on or in respect of the assets and properties of Purchaser have been conducted in accordance with good oil and gas industry practices where the failure to so operate would not materially adversely affect Purchaser; and
- (x) subject to the rents, conditions and stipulations in those Title and Operating Documents (as such term is used in relation to the Assets) pursuant to which Purchaser holds its interests in the Deposit Lands, and to the Permitted Encumbrances (as such term is used in relation to the Assets) Vendor may, in the event of termination of this Agreement by Vendor in the circumstances contemplated in Clause 3.2(c)(i), enter into and upon, hold and enjoy the Deposit Lands for the residue of their respective terms and all renewals or extensions thereof for Vendor's own use and benefit, without any lawful interruption of or by Purchaser or any Affiliate of Purchaser.
- (m) Purchaser has no subsidiaries and is not affiliated with, nor is it a holding corporation of, any other body corporate, nor is it a partner of any partnership;
- (n) except as described in the Purchaser Financial Statements, there are no actions, suits, proceedings or inquiries pending or threatened against or affecting Purchaser at law or in equity or before or by any federal, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality which in any way materially adversely affects, or may in any way materially adversely affect the business, operations, revenues, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise), capital, ownership or control or results of operations of Purchaser or which affects or may affect the distribution of the Debenture, the Share Consideration or the Common Shares issuable pursuant to the Debenture and the Class B Shares comprising the Share Consideration and Purchaser is not aware of any existing ground on which such action, suit, proceeding or inquiry might be commenced with any reasonable likelihood of success;
- (o) the minute books of Purchaser contain true and correct copies of the constating documents of Purchaser and, at the Closing Time, will contain true and correct copies of the minutes of all meetings and all the resolutions of directors (and any committee thereof) and shareholders thereof;
- (p) except as described in the Purchaser Financial Statements, Purchaser has duly and on a timely basis filed all tax returns required to be filed by it, has paid all taxes due and payable by them and have paid all assessments and re-assessments and all other taxes, governmental charges, penalties, interest and other fines due and payable by them and which are claimed by any governmental authority to be due and owing, and adequate provision has been made for taxes payable for any completed fiscal period for which tax returns are not yet required and there are no agreements, waivers, or other arrangements providing for an extension of time with respect to the filing of any tax return or payment of any tax, governmental charge or deficiency by Purchaser and there are no actions, suits, proceedings, investigations or claims threatened or pending against Purchaser in respect of taxes, governmental charges or assessments or any matters under discussion with any governmental authority relating to taxes, governmental charges or assessments asserted by any such authority;

- (q) the Purchaser Financial Statements present fairly the financial position of Purchaser at the dates thereof for the periods specified and such financial information has been prepared in accordance with International Financial Reporting Standards and reflect all assets, liabilities and obligations (absolute, accrued, contingent or otherwise) of Purchaser as at the dates thereof required to be disclosed by International Financial Reporting Standards and include all adjustments necessary for a fair presentation;
- (r) Purchaser is qualified to carry on business under the laws of each jurisdiction in which it carries on a material portion of its business;
- (s) Purchaser is conducting its business in compliance in all material respects with all applicable laws, rules and regulations and, in particular, all applicable licensing legislation, regulations or by-laws or other lawful requirement of any governmental or regulatory bodies applicable to Purchaser, of each jurisdiction in which Purchaser carries on business and hold all licenses, registrations and qualifications in all jurisdictions in which Purchaser carries on business which are necessary to carry on the business of Purchaser as now conducted and all such licenses, registrations or qualifications are in good standing;
- (t) no director, officer or other non-arm's length party to Purchaser is entitled to receive any royalties, net profits, interest or other payments or has any other rights based on production from properties in which Purchaser has an interest;
- (u) except as described in the Purchaser Financial Statements, Purchaser does not have any loans or other indebtedness outstanding;
- (v) the information and statements set forth in the Public Record were true, correct, and complete and did not contain any misrepresentation, as of the date of such information or statements and Purchaser has not filed any confidential material change reports still maintained on a confidential basis;
- (w) except as described in the Purchaser Financial Statements, since December 31, 2011 there have been no material facts, transactions, events or occurrences which could materially adversely affect the business, operations, revenues, properties, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise), capital, ownership or control or results of operations of Purchaser;
- (x) the authorized capital of Purchaser consists of an unlimited number of Common Shares and an unlimited number of Class B Shares, of which 12,813,001 Common Shares and 555,840 Class B Shares are currently issued and outstanding, which Common Shares and Class B Shares are validly issued, fully paid and non-assessable, and no person holds any securities convertible or exchangeable into shares of Purchaser or has any agreement, warrant, option, right or privilege being or capable of becoming an agreement, warrant, option or right (whether or not on condition(s)) for the purchase or other acquisition of any unissued securities of Purchaser except: (i) in respect of an aggregate of 1,281,000 Common Shares issuable upon exercise of outstanding stock options; and (ii) 4,530,000 Common Shares issuable related to the existing convertible debentures and warrants as are described in the Purchaser Financial Statements;
- (y) Purchaser has full power and authority to issue the Debenture and, at the Closing Time the Debenture will be duly allotted, validly issued and outstanding as a fully paid and non-assessable security in the capital of Purchaser and will not be subject to any restrictions on transfer, other

than the four month and one day hold period required pursuant to Applicable Canadian Securities Laws;

- (z) Purchaser has full power and authority to issue the Class B Shares comprising the Share Consideration, and upon issuance of such Class B Shares such Class B Shares will, at the time of issuance, be duly reserved and validly issued and outstanding as fully paid and non-assessable shares in the capital of Purchaser and will not be subject to any restrictions on transfer, other than the four month and one day hold period required pursuant to Applicable Canadian Securities Laws;
- (aa) Purchaser has full power and authority to issue the: (i) Common Shares issuable upon conversion, redemption or maturity of the Debenture; (ii) the Common Shares issuable as payment of interest on the Debenture; and (iii) the Common Shares issuable upon conversion of the Class B Shares, and upon issuance of such Common Shares in accordance with the Debenture Indenture and the terms of the Class B Shares, such Common Shares will, at the time of issuance, be duly reserved and validly issued and outstanding as fully paid and non-assessable shares in the capital of Purchaser;
- (bb) except such as shall have been made or obtained at or before the Closing Time under Applicable Canadian Securities Laws, Purchaser has made and/or obtained all necessary filings, approvals, consents and acceptances of applicable regulatory authorities and under any applicable agreement or document to which Purchaser is a party or by which it is bound in respect of the execution and delivery of this Agreement, the Debenture Indenture, the issuance of the Debenture and the Class B Shares and the consummation of the other transactions contemplated hereby and thereby (subject to completion of filings with certain regulatory authorities following the Closing Date);
- (cc) Purchaser does not have in place a shareholder rights protection plan;
- (dd) Purchaser will not be required by applicable law or its constating documents to obtain the approval of its shareholders in order to issue the Debentures, the Class B Shares comprising the Share Consideration or the Common Shares issuable pursuant to the Debentures;
- (ee) Purchaser will be required by TSXV requirements to obtain the approval of its shareholders for the issuance of Common Shares to Vendor which will result in Vendor owning legally or beneficially (either directly or indirectly) or exercising control or direction over (either directly or indirectly) 20.0% (or more) of the outstanding Common Shares;
- (ff) no Securities Commission, other securities commission or similar regulatory authority or exchange has issued any order which is currently outstanding preventing or suspending trading in any securities of Purchaser, no proceedings, investigations or inquiries for such purpose are, to the knowledge of Purchaser pending, contemplated or threatened and Purchaser is not in default of any requirement of Applicable Canadian Securities Laws;
- (gg) the issued and outstanding Common Shares and Class B Shares are listed and posted for trading on the TSXV and, subject to compliance by Purchaser with applicable listing conditions, the Common Shares issuable upon conversion, redemption or maturity of the Debenture, as payment of interest on the Debenture and upon conversion of the Class B Shares comprising the Share Consideration will, on the Closing Date, be listed and posted for trading on the TSXV;

- (hh) Purchaser is a reporting issuer not in default of any requirement of the *Securities Act* (Alberta) and the regulations thereunder and has a similar status under Applicable Canadian Securities Laws of each of the provinces in which Purchaser is a reporting issuer; and
- (ii) Purchaser has not approved, entered into any agreement in respect of, or received any written notice with respect to: (i) the purchase of any property or assets or any interest therein or the sale, transfer or other disposition of any property or assets or any interest therein currently owned, directly or indirectly, by Purchaser whether by asset sale, transfer of shares or otherwise; (ii) the change of control of Purchaser (whether by sale or transfer of shares or sale of all or substantially all of the property and assets of Purchaser or otherwise); or (iii) a proposed or planned disposition of Common Shares or Class B Shares by any shareholder who owns, directly or indirectly, 10% or more of the outstanding Common Shares or Class B Shares, as applicable.

5.4 Limitation Regarding Purchaser's Representations and Warranties

Unless another date is specified, each of Purchaser's representations and warranties set forth in Clause 5.3 is made as of the date of this Agreement and shall be deemed to be repeated as of the Closing Date.

5.5 Survival of Representations and Warranties

The respective representations and warranties set forth in Clauses 5.1 and 5.3 shall survive Closing for the 12-month period immediately following Closing.

ARTICLE 6 INDEMNITIES

6.1 Vendor's Indemnities

- (a) Subject to Clause 6.1(b), from and after Closing and subject to the limitations in this Clause 6.1 and in Clauses 6.5 and 6.6: Vendor (i) shall be liable for all Losses and Liabilities suffered, sustained, paid or incurred by Purchaser or any of the Purchaser's Related Persons, and, in addition and as an independent covenant, (ii) shall indemnify Purchaser and each of the Purchaser's Related Persons from and against all Losses and Liabilities suffered, sustained, paid or incurred by them and all Claims made against them, in either case, as a direct consequence of any representations or warranties contained in Clause 5.1 being materially untrue or incorrect or of a material breach by Vendor of any of its covenants contained in this Agreement;
- (b) Vendor shall have no liability under this Clause 6.1:
 - (i) unless the aggregate amount of all such Losses and Liabilities and Claims, taking into account the limitation in Clause 6.1(b)(ii), exceeds [redacted] percent of the Purchase Price and then only to the extent they exceed that amount, except that the foregoing limitation shall not apply to fraud. For clarity the deductible provided in this Clause 6.1(b)(i) shall not apply to breaches by Vendor in the performance of any covenant specifically relating to post-Closing obligations;
 - (ii) for any such individual Losses and Liabilities or Claims that are less than \$[redacted]; and

- (iii) in no event shall the liability of Vendor under this Agreement, including all Claims by Purchaser arising out of or in connection with this Agreement, exceed the Purchase Price, taking into account all increases or decreases to the Purchase Price that occur by virtue of the terms of this Agreement.

6.2 Purchaser's Indemnities for Representations and Warranties

From and after Closing and subject to Clauses 6.5 and 6.6, Purchaser: (a) shall be liable for all Losses and Liabilities suffered, sustained, paid or incurred by Vendor or any of the Vendor's Related Persons, and, in addition and as an independent covenant, (b) shall indemnify Vendor and each of the Vendor's Related Persons from and against all Losses and Liabilities suffered, sustained, paid or incurred by them and all Claims made against them, in either case, as a direct consequence of any representations or warranties contained in Clause 5.3, excepting those in Clause 5.3(l), being untrue or incorrect or of a breach by Purchaser of any of its covenants contained in this Agreement.

6.3 Future Obligations

From and after Closing Purchaser: (a) shall be liable for all Losses and Liabilities suffered, sustained, paid or incurred by Vendor or any of the Vendor's Related Persons, and, in addition and as an independent covenant, (b) shall indemnify Vendor and each of the Vendor's Related Persons from and against all Losses and Liabilities suffered, sustained, paid or incurred by them and all Claims made against them; which, in either case, arise out of any matter or thing occurring, accruing or arising on and after the Closing Time and which relates to the Assets (excluding any Losses and Liabilities or Claims that pertain to any Environmental Liabilities, which shall be dealt with under Clause 6.4).

6.4 Purchaser's Environmental Indemnity

From and after Closing Purchaser: (a) shall be liable for all Losses and Liabilities suffered, sustained, paid or incurred by Vendor or any of the Vendor's Related Persons, and, in addition and as an independent covenant, (b) shall indemnify Vendor and each of the Vendor's Related Persons from and against all Losses and Liabilities suffered, sustained, paid or incurred by them and all Claims made against them, in either case, in respect of all past, present and any future Environmental Liabilities. This assumption of liability and indemnity shall apply without limit and without regard to cause or causes, including the negligence, Gross Negligence or the Wilful Misconduct of Vendor or any of the Vendor's Related Persons or any Third Party. Purchaser hereby waives, and acknowledges and agrees that it shall not exercise, any right or remedy against Vendor or any of the Vendor's Related Persons in respect to any such Environmental Liabilities that it may otherwise have under Applicable Law, including any right to name Vendor or any of the Vendor's Related Persons as a party to any Claim commenced by any Third Party against Purchaser. Notwithstanding the foregoing in this Clause 6.4, nothing in this Clause 6.4 shall be construed so as to require Purchaser to be liable for or to indemnify Vendor or any of the Vendor's Related Persons in connection with any such Losses and Liabilities or any such Claims to the extent arising from the representation and warranty of Vendor contained in Clause 5.1(p) being untrue or incorrect, but only to the extent that Vendor is liable to indemnify Purchaser pursuant to Clause 6.1 in respect of such representation and warranty.

6.5 Time Limitation

Neither Party shall make any Claim under or in respect of Clause 6.1 or 6.2 after the expiry of the 12-month period immediately following Closing and neither Party shall have any liability under Clause 6.1 or 6.2 unless written notice, with reasonable particulars, of the applicable Losses and

Liabilities or Claim has been received by such Party during the 12-month period immediately following Closing.

6.6 Limitation of Remedies

- (a) From and after Closing the sole remedy available to:
 - (i) Purchaser in respect to any of Vendor's representations and warranties set forth in Clause 5.1 being untrue or incorrect or a breach by Vendor of any of its covenants in this Agreement shall be Vendor's assumption of liability and indemnity provided for in Clause 6.1; and
 - (ii) Vendor in respect to any of Purchaser's representations and warranties set forth in Clause 5.3 being untrue or incorrect shall be Purchaser's assumption of liability and indemnity provided in Clauses 6.2 and 6.4.
- (b) Nothing in Clause 6.1 shall be construed so as to require Vendor to be liable for or to indemnify Purchaser or any of the Purchaser's Related Persons in connection with any Losses and Liabilities or any Claims to the extent arising as a consequence of the Gross Negligence or Wilful Misconduct of Purchaser or any of the Purchaser's Related Persons.
- (c) Nothing in Clause 6.2 shall be construed so as to require Purchaser to be liable for or to indemnify Vendor or any of the Vendor's Related Persons in connection with any Losses and Liabilities or any Claims to the extent arising as a consequence of the Gross Negligence or Wilful Misconduct of Vendor or any of the Vendor's Related Persons.

6.7 No Consequential Damages

Neither Party will, in any circumstances whatsoever, be liable under this Agreement to the other Party for indirect, incidental, consequential, exemplary or punitive damages, suffered, sustained, paid, incurred or claimed by the other Party or the other Party's Related Persons. However, nothing in this Agreement shall in any way limit the right of any Indemnified Person to be indemnified pursuant to this Article for any and all indirect, incidental, consequential, exemplary or punitive damages of every nature and kind whatsoever, including loss of profits and revenues, that are part of any Claim by a Third Party.

6.8 Procedures – General Indemnities

If a Party (the "**Claiming Party**") wishes to claim indemnification from the other Party (the "**Indemnifying Party**") pursuant to Clause 6.1, 6.2, 6.3 or 6.4, the following shall apply:

- (a) Promptly after acquiring knowledge of the subject matter of the Claim or the Losses and Liabilities in respect of which the claim for indemnification is to be made (an "**Indemnified Matter**"), the Claiming Party shall provide notice thereof to the Indemnifying Party, provided that, failure to give such notice will not limit or lessen the right of the Claiming Party to indemnity under this Agreement except to the extent that the Indemnifying Party is prejudiced in its contest or defence of the Indemnified Matter as a result of such failure. Such notice shall describe the nature of the Indemnified Matter in reasonable detail and indicate, if reasonably ascertainable, the Claiming Party's good faith estimate of the amount for which the Indemnifying Party may be liable under this Agreement in respect of such Indemnified Matter.
- (b) If the Indemnified Matter relates to a Claim made or brought by a Third Party:

- (i) The Indemnifying Party shall have the right to participate in or to elect to assume the defence or dispute of any such Claim. Any such participation in or assumption of the defence or dispute of the Claim shall be at the Indemnifying Party's own expense and use counsel chosen by the Indemnifying Party. The Claiming Party shall provide all reasonable assistance that the Indemnifying Party may reasonably request in connection with such defence or dispute.
 - (ii) The Claiming Party shall have the right to participate in the defence or dispute of any such Indemnified Matter using counsel of its own choice if representation of both the Claiming Party and the Indemnifying Party by the same counsel would be inappropriate due to conflicting interests of the two Parties, including Claims that would be partially excluded from indemnification by the Indemnifying Party by virtue of another provision of this Agreement. The Indemnifying Party shall be liable for the costs of such additional counsel retained by the Claiming Party, but only to the extent that such costs pertain to the defence or dispute of the Indemnified Matter.
 - (iii) The Claiming Party shall not settle or compromise, or propose to settle or compromise, any such Indemnified Matter without first obtaining the consent of the Indemnifying Party, provided that, such consent shall not be required if: (A) the Indemnifying Party denies or disputes that the particular Claim constitutes an Indemnified Matter and refuses to take responsibility for the defence or dispute thereof as provided above; (B) the Indemnifying Party fails to respond to any notice of the Indemnified Matter given by the Claiming Party in accordance with Clause 6.8(a) within 15 days of receipt thereof by the Indemnifying Party; or (C) the Indemnifying Party either refuses or fails to defend or dispute such Indemnified Matter after assuming responsibility for the defence or dispute thereof as provided above. In such a case, the Claiming Party shall be entitled to defend, dispute, settle or compromise such a Claim by a Third Party in any manner it determines to be appropriate, acting reasonably and in good faith, subject to any limitations set forth in this Agreement.
- (c) If the Indemnified Matter relates to Losses and Liabilities directly suffered, sustained, paid or incurred by the Claiming Party or any of the Claiming Party's Related Persons, the Indemnifying Party shall respond to the Claiming Party as to whether the Indemnifying Party accepts liability for such Indemnified Matter within 45 days of receipt of the Claiming Party's notice given in accordance with Clause 6.8(a) and:
- (i) if the Indemnifying Party does not respond within such 45 day period, the Indemnifying Party shall be deemed to have accepted its liability for such Indemnified Matter;
 - (ii) if the Indemnifying Party accepts its liability for such Indemnified Matter, the Indemnifying Party shall discharge its liability to indemnify the Claiming Party within 10 days after the end of the initial 45 day notice period; and
 - (iii) if the Indemnifying Party disputes whether the particular Losses and Liabilities constitute an Indemnified Matter or the amount of such Losses or Liabilities for which the Indemnifying Party is liable within such 45 day period, or if the Indemnifying Party accepts or is deemed to have accepted liability for such Indemnified Matter, but fails to discharge such liability within the specified period, the Claiming Party shall be free to seek to enforce its right to indemnification in respect of such Indemnified Matter under this Agreement in any manner that it deems appropriate.

- (d) If the Indemnifying Party has paid an amount in respect of an Indemnified Matter pursuant to this Agreement, then: (i) the Indemnifying Party will be subrogated to all and any Claims that the Claiming Party may have relating thereto without any further action; (ii) the Claiming Party, without limiting its rights to the indemnity under this Agreement, shall provide any reasonable assistance that the Indemnifying Party may reasonably request in order to permit the Indemnifying Party to pursue such Claims; and (iii) if the Claiming Party is subsequently reimbursed by any Person or from any source other than the Indemnifying Party in respect of the Indemnified Matter, the Claiming Party shall promptly pay to the Indemnifying Party any such amounts so received by it, up to the amount received from the Indemnifying Party in respect of such Indemnified Matter.

ARTICLE 7 PRE-CLOSING PERIOD

7.1 Maintenance of Assets

During the Pre-Closing Period, Vendor shall, to the extent that the nature of its interests permit, and subject to the Title and Operating Documents and any other agreements and documents to which the Assets are subject:

- (a) maintain the Assets in a reasonable and prudent manner and in material compliance with all Applicable Law and the relevant Title and Operating Documents; and
- (b) pay or cause to be paid all costs and expenses relating to the Assets which become due and payable during the Pre-Closing Period, other than any amounts being disputed in good faith.

7.2 Administration Fee

Vendor shall charge as an administration fee, and Purchaser shall pay to Vendor, an amount equal to *[amount of administration fee has been redacted]* from the Effective Date until April 30, 2013, or such other later date as the parties may agree to in writing.

7.3 Limitation of Liability

If Closing occurs, Vendor and the Vendor's Related Persons shall have no liability for any Losses and Liabilities paid, incurred or suffered by Purchaser or any of the Purchaser's Related Persons or any Claims made against any of them relating to operation or maintenance of the Assets during the Pre-Closing Period pursuant to Clause 7.1 and, upon Closing Vendor and the Vendor's Related Persons shall be released from all Claims of any nature that Purchaser or any of the Purchaser's Related Persons or any of their respective successors may then have or thereafter may have against Vendor or any of the Vendor's Related Persons howsoever relating to such operation or maintenance of the Assets, except to the extent that any such Losses and Liabilities or any such Claims arise as a direct consequence of the gross negligence or wilful misconduct of Vendor or any of the Vendor's Related Persons.

7.4 Consent of Purchaser

Notwithstanding Clause 7.1, during the Pre-Closing Period Vendor shall not, without the written consent of Purchaser, which consent shall not be unreasonably withheld or delayed by Purchaser:

- (a) make any commitment or propose, initiate or authorize any individual capital expenditure with respect to the Assets for which the share allocable to the Assets is in excess of \$50,000, except in

the case of an emergency, in the case of ERCB requiring an expenditure in respect of the Assets, or in respect of amounts which Vendor may be committed to expend or be deemed to authorize for expenditure without its consent;

- (b) surrender or abandon any of the Assets, other than the abandonment of Tangibles or Wells that had been approved or is in progress as of the Effective Time or as may be required by ERCB;
- (c) amend or terminate any Title and Operating Document or any other agreement or document to which the Assets are subject, or enter into any new agreement or commitment relating to the Assets other than in the ordinary course of business;
- (d) sell, encumber or otherwise dispose of any of the Assets or any part thereof, except for sales of the Petroleum Substances or the creation of Permitted Encumbrances in the normal course of business or sales, encumbrances or other dispositions of any Assets under or pursuant to Permitted Encumbrances; or
- (e) make any other material disbursements in respect of the Assets, other than in the ordinary course of business.

For the purposes of this Clause 7.4, Purchaser's consent shall be deemed to have been provided if the matters referred to in this Clause 7.4 are identified or described in this Agreement, have been notified to Purchaser in writing prior to the date of this Agreement.

7.5 Maintenance of Deposit Lands

During the Pre-Closing Period, or any portion thereof between the date hereof and the termination by either Party of this Agreement pursuant to either Clause 3.1(b) or 3.2(b), Purchaser shall, to the extent that the nature of its interests permit, and subject to any agreements and documents to which its interests in the Deposit Lands are subject:

- (a) maintain such interests in a reasonable and prudent manner and in material compliance with all Applicable Law and the relevant title and operating documents applicable thereto; and
- (b) pay or cause to be paid all costs and expenses relating to such interests which become due and payable during such period, other than any amounts being disputed in good faith.

7.6 Consent of Vendor

Notwithstanding Clause 7.1, during the period referred to therein, Purchaser shall not, without the written consent of Vendor, which consent shall be in Vendor's sole discretion:

- (a) make any commitment or propose, initiate or authorize any individual capital expenditure with respect to Purchaser's interest in the Deposit Lands, except in the case of an emergency, in the case of ERCB requiring an expenditure in respect of the Assets, or in respect of amounts which Purchaser may be committed to expend or be deemed to authorize for expenditure without its consent;
- (b) surrender or abandon its interest in any of the Deposit Lands;

- (c) amend or terminate any title and operating document or any other agreement or document to which its interests in the Deposit Lands are subject, or enter into any new agreement or commitment relating to such interests; or
- (d) sell, encumber or otherwise dispose of its interests in any of the Deposit Lands or any part thereof.

7.7 Indemnification of Vendor

Notwithstanding any other provision of this Agreement, in the event that Vendor terminates this Agreement in the circumstances contemplated in Clause 3.2(c)(i), Purchaser: (i) shall be liable for all Losses and Liabilities suffered, sustained, paid or incurred by Vendor or any of the Vendor's Related Persons, and, (ii) in addition and as an independent covenant shall indemnify Vendor and each of the Vendor's Related Persons from and against all Losses and Liabilities suffered, sustained, paid or incurred by them and all Claims made against them, in either case, as a direct consequence of a breach by Purchaser of any of its covenants in Clauses 7.5 and 7.6 as such relate to the Deposit Lands.

ARTICLE 8 POST-CLOSING MATTERS

8.1 Post-Closing Matters

- (a) Following Closing, if and to the extent that Purchaser must be novated into, recognized as a party to, or otherwise accepted as assignee or transferee of Vendor's interest in the Assets or certain of them, including any Title and Operating Documents or other agreements governing or otherwise pertaining to any Assets or the operation thereof, the following provisions shall apply with respect to the applicable Assets until such novation, recognition or acceptance has occurred:
 - (i) at Purchaser's sole cost and expense, Vendor shall operate and maintain the applicable Assets on behalf of Purchaser as its agent, however, for clarity, the Parties agree that Vendor shall not charge to Purchaser an operator or administration fee with respect to any operated Assets;
 - (ii) Vendor shall not initiate or authorize any operations with respect to the applicable Assets, except upon the written direction of Purchaser or if Vendor reasonably determines that such operations are required for the protection of life or property, in which case Vendor may take any actions that it reasonably determines are required in the circumstances, provided that, in such latter case Vendor shall promptly notify Purchaser of such actions and Vendor's estimate of the costs and expenses associated therewith;
 - (iii) Vendor shall use its reasonable efforts to promptly provide to Purchaser all authorizations for expenditure, notices and other information, documents and correspondence relating to the applicable Assets that it receives and shall respond promptly to such authorizations for expenditure, notices and other information and documents pursuant to the written instructions of Purchaser, but only if such instructions are received on a timely basis, provided that, Vendor may, but shall not be obliged to, refuse to follow any such instructions that it reasonably believes to be contrary to Applicable Law or in conflict with any applicable Title and Operating Document or other agreement; and
 - (iv) as soon as is reasonably practicable, Vendor shall deliver to Purchaser all revenues, proceeds and other benefits received by Vendor and derived from the Assets (excluding

any such revenues, proceeds or benefits that relate to matters arising prior to the Effective Time), less the share of the applicable Crown or lessor royalties, operating costs, treating, processing and transportation expenses and any other costs and expenses directly associated with the Assets and the Petroleum Substances produced therefrom or allocated thereto, and less any costs and expenses paid or incurred by Vendor in the discharge of its duties and obligations pursuant to this Clause 8.1.

- (b) If and to the extent that Vendor maintains any Assets and takes actions with respect to any Assets on behalf of Purchaser pursuant to this Clause 8.1, then Vendor shall be deemed to be the agent of Purchaser in such regard. Purchaser does hereby and shall ratify all actions taken by Vendor or refrained to be taken by Vendor pursuant to the terms of this Clause 8.1 in such capacity, with the intention that all such actions shall be for all purposes deemed to be those of Purchaser.
- (c) If Vendor participates in any operations or exercises rights or options in respect to any Assets as the agent of Purchaser pursuant to this Clause 8.1, then Vendor may require Purchaser to secure the costs to be incurred by Vendor on behalf of Purchaser in respect to such operations or pursuant to such election in such manner as may be reasonably appropriate in the circumstances.
- (d) Unless otherwise directed by Purchaser, Vendor shall pay on behalf of Purchaser all rentals for Crown and freehold mineral and surface leases which are due and payable on or before April 30, 2013.
- (e) Vendor will be responsible for production accounting for the production month of March, 2013. Purchaser shall be responsible for production accounting after such date.
- (f) Unless otherwise directed by Purchaser, Vendor shall market production from the Assets on behalf of Purchaser until April 30, 2013.

8.2 Delivery of Title and Operating Documents and Miscellaneous Interests

As soon as is practical, but in any event not later than 10 days after Closing, or any other day as Vendor and Purchaser may agree, Vendor shall deliver or cause to be delivered to Purchaser the Title and Operating Documents and such other agreements and documents to which the Assets are subject and the original copies of those contracts, agreements, records, books, documents, licences, reports, files and data comprising Miscellaneous Interests which are in the possession and control of Vendor. Notwithstanding the foregoing:

- (a) if and to the extent any such materials also pertain to assets or interests other than the Assets, photocopies or other copies of such materials may be provided to Purchaser in lieu of original copies; and
- (b) to the extent that there are any pending or threatened Claims, audits or other matters involving or relating to the Assets that pertain to the period prior to the Effective Time, Vendor, at its own cost, may make and retain copies of the relevant portions of such materials.

8.3 Removal of Signs

Within 30 days after Closing, Purchaser shall remove Vendor's name from all signs and remove any other items indicating ownership by Vendor located on, at or near any Wells or Tangibles. If Purchaser fails to remove Vendor's name from such signs or to removes such other items in respect to any such Wells or Tangibles within such period, then Vendor shall have the right, but not the obligation, to

remove same and Purchaser shall reimburse Vendor for all reasonable costs incurred by Vendor in doing so.

8.4 Limitation of Liability for Post-Closing Operations

- (a) Vendor and the Vendor's Related Persons shall have no liability for any Losses and Liabilities paid, incurred or suffered by Purchaser or any of the Purchaser's Related Persons or any Claims made against any of them relating to operation or maintenance of the Assets after Closing or the discharge by Vendor of its obligations pursuant to the other provisions of this Article 8, except to the extent that any such Losses and Liabilities or any such Claims arise as a direct consequence of the gross negligence or wilful misconduct of Vendor or any of the Vendor's Related Persons.
- (b) Purchaser shall be liable for all Losses and Liabilities suffered, sustained, paid or incurred by Vendor or any of the Vendor's Related Persons, and, in addition and as an independent covenant, shall indemnify Vendor and each of the Vendor's Related Persons from and against all Losses and Liabilities suffered, sustained, paid or incurred by it and all Claims made against it, in either case, as a result of any actions taken or operations conducted in accordance with the other provisions of this Article 8, except to the extent arising as a direct consequence of the gross negligence or wilful misconduct of Vendor or any of the Vendor's Related Persons.

8.5 Updated Reserves Report

Vendor shall provide Purchaser with a copy of Vendor's 2012 year-end reserves report upon Vendor's receipt of same.

ARTICLE 9 DUE DILIGENCE

9.1 Title Review

Purchaser acknowledges that it has had the opportunity to conduct its own due diligence in respect of Vendor's title to the Assets and expressly waives any and all defects in respect thereof, whether disclosed by such due diligence or otherwise; provided that such waiver shall not diminish the rights of Purchaser to make a Claim for a breach by Vendor of any representations and warranties set forth in Clause 5.1.

9.2 Environmental Review

Purchaser acknowledges and confirms that it performed, to its satisfaction, its Environmental assessment of the Assets prior to the execution of this Agreement and that it shall not be entitled to any further environmental inspection or environmental assessment, and expressly waives any and all environmental defects in respect of the Assets; provided that such waiver shall not diminish the right of Purchaser to make a Claim for breach by Vendor of the representation set forth in Clause 5.1(p).

**ARTICLE 10
RIGHTS OF FIRST REFUSAL**

10.1 Rights of First Refusal

- (a) Within five Business Days following the execution of this Agreement by the Parties, Purchaser shall advise Vendor in writing of its bona fide allocations of value for the Assets to which the ROFRs identified in Schedule F relate.
- (b) Vendor shall issue notices to the Third Parties holding Identified ROFRs using the allocations provided by Purchaser, in accordance with the applicable provisions of such rights no later than three Business Days after it receives the value allocations relating to the Assets affected by each such Identified ROFR from Purchaser as provided in Clause 10.1(a).
- (c) Vendor shall notify Purchaser in writing forthwith upon receipt of notice from any Third Party exercising or waiving any Identified ROFRs for which notices were issued pursuant to Clause 10.1(b).
- (d) Vendor shall comply with the terms of each of the Identified ROFRs exercised by the holders thereof by selling and conveying to such holders the portion of the Assets which are subject to such exercised Identified ROFR. If any Identified ROFRs are exercised by the holders thereof this Agreement shall be deemed to have been amended, effective as of the date of this Agreement, to exclude the applicable Assets from the definitions of "Assets", "Major Facilities", "Miscellaneous Interests", "Petroleum and Natural Gas Rights", "Tangibles" and "Wells", as may be applicable, and to reduce the Base Price by the aggregate of the values allocated to such Assets as provided in Clause 10.1(a).
- (e) Closing shall not be delayed even though certain of the Identified ROFRs are outstanding and capable of exercise by the holders thereof as of the Closing Time (such outstanding Identified ROFRs being the "**Outstanding ROFRs**"). In such case, the following procedures shall apply:
 - (i) the Parties shall proceed to Closing without any reduction in the Purchase Price for the Outstanding ROFRs;
 - (ii) the Parties will deposit into escrow with Vendor's Solicitors (as "**Escrow Agent**"), that portion of the Purchase Price allocated to those of the Assets subject to the Outstanding ROFRs (the "**Escrow Assets**") as well as all closing documentation and Specific Conveyances required for the sale of all Escrow Assets by Vendor;
 - (iii) if an Outstanding ROFR is exercised by a Third Party, the Parties will promptly notify the Escrow Agent thereof in writing and:
 - (A) the funds deposited with the Escrow Agent in respect of such Escrow Assets will be refunded by the Escrow Agent to Purchaser together with the interest earned thereon while held by the Escrow Agent; and
 - (B) the closing documentation and Specific Conveyances related to such Escrow Assets deposited with the Escrow Agent will be of no force or effect;

- (iv) if after Closing an Outstanding ROFR is extinguished by lapse of time, waiver or otherwise (other than as a result of being exercised), the Parties will promptly notify the escrow agent thereof in writing and:
 - (A) the Escrow Agent will promptly pay the funds deposited with the Escrow Agent in respect of such Escrow Assets to Vendor together with the interest earned thereon while held by the Escrow Agent; and
 - (B) the Escrow Agent will promptly deliver copies of the closing documentation and Specific Conveyances deposited with the Escrow Agent in relation to such Escrow Assets to each Party, such documentation shall be effective and the sale of such ROFR Assets to Purchaser pursuant hereto shall have closed.
- (f) From and after Closing Purchaser shall, with Vendor's cooperation, comply with any ROFRs identified after Closing in accordance with the terms thereof. Purchaser shall be entitled to receive all proceeds payable by the holders of any such ROFRs exercised after Closing and there will be no adjustment to the Purchase Price as a consequence of the identification of any such ROFRs or the exercise thereof after Closing.
- (g) Except as provided in Clause 10.1(g), Purchaser shall be liable for all Losses and Liabilities suffered, sustained, paid or incurred by Vendor or any of the Vendor's Related Persons, and, in addition and as an independent covenant, shall indemnify Vendor and each of the Vendor's Related Persons from and against all Losses and Liabilities suffered, sustained, paid or incurred by it and all Claims made against it, in either case, as a direct consequence of (i) any allocation of value provided by Purchaser and used by Vendor in the issuance of a notice in respect of a Identified ROFR pursuant to Clause 10.1(a); (ii) any failure by Purchaser to comply with the terms of any ROFR after Closing; and (iii) any allocation of value used by Purchaser in the issuance of a notice in respect of a ROFR identified after Closing.
- (h) The Parties acknowledge and agree that, following Closing, Vendor shall have no liability to Purchaser or any of the Purchaser's Related Persons in respect of any ROFR except as a consequence of a breach by Vendor of its representation and warranty set forth in Clause 5.1(t), in which case Purchaser and the Purchaser's Related Persons shall be limited to the remedies provided under Clause 6.1 in respect of such breach.

ARTICLE 11 EMPLOYEE MATTERS

11.1 *[redacted for confidentiality reasons]*

11.2 **Privacy Matters**

- (a) Each Party acknowledges that it is responsible for compliance at all times with Applicable Privacy Laws which govern the collection, use and disclosure of Personal Information obtained by or disclosed to either Party pursuant to this Agreement or otherwise in connection with the Transaction or negotiations leading to this Agreement, including the contents of the Employee Schedule (the "**Disclosed Personal Information**").
- (b) Prior to Closing, neither Party shall use the Disclosed Personal Information obtained by or disclosed to it for any purposes other than those related to the performance of this Agreement and the completion of the Transaction.

- (c) Purchaser undertakes that, after Closing, it shall only use the Disclosed Personal Information obtained by or disclosed to it in accordance with the purpose for which the Personal Information was originally collected and to obtain consents where required by Applicable Privacy Laws prior to using or disclosing such Disclosed Personal Information.
- (d) Each Party acknowledges and confirms that the disclosure of the Disclosed Personal Information is necessary for the purposes of this Agreement and that the disclosure of the Disclosed Personal Information relates solely to the carrying on of their respective businesses and the completion of the Transaction.
- (e) Each Party acknowledges and confirms that it has used and shall continue to use appropriate technology and procedures in accordance with Applicable Privacy Laws to prevent accidental loss or corruption of the Disclosed Personal Information, unauthorized input or access to the Disclosed Personal Information obtained by or disclosed to it, or unauthorized or unlawful collection, storage, disclosure, recording, copying, alteration, removal, deletion, use or other processing of such Disclosed Personal Information.
- (f) Each Party shall at all times keep strictly confidential all Disclosed Personal Information obtained by or disclosed to it, and shall instruct its employees or other personnel or advisors responsible for processing such Disclosed Personal Information to protect the confidentiality of such information in a manner consistent with the Party's obligations hereunder. Each Party shall ensure that access to the Disclosed Personal Information obtained by or disclosed to it shall be restricted to its employees or other personnel or advisors who have a bona fide need to access to such information in order for such Party to perform its obligations under this Agreement and to complete the Transaction.
- (g) Each Party shall promptly notify the other Party of all inquiries, complaints, requests for access, and Claims of which the Party is made aware in connection with the Disclosed Personal Information obtained by or disclosed to it. The Parties shall fully co-operate with one another, with the Persons to whom the Disclosed Personal Information relates, and any Governmental Authorities charged with enforcement of Applicable Privacy Laws, in responding to such inquiries, complaints, requests for access, and Claims.
- (h) If Closing does not occur, Purchaser shall return to Vendor or, with the consent of Vendor, destroy all copies of all Disclosed Personal Information obtained by or disclosed to Purchaser in connection with this Agreement.
- (i) *[paragraph regarding return of Personal Information acquired by Purchaser in connection with this Agreement has been redacted]*.
- (j) The provisions of this Clause 11.2 shall survive Closing.

ARTICLE 12

GENERAL

12.1 Further Assurances

Each Party will, from time to time and at all times after Closing, without further consideration, do such further acts and deliver all such further assurances, deeds and documents as shall be reasonably required in order to fully perform and carry out the terms of this Agreement.

12.2 Entire Agreement

- (a) The provisions contained in all documents and agreements collateral hereto shall at all times be read subject to the provisions of this Agreement and, in the event of conflict, the provisions of this Agreement shall prevail.
- (b) Except as provided in the Confidentiality Agreement, this Agreement supersedes all other agreements, documents, writings and verbal understandings between the Parties relating to the subject matter of this Agreement and expresses the entire agreement of the Parties with respect to the subject matter of this Agreement and each of the Parties acknowledges and agrees that the offer to purchase dated November 29, 2012, as amended on December 13, 2012, between Vendor and Purchaser is superseded by the execution of this Agreement by the Parties.

12.3 Governing Law; Arbitration

- (a) This Agreement shall, in all respects, be subject to, interpreted, construed and enforced in accordance with and under the laws of the Province of Alberta and the laws of Canada applicable therein and shall, in every regard, be treated as a contract made in the Province of Alberta.
- (b) Subject to Clause 12.3(c), the Parties shall attorn and submit to the jurisdiction of the courts of the Province of Alberta and courts of appeal therefrom in respect of all matters arising out of this Agreement.
- (c) Insofar as the Parties are unable to agree on any matter which expressly may be referred to arbitration under this Agreement, either Party may serve the other Party written notice that it wishes such matter referred to arbitration. Each such arbitration shall be conducted in accordance with the following:
 - (i) The Parties shall meet within five days of the receipt of a notice issued by one Party requesting arbitration of an applicable matter to attempt to agree on a single arbitrator qualified by experience, education, and training, to determine such matter. If the Parties are unable to agree on the selection of the arbitrator, the Party which issued such notice shall forthwith make application to a justice of the Court of Queen's Bench of the Province of Alberta pursuant to the Arbitration Act for the appointment of a single arbitrator, and failing such action on the part of the Party which issued such notice, the other Party may make such application.
 - (ii) The arbitrator selected pursuant to Clause 12.3(c)(i) shall proceed as soon as is practicable to hear and determine the matter in dispute, and shall be directed to provide a written decision respecting such matter within 30 days of appointment. The Parties shall provide such assistance and information as may be reasonably necessary to enable the arbitrator to determine such matter.
 - (iii) Except to the extent modified in this Clause 12.3(c), the arbitrator shall conduct any arbitration under this Agreement pursuant to the provisions of the Arbitration Act.

12.4 Assignment; Enurement

This Agreement may not be assigned by a Party without the prior written consent of the other Party, which consent may be unreasonably and arbitrarily withheld. This Agreement shall be binding

upon and shall enure to the benefit of the Parties and their respective administrators, trustees, receivers, successors and permitted assigns.

12.5 Time of Essence

Time shall be of the essence in this Agreement.

12.6 Notices

The addresses for service and the fax numbers of the Parties shall be as follows:

Vendor:

ADVANTAGE OIL & GAS LTD.
P.O. Box 20418
205 – 5th Avenue SW
Calgary, Alberta
T2P 4H3
Attention: [redacted]

with a copy to

ADVANTAGE OIL & GAS LTD.
700, 400 – 3rd Avenue SW
Calgary, Alberta
T2P 4H2
Attention: [redacted]
Fax: [redacted]

Purchaser:

QUESTFIRE ENERGY CORP.
Suite 400, 703 – 6th Avenue SW
Calgary, Alberta
T2P 0T9
Attention: [redacted]
Fax: [redacted]

All notices, communications and statements required, permitted or contemplated in this Agreement shall be in writing, and shall be delivered as follows:

- (a) by personal delivery or courier service on a Party at the address of such Party set out above, in which case the item so served shall be deemed to have been received when actually delivered; or
- (b) by facsimile transmission to a Party to the fax number of such Party set out above, in which case the item so transmitted shall be deemed to have been received when received in its entirety in a legible form.

A Party may from time to time change its address for service or its fax number or both by giving written notice of such change to the other Party.

12.7 Invalidity of Provisions

In case any of the provisions of this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality or enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby.

12.8 Waiver

No failure on the part of any Party in exercising any right or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or remedy preclude any other or further exercise thereof or the exercise of any right or remedy in law or in equity or by other Applicable Law or otherwise conferred. No waiver of any provision of this Agreement, including this Clause 12.8, shall be effective otherwise than by an instrument in writing dated subsequent to the date of this Agreement, executed by a duly authorized representative of the Party making such waiver.

12.9 No Merger

The respective representations, warranties, covenants and indemnities of the Parties contained in this Agreement, including all qualifications thereof and limitations thereon, shall not be merged in any assignments, conveyances, transfers and other documents provided for under this Agreement.

12.10 Amendment

This Agreement shall not be varied in its terms or amended by oral agreement or by representations or otherwise other than by an instrument in writing dated subsequent to the date of this Agreement, executed by a duly authorized representative of each Party.

12.11 Confidentiality and Public Disclosures

- (a) Neither Party may disclose the contents of this Agreement or any information concerning negotiations leading to this Agreement and the Transaction, without the prior written consent of the other Party and, to the extent that the information is Personal Information, the consent of the individual to whom such Personal Information relates, except when such consent is not required under Applicable Privacy Laws. Except as provided in Clause 11.2, nothing contained in this Agreement shall prevent a Party from disclosing such information: (i) to any Governmental Authority or to the public, but in either case, only if and to the extent that such disclosure is required under any Applicable Law; (ii) to obtain consents required under, or to comply with any ROFRs or other preferential, pre-emptive or first purchase rights contained in, the Title and Operating Documents and any other agreements and documents to which the Assets are subject; or (iii) if required to obtain the consent to the Transaction by Vendor's lenders or other security holders and, if applicable, to obtain their release of Security Interests in, or their acknowledgement of "no interest" in, the Assets; provided that, in each such instance, the Party that proposes to make such a disclosure shall advise other Party of such proposed disclosure and shall use its reasonable efforts to prevent the disclosure of any such information that is not required to be disclosed for the listed purposes, including any Personal Information for which disclosure is restricted or prohibited pursuant to Clause 11.2 or Applicable Privacy Laws.

- (b) Neither Party will make any press release respecting the existence of this Agreement, the contents hereof or the Transaction without the consent of the other Party except to the extent the other Party unreasonably withholds or delays consent; provided however, the foregoing shall not restrict disclosures by any Party to the extent that those disclosures are required by Applicable Laws. A Party which proposes to make such a press release shall, to the extent reasonably possible, provide the other Party with a draft of that release at least one Business Day prior to its release to enable the other Party to review that draft and advise of any comments it may have with respect thereto. The Party proposing to make the press release will not unreasonably refuse to incorporate the requested changes in the public announcement except to the extent its counsel advises that doing so will result in non compliance with Applicable Laws.
- (c) If, prior to the Closing Date, Purchaser proposes to make any public disclosure of Disclosed Information it shall:
 - (i) obtain the approval of Vendor, in advance of the filing, distribution or delivery of any of those documents or materials, acting reasonably, regarding any references to Vendor or the Transaction that may be provided therein; and
 - (ii) provide the Vendor with a draft of the applicable press release draft or final copy of any prospectus, offering document, loan syndication materials or other document containing the disclosure at least one Business Day before its release, filing, delivery or distribution to enable Vendor to review that draft and advise of any comments it may have with respect thereto.

The Purchaser will not unreasonably refuse to incorporate the requested changes of the applicable the Vendor to the applicable press release or other document except to the extent its counsel advises that doing so will result in non compliance with Applicable Laws or the formal request of a Securities Regulatory Authority.

- (d) Purchaser shall not file this Agreement on SEDAR or otherwise make this Agreement publicly available without Vendor's prior consent, which consent may not be unreasonably withheld, but which consent may be subject to the Vendor requiring that competitively sensitive information is redacted from the filed version of this Agreement. Notwithstanding the foregoing, the Vendor consents to:
 - (i) the filing of this Agreement by Purchaser with Securities Regulatory Authorities on a confidential basis; and
 - (ii) the public filing thereafter of a redacted form of this Agreement as may be required by those Securities Regulatory Authorities in connection with the filing of any prospectus or other offering document by Purchaser; provided that prior notice of the intention to so file has been provided to the Vendor together with an opportunity for the Vendor to review and, acting reasonably, provide comments on any such redacted form and which comments will be submitted in good faith to the Securities Regulatory Authorities prior to so filing.
- (e) The Confidentiality Agreement, insofar as it relates to "Confidential Information" (as defined in the Confidentiality Agreement) pertaining to the Assets, shall terminate effective as of Closing. To the extent that the Confidentiality Agreement relates to "Confidential Information" that pertains to any matter other than the Assets, such agreement shall continue in force and effect until it terminates, if at all, in accordance with its terms.

12.12 Securities Act Disclosure

For a period of 120 days following Closing, Vendor covenants and agrees to provide and make available to Purchaser, its personnel and advisors (including, without limitation, any auditors, accountants, legal, engineering and environmental advisors engaged by Purchaser) and to make available such of Vendor's personnel as may be reasonably required by Purchaser, such financial, operational and engineering documents relating to the Assets for a period of two years prior to the Adjustment Date, which are reasonably considered necessary for Purchaser to satisfy the "business acquisition report" and other disclosure obligations of Purchaser relating to the Assets and now or hereafter arising under any national instrument, local securities commission rule or stock exchange requirement.

12.13 Additional Purchaser Covenants

Purchaser has complied with and, from and after the date hereof and following Closing shall continue to comply with, all requirements of Applicable Canadian Securities Laws in connection with the issuance to Vendor of the Debenture and the Share Consideration including, but not limited to, the filing of a report of exempt distribution and the payment of applicable fees within 10 days from the Closing Date and, in addition from and after the date hereof and following Closing Purchaser shall:

- (a) do or cause to be done all things reasonably necessary to preserve and keep in full force and effect the existence and rights of Purchaser;
- (b) use reasonable commercial efforts to maintain the listing of its Common Shares and Class B Shares on the TSXV or any other recognized stock exchange and to maintain Purchaser's status as a "reporting issuer" not in default under Applicable Canadian Securities Laws;
- (c) duly and punctually pay or cause to be paid to Vendor the principal of, premium and interest accrued on the Debenture on the dates and in the manner mentioned in the Debenture;
- (d) reserve and keep available a sufficient number of Common Shares for the purpose of enabling Purchaser to satisfy its obligations to issue Common Shares pursuant to the Debenture and the Class B Shares; and
- (e) cause the Common Shares and the certificates representing the Common Shares from time to time issued pursuant to the Debenture and the Class B Shares to be duly issued and delivered as fully paid and non-assessable Common Shares in accordance with the Debenture and the terms of the Class B Shares.

12.14 Counterpart Execution

This Agreement may be executed in any number of counterparts with the same effect as if all signatories to the counterparts had signed one document. All such counterparts shall together constitute and be construed as one instrument. For avoidance of doubt, a signed counterpart provided by way of facsimile transmission or other electronic means shall be as binding upon the Parties as an originally signed counterpart.

(Execution Page Follows)

IN WITNESS WHEREOF the Parties have executed this Agreement as of the day and year first above written.

ADVANTAGE OIL & GAS LTD.

QUESTFIRE ENERGY CORP.

Per: "Signed"

Per: "Signed"

Name: [redacted]

Title: [redacted]

Name: [redacted]

Title: [redacted]

Per: "Signed"

Per: "Signed"

Name: [redacted]

Title: [redacted]

Name: [redacted]

Title: [redacted]

This is the Execution Page for the Asset Purchase and Sale Agreement Between Advantage Oil & Gas Ltd. and Questfire Energy Corp. dated as of the 5th day of February, 2013

SCHEDULE A

This Page and the Following Pages Comprise Schedule A Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

LANDS, PETROLEUM AND NATURAL GAS RIGHTS, WELLS

[Schedule A has been redacted]

SCHEDULE B

This and the following pages comprise Schedule A Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

PRODUCTION AND MARKETING CONTRACTS

[Schedule B has been redacted]

SCHEDULE C

This and the Following Pages Comprise Schedule C Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

MAJOR FACILITIES

[Schedule C has been redacted]

SCHEDULE D

This and the Following Pages Comprise Schedule D Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

OUTSTANDING AFES

[Schedule D has been redacted]

SCHEDULE E

This and the Following Page Comprise Schedule E Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

FORM OF GENERAL CONVEYANCE

GENERAL CONVEYANCE

THIS GENERAL CONVEYANCE made the • day of •, 2013.

BETWEEN:

Advantage Oil & Gas Ltd., a body corporate incorporated pursuant to the laws of the Province of Alberta (the "**Vendor**")

- and -

Questfire Energy Corp., a corporation pursuant to the laws of the Province of Alberta (the "**Purchaser**")

WHEREAS pursuant to the provisions of an Asset Purchase and Sale Agreement dated February 5th, 2013 between the Vendor and the Purchaser (the "**Asset Purchase Agreement**"), the Purchaser has agreed to purchase the Vendor's interest in the "Assets", as defined in the Asset Purchase Agreement, subject to the terms and conditions set forth in the Asset Purchase Agreement;

NOW THEREFORE THIS AGREEMENT WITNESSES that the Vendor and Purchaser agree as follows:

1. **Definitions**

Unless otherwise defined in this General Conveyance, capitalized words when used in this Agreement have the meaning ascribed to them in the Asset Purchase Agreement.

2. **Conveyance**

Pursuant to and for the consideration provided for in the Asset Purchase Agreement, the Vendor hereby sells, assigns, transfers, conveys and sets over to the Purchaser the Vendor's entire right, title, estate and interest in and to the Assets, and Purchaser hereby purchases and accepts the Assets, to have and to hold the same absolutely, together with all benefits and advantages to be derived therefrom.

3. **Effective Time**

This General Conveyance shall be effective as the date first written above.

4. **Subordinate Documents**

This General Conveyance is executed and delivered by the parties hereto pursuant to and for the purposes of the provisions of the Asset Purchase Agreement and the provisions of the Asset Purchase

Agreement shall prevail and govern in the event of a conflict between the provisions of the Asset Purchase Agreement and this General Conveyance.

5. **Enurement**

This General Conveyance shall be binding upon and enure to the benefit of each of the parties hereto and their respective receivers, receiver-managers, successors and assigns.

6. **Further Assurances**

Each party hereto will, from time to time and at all times hereafter, at the request of the other party but without further consideration, do all such further acts and execute and deliver all such further documents as shall be reasonably required in order to fully perform and carry out the terms of this Agreement.

7. **Merger**

Nothing contained in this Agreement shall in any way result in a merger of the terms and conditions of the Asset Purchase Agreement with the terms and conditions of this General Conveyance and the parties hereto specifically agree that all such terms and conditions of the Asset Purchase Agreement shall continue to apply to the within conveyance.

8. **Counterpart Execution**

This General Conveyance may be executed in any number of counterparts with the same effect as if all signatories to the counterparts had signed one document. All such counterparts shall together constitute and be construed as one instrument. For avoidance of doubt, a signed counterpart provided by way of facsimile transmission or other electronic means shall be as binding upon the Parties as an originally signed counterpart.

IN WITNESS WHEREOF the parties hereto have executed this General Conveyance as of the date first written above.

ADVANTAGE OIL & GAS LTD.

Per: _____

Per: _____

QUESTFIRE ENERGY CORP.

Per: _____

Per: _____

SCHEDULE F

This and the Following Pages Comprise Schedule F Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

RIGHTS OF FIRST REFUSAL

[Schedule F has been redacted]

SCHEDULE G

This and the Following Page Comprise Schedule G Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

FORM OF CERTIFICATE FOR VENDOR

TO: Questfire Energy Corp. ("**Purchaser**")

RE: Asset Purchase and Sale Agreement dated February 5th, 2013 (the "**Sale Agreement**") between Advantage Oil & Gas Ltd. ("**Vendor**") and Purchaser

The undersigned, [INSERT NAME], being the [INSERT TITLE] of Vendor, hereby certifies, for and on behalf of Vendor and not in his/her personal capacity, as follows:

1. The undersigned is personally familiar, in his/her capacity as an officer of Vendor, with the matters hereinafter certified.
2. This certificate is made and delivered pursuant to clause 4.1(c) of the Sale Agreement.
3. The definitions contained in the Sale Agreement are adopted in this Agreement and wherever used shall have the meanings ascribed to them in the Sale Agreement.
4. The representations and warranties of Vendor set forth in clause 5.1 of the Sale Agreement are true correct in all material respects as of the Closing Time, unless some other time is specified, and all obligations and covenants of Vendor to be performed or complied with prior to or at the Closing Time (other than in respect to the agreements, certificates and other instruments and documents to be delivered at the Closing Time by Vendor pursuant to clause 4.1 of the Sale Agreement) have been performed or complied with in all material respects except where failure of such representations and warranties to be true and correct and/or where failure to perform or comply with such obligations and such covenants would not reasonably be expected to result, in the aggregate, in a Financial Impact of more than [redacted] of the Base Price.
5. No material change to the Assets, except as shall have been consented to in writing by the Purchaser, has occurred between the execution of this Agreement and the Closing Date which would materially or adversely affect the value of the Assets, provided that neither a decrease in the market price of any Petroleum Substances, changes in the reservoir, nor production of Petroleum Substances in the ordinary course of business shall be considered substantial damage for the purposes of this subclause.

DATED at Calgary, Alberta, as of the ____ day of _____, 2013.

ADVANTAGE OIL & GAS LTD.

Per: _____
Name:
Title:

FORM OF CERTIFICATE FOR PURCHASER

TO: Advantage Oil & Gas Ltd. ("**Vendor**")

RE: Asset Purchase and Sale Agreement dated February 5th, 2013 (the "**Sale Agreement**") between Vendor and Questfire Energy Corp. ("**Purchaser**")

The undersigned, [INSERT NAME], being the [INSERT TITLE] of Purchaser, hereby certifies, for and on behalf of Purchaser and not in his/her personal capacity, as follows:

1. The undersigned is personally familiar, in his/her capacity as an officer of Purchaser, with the matters hereinafter mentioned.
2. This certificate is made and delivered pursuant to clause 4.2(b) of the Sale Agreement.
3. The definitions contained in the Sale Agreement are adopted and in this Agreement wherever used shall have the meanings ascribed to them in the Sale Agreement.
4. The representations and warranties of Purchaser set forth in clause 5.3 of the Sale Agreement are true in all material respects as of the Closing Time and all obligations and covenants of Purchaser to be performed prior to or at the Closing Time (other than in respect to the payments, agreements, certificates and other instruments and documents to be made and delivered at the Closing Time by Purchaser pursuant to Clause 4.2) have been timely performed in all material respects.

DATED at Calgary, Alberta, as of the ____ day of _____, 2013.

QUESTFIRE ENERGY CORP.

Per: _____
Name:
Title:

SCHEDULE H

This and the Following Page Comprise Schedule H Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

WHITE MAP AREA

[Schedule H has been redacted]

SCHEDULE I

This and the Following Pages Comprise Schedule I Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

INCLUDED SEISMIC DATA

Part 1 - Proprietary Seismic Data

Part 2 - Partner and Joint Seismic Data

[Schedule I has been redacted]

SCHEDULE J

This and the following Pages Comprise Schedule H Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

DISCLOSURE

[Schedule J has been redacted]

SCHEDULE K

This and the following Pages Comprise Schedule K Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

EXCLUDED ASSETS

[Schedule K has been redacted]

SCHEDULE L

This and the Following Page Comprise Schedule L Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

AREAS OF MUTUAL INTEREST

[Schedule L has been redacted]

SCHEDULE M

This and the Following Pages Comprise Schedule M Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

FORM OF DEBENTURE

[Schedule M has been redacted. The executed Debenture will be filed on SEDAR by Purchaser following Closing]

SCHEDULE N

This and the Following Pages Comprise Schedule N Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

DEPOSIT LANDS

[Schedule N has been redacted]

SCHEDULE O

This and the Following Pages Comprise Schedule O Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

SURPLUS, IDLE AND ACTIVE EQUIPMENT

[Schedule O has been redacted]

SCHEDULE P

This Page Comprises Schedule P Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

HEDGING PROGRAMS

Term of Contract	Volume	Fixed Price
Natural Gas – AECO 7A		
March 2013 to December 2013	14,000 gj/d	\$3.05/gj
January 2014 to December 2014	8,000 gj/d	\$3.3575/gj
Crude Oil – WTI Canadian		
March 2013 to December 2013	250 bbls/d	\$97.25/bbl
January 2014 to December 2014	200 bbls/d	\$94.80/bbl

SCHEDULE Q

This and the Following Pages Comprise Schedule Q Attached to and Forming Part of an Asset Purchase and Sale Agreement Made as of the 5th day of February, 2013 Between Advantage Oil & Gas Ltd., as Vendor, and Questfire Energy Corp., as Purchaser.

FORM OF GOVERNANCE AGREEMENT

[Schedule Q has been redacted. The executed Governance Agreement giving Vendor the right to designate one representative, such representative to be agreed to by Purchaser, acting reasonably, to be appointed to the board of directors of Purchaser for the period of time commencing at the Closing Time and ending on the date that the principal amount of the Debenture and accrued interest thereon is paid in full by Purchaser will be filed on SEDAR by Purchaser following Closing]

Revised Deal Terms to Asset Purchase and Sale Agreement dated Feb. 5th, 2013

1. Questfire agrees to assume the 5th floor office space at 400, 3rd Ave. S.W. including furniture and fixtures.

- i. Sublease to run from [REDACTED]
- ii. Includes 8 indoor parking stalls in the building.
- iii. The floor area is approximately 15,600 square feet.
- iv. Sublease costs: \$28/sq. ft. rent, \$13/sq. ft. estimated operating cost plus applicable taxes and fees.

Note: Advantage to advise regarding approval from Oxford and Devon as soon as possible.

2. Revised Offer:

\$40 MM Cash (bank financing)
\$10 MM 1.5 MM 'B' shares (estimated value)
\$44 MM Convertible Debenture (to be reduced by closing adjustments estimated at +/- \$10MM)
\$94 MM (An increase of \$2MM overall from the previous offer)

3. Revised Debenture Terms:

- i. Principal: \$44MM (was \$27MM an increase of \$17MM) (to be decreased by closing adjustments).
- ii. 36 month term from the closing date (was 24 months).
- iii. Conversion option to 'A' shares for Advantage at 30 months from closing (was 18 months).
- iv. Interest rate schedule:
1st 12 months: 6.00%
2nd 12 months: 7.00%
3rd 12 months: 9.00%
- v. Financing Option: In the event of a financing Advantage can take 'A' shares at the issue price up to 50% of the total financing value unless mutually agreed to otherwise. **The original indenture agreement allowed Advantage to take 'A' shares up to the value of the remaining principal; Clause 7.1(b) (vii).**

4. Other Terms:

- i. Closing date: April 30, 2013. Sooner if possible but still subject to TSXV approval and Competition Act approval as detailed in the Feb. 5th, 2013 PSA.
- ii. Advantage to have the option to appoint 2 board members after closing. The 2 new board members are to be mutually agreed to.

ACCEPTED AND AGREED TO BY:

QUESTFIRE ENERGY CORP.

By: [REDACTED]
Name: RICHARD DAHL
Title: PRESIDENT & CEO

Date: MARCH 12, 2013

By: [REDACTED]
Name: JOHN RAMESCU
Title: V.P. Land

Date: March 12, 2013

ADVANTAGE OIL & GAS LTD.

By: [REDACTED]
Name: Andy Wan
Title: President & CEO
Advantage Oil & Gas Ltd.

Date: March 12, 2013

By: [REDACTED]
Name: Kelly Orader
Title: Chief Financial Officer

Date: March 12, 2013

**SCHEDULE “B”
QUESTFIRE TRANSACTION CONSENT**

Shareholder’s Consent and Authorization

TO: Questfire Energy Corp. (the “**Corporation**” or “**Questfire**”)

AND TO: The TSX Venture Exchange (the “**TSXV**”)

All terms not otherwise defined herein shall have the meaning ascribed thereto in the Filing Statement of Questfire prepared in respect of the proposed acquisition by Questfire of the Assets from Advantage Oil & Gas Ltd. (“Advantage”).

The undersigned, being the registered and/or beneficial owner of the number of Class A Shares and Class B Shares in the capital of Questfire indicated below (each, a “**Common Share**”), hereby declares as follows:

- (a) The undersigned has reviewed the Filing Statement of Questfire and is aware of the proposed acquisition (the “**Transaction**”) by Questfire of the Assets (the “**Agreement**”).
- (b) The undersigned understands that, pursuant to the Transaction, Questfire will issue an aggregate of \$40 million cash, approximately \$44 million principal amount of Debentures and 1,500,000 Class B Shares as consideration for the Assets.
- (c) The undersigned understands that when the Transaction is completed, Questfire will become the “**Resulting Issuer**”.
- (d) The undersigned understands that the Transaction will constitute a Fundamental Acquisition of Questfire pursuant to the policies of the TSXV and the undersigned understands that, under the applicable policies of the TSXV, the consent of a majority of Questfire’s Shareholders for the Transaction referred to above is required as a condition of the acceptance of such transactions by the TSXV.
- (e) The undersigned understands that the Asset Financial Statements, which are attached to the Filing Statement as Schedule “C”, have neither been audited nor reviewed by the Corporation’s auditors or the auditors of the Vendor.
- (f) The undersigned consents to, ratifies and approves the Transaction and the matters to be carried out in connection with the Transaction as if the undersigned voted all of the Common Shares owned by the undersigned (and cause all of the Common Shares that are beneficially, but not legally, owned by it to be voted in such manner) in favour of approving such transactions at a meeting of the shareholders called to consider same.
- (g) The undersigned authorizes any one or more of the directors or officers of Questfire to take all steps and proceedings, and execute and deliver any and all contracts, applications, declarations, documents and other instruments and to do all such other acts and things that may be deemed necessary or desirable by the board of directors in their sole discretion to give effect to the Transaction and all matters related thereto, including but not limited to amending the terms and conditions of the Purchase Agreement as may be deemed necessary provided all such amendments do not materially change the terms of the Transaction in a manner adverse to the Corporation or the Resulting Issuer.

This document may be executed in as many counterparts as are necessary and all counterparts together shall constitute the consent and authorization of the shareholders of Questfire. Facsimile signatures shall and do hereby constitute a valid consent and authorization of the shareholders of Questfire.

DATED this ____ day of _____, 2013.

Name of Shareholder

Signature of Shareholder

Class A Shares

Direct Ownership

If Common shares Registered in Above
Shareholder's Name

Beneficial Ownership

If Common Shares Not Registered in Above
Shareholder's Name

Total Number of Shares Directly Held

Name of Brokerage Firm

Contact Name

Total Number of Shares held in Account

Class B Shares

Direct Ownership

If Common shares Registered in Above
Shareholder's Name

Beneficial Ownership

If Common Shares Not Registered in Above
Shareholder's Name

Total Number of Shares Directly Held

Name of Brokerage Firm

Contact Name

Total Number of Shares held in Account

PLEASE INDICATE YOUR APPROVAL BY SIGNING ABOVE AND PLEASE PRINT THE NUMBER OF SHARES YOU THAT YOU OWN THAT MAY BE IN CERTIFICATE FORM (DIRECT OWNERSHIP) OR IN YOUR BROKERAGE ACCOUNT (BENEFICIAL OWNERSHIP) OR BOTH AND EMAIL THIS CONSENT LETTER TO QUESTFIRE ENERGY CORP., C/O DAVIS LLP, SUITE 1000, 250 2ND STREET SW, CALGARY, ALBERTA, ATTENTION: ROGER MacLEOD, RMACLEOD@DAVIS.CA AS SOON AS POSSIBLE.

SCHEDULE “C”
ASSET FINANCIAL STATEMENTS

Operating Statements of the

Acquired Assets

For the nine months ended September 30, 2012 and 2011 and the years ended December 31, 2012, 2011
and 2010 (unaudited)

Acquired Assets

Operating Statements

For the nine months ended September 30, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010

(amounts in Canadian dollars) (unaudited)

	Nine months ended		Year ended		
	September 30, 2012	September 30, 2011	December 31, 2012	December 31, 2011	December 31, 2010
Petroleum and natural gas revenue	\$ 37,473,913	\$ 66,094,844	\$ 52,299,841	\$ 85,866,318	\$ 104,582,238
Royalties	(3,903,436)	(10,000,282)	(5,639,079)	(12,399,796)	(15,417,626)
	33,570,477	56,094,562	46,660,762	73,466,522	89,164,612
Operating and transportation expense	20,970,215	25,131,262	27,877,820	34,711,904	37,143,186
Operating income	\$ 12,600,262	\$ 30,963,300	\$ 18,782,942	\$ 38,754,618	\$ 52,021,426

see accompanying notes

Acquired Assets

Notes to the Operating Statements

For the nine months ended September 30, 2012 and 2011 and
for the years ended December 31, 2012, 2011, and 2010
(amounts in Canadian dollars) (unaudited)

1. BASIS OF PRESENTATION

The operating statements reflect the revenue, royalties, operating and transportation expenses and operating income of certain petroleum and natural gas properties in Alberta (the "Acquired Assets") for the nine months ended September 30, 2012 and 2011 and the years ended December 31, 2012, 2011 and 2010 and accordingly, does not present the complete revenue and expenses related to the vendor.

The operating statement has been prepared from the records of the vendor of the Acquired Assets and includes only working interest revenue, royalties, operating and transportation expenses of the Acquired Assets. The statement does not include any provision for depletion and depreciation, accretion of decommissioning obligations, future capital costs, impairment of unevaluated properties, general and administrative costs, and income taxes for the Acquired Assets as these amounts are based on the consolidated operations of the vendor of which the Acquired Assets form only a part.

The operating statement has been prepared in accordance with the financial reporting framework specified in subsection 3.11(5) of National Instrument 52-107 — *Acceptable Accounting Principles and Auditing Standards* for an operating statement of an acquired oil and gas property. The revenue, royalties, operating and transportation expenses and operating income reported in the operating statements for the nine months ended September 30, 2012 and 2011 are stated in accordance with IAS 34, Interim Financial Reporting and the years ended December 31, 2012, 2011 and 2010 are stated in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation have been followed in the preparation of the September 30, 2012 and 2011 Operating Statements as were used in the preparation of the December 31, 2012, 2011 and 2010 Operating Statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Petroleum and natural gas revenues are recognized when the commodities are delivered and title passes to the external third-party purchaser. Petroleum and natural gas revenues are based on realized prices. Revenues do not include any amounts from financial derivative contracts.

(b) Royalties

Royalties are recorded at the time the product is sold. Royalties are calculated in accordance with the applicable regulations and/or terms of individual royalty agreements.

(c) Operating and transportation expenses

Operating and transportation expenses include only those costs incurred at the wellhead together with the costs associated with the gathering, processing and delivery of the petroleum and natural gas.

(d) Joint operations

As the Acquired Assets are jointly owned, the operating statement only reflects the proportionate interest being acquired by Questfire Energy Corp.

Questfire Energy Corp.

Notes to the Pro Forma Consolidated Operating Statements (unaudited)

1. BASIS OF PRESENTATION

On February 5, 2013, as amended March 12, 2013, Questfire Energy Corp. ("Questfire") entered into a definitive purchase and sale agreement with Advantage Oil & Gas Ltd. ("Advantage") to acquire certain petroleum and natural gas properties principally situated in Alberta (the "Acquired Assets").

The accompanying unaudited pro forma consolidated operating statements have been prepared for inclusion in the Filing Statement of Questfire related to the acquisition of the Acquired Assets. The accompanying unaudited pro forma consolidated operating statements have been prepared using the financial reporting framework for an operating statement of an acquired oil and gas property specified in subsection 3.11(5) of National Instrument 52-107 Acceptable Accounting Principles and Standards. The gross revenue, royalty expense, operating and transportation expense and operating income for each of Questfire and the Acquired Assets reported in the Operating Statements are stated in accordance with International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011 and IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

The unaudited pro forma consolidated operating statement for the year ended December 31, 2011 has been prepared from information derived from the following:

- The unaudited lease operating reports of Questfire for the year ended December 31, 2011; and
- The unaudited operating statement of the Acquired Assets for the year ended December 31, 2011.

The unaudited pro forma consolidated operating statement for the nine months ended September 30, 2012 has been prepared from information derived from the following:

- The unaudited lease operating reports of Questfire for the nine months ended September 30, 2012; and
- The unaudited operating statement of the Acquired Assets for the nine months ended September 30, 2012.

The unaudited pro forma consolidated operating statements do not include any provision for depletion and depreciation, accretion of decommissioning obligations, future capital costs, impairment of unevaluated properties, general and administrative costs and income taxes. The unaudited pro forma consolidated operating statements give effect to the acquisition of the Acquired Assets as if it had occurred at the beginning of the respective periods. The unaudited pro forma consolidated operating statements may not be indicative of the results that would have been achieved if the events reflected herein had occurred on the dates indicated or the results that may be obtained in the future.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Petroleum and natural gas revenues are recognized when the commodities are delivered and title passes to the external third-party purchaser. Petroleum and natural gas revenues are based on realized prices. Revenues do not include any amounts from financial derivative contracts.

Royalties

Royalties are recorded at the time the product is sold. Royalties are calculated in accordance with the applicable regulations and/or terms of individual royalty agreements.

Operating and transportation expenses

Operating and transportation expenses include only those costs incurred at the wellhead together with the costs associated with the gathering, processing and delivery of the petroleum and natural gas.

Joint operations

Substantially all of the petroleum and natural gas activities are conducted jointly with others and accordingly these unaudited pro forma consolidated operating statements reflects the proportionate interest in such activities.

SCHEDULE "D"
ASSET RESERVE INFORMATION

RESERVES DATA AND OTHER OIL AND GAS INFORMATION IN RESPECT OF THE ASSETS

Sproule Associates Limited ("**Sproule**") prepared a consolidated statement of reserves data and other oil and gas information for Advantage Oil and Gas Ltd. ("**AOG**") effective December 31, 2011 which was prepared March 9, 2012 and was filed on SEDAR with the Advantage Annual Information Form dated March 23, 2012 (the "**Sproule 2011 Report**"). At the request of Advantage, Sproule has prepared a computer recalculation of the Sproule 2011 Report which isolates the Assets being purchased by Questfire and utilizes the Sproule August 31, 2012 price forecasts for all products.

Disclosure of Reserves Data

The reserves data set forth below (the "**Reserves Data**") is based upon an evaluation by Sproule with an effective date of September 30, 2012 contained in the Sproule Report, being a consolidated report of Sproule dated February 22, 2013. The Sproule Report evaluated, as at September 30, 2012, the oil, NGLs and natural gas reserves of AOG being purchased by Questfire. The Reserves Data summarizes AOG's consolidated oil, NGLs and natural gas reserves and the net present values of future net revenue for these reserves using forecast prices and costs.

The Sproule Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101 and the COGE Handbook. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which the Corporation believes is important to readers of this Filing Statement. Sproule was engaged to provide evaluations of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of the reserves are in Canada and, specifically, in the province of Alberta.

There are numerous uncertainties inherent in estimating quantities of crude oil, natural gas and NGL reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth in this annual information form are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable crude oil, NGL and 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 associated with reserves prepared by different engineers, or by the same engineers at different times may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its consolidated reserves will vary from estimates thereof and such variations could be material.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of our crude oil, NGLs and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

The information relating to the AOG's crude oil, NGL and natural gas reserves contains forward-looking statements relating to future net revenues, forecast capital expenditures, future development plans and costs related thereto, forecast operating costs, anticipated production and abandonment costs. See "*Forward-Looking Statements*", "*Industry Conditions*" and "*Risk Factors – Reserves Estimates*".

In certain of the tables set forth below, the columns may not add due to rounding.

SUMMARY OF OIL AND GAS RESERVES
as at September 30, 2012
FORECAST PRICES AND COSTS

RESERVES CATEGORY	RESERVES			
	LIGHT AND MEDIUM OIL		HEAVY OIL	
	Gross ⁽²⁾ (Mbbl)	Net ⁽³⁾ (Mbbl)	Gross ⁽²⁾ (Mbbl)	Net ⁽³⁾ (Mbbl)
PROVED				
Developed Producing	1,121.2	957.2	3.9	15.2
Developed Non-Producing	38.2	28.5	-	-
Undeveloped	<u>48.1</u>	<u>38.7</u>	-	-
TOTAL PROVED	1,207.5	1,024.5	3.9	15.2
PROBABLE	<u>819.3</u>	<u>635.4</u>	<u>5.5</u>	<u>9.4</u>
TOTAL PROVED PLUS PROBABLE	<u>2,026.8</u>	<u>1,659.9</u>	<u>9.4</u>	<u>24.6</u>

RESERVES CATEGORY	RESERVES			
	NATURAL GAS (1)		NATURAL GAS LIQUIDS	
	Gross ⁽²⁾ (MMcf)	Net ⁽³⁾ (MMcf)	Gross ⁽²⁾ (Mbbl)	Net ⁽³⁾ (Mbbl)
PROVED				
Developed Producing	79,612	71,891	1,953.7	1,478.8
Developed Non-Producing	1,854	1,735	5.6	4.4
Undeveloped	<u>18,228</u>	<u>16,225</u>	<u>286.1</u>	<u>237.9</u>
TOTAL PROVED	99,694	89,851	2,245.4	1,721.1
PROBABLE	<u>44,815</u>	<u>40,078</u>	<u>953.9</u>	<u>717.4</u>
TOTAL PROVED PLUS PROBABLE	<u>144,509</u>	<u>129,929</u>	<u>3,199.3</u>	<u>2,438.5</u>

RESERVES CATEGORY	RESERVES	
	TOTAL OIL EQUIVALENT	
	Gross ⁽²⁾ (Mboe)	Net ⁽³⁾ (Mboe)
PROVED		
Developed Producing	16,347.4	14,432.9
Developed Non-Producing	352.9	322.0
Undeveloped	<u>3,372.2</u>	<u>2,980.9</u>
TOTAL PROVED	20,072.5	17,735.8
PROBABLE	<u>9,247.8</u>	<u>8,042.0</u>
TOTAL PROVED PLUS PROBABLE	<u>29,320.3</u>	<u>25,777.8</u>

Notes:

(1) Estimates of Reserves of natural gas include associated and non-associated gas.

(2) Gross Reserves" are Corporation's working and royalty interest share of remaining reserves before the deduction of royalties owned by others.

(3) Net Reserves" are Corporation's working interest share of remaining reserves less all Crown, freehold, and overriding royalties and interests owned by others.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE
as at September 30, 2012
FORECAST PRICES AND COSTS

RESERVES CATEGORY	Before Income Tax Discounted at (%/year)					After Income Taxes Discounted at (%/year)					Unit Value Before Income Tax Discounted at 10%/ year ⁽¹⁾
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%	
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$/boe)
PROVED											
Developed											
Producing	291,047	202,080	154,170	124,488	104,439	241,167	169,482	130,821	106,782	90,472	10.68
Developed											
Non-Producing	6,481	4,946	3,879	3,111	2,544	4,860	3,685	2,871	2,289	1,860	12.05
Undeveloped	<u>41,672</u>	<u>24,633</u>	<u>13,963</u>	<u>6,941</u>	<u>2,152</u>	<u>31,254</u>	<u>17,442</u>	<u>8,787</u>	<u>3,098</u>	<u>(769)</u>	<u>4.68</u>
TOTAL PROVED	339,200	231,659	172,012	134,540	109,135	277,281	190,610	142,479	112,169	91,563	9.70
PROBABLE	<u>255,100</u>	<u>124,985</u>	<u>75,442</u>	<u>51,466</u>	<u>37,815</u>	<u>189,884</u>	<u>93,451</u>	<u>56,277</u>	<u>38,222</u>	<u>27,937</u>	<u>9.38</u>
TOTAL PROVED PLUS											
PROBABLE	<u>594,300</u>	<u>356,645</u>	<u>247,454</u>	<u>186,006</u>	<u>146,950</u>	<u>467,165</u>	<u>284,061</u>	<u>198,756</u>	<u>150,391</u>	<u>119,500</u>	<u>9.60</u>

Notes:

(1) The unit values are based on net reserve volumes.

(2) Values are calculated by considering existing tax pools for Questfire in the evaluation of Advantage's oil and gas properties, and take into account current federal tax regulations. Values do not represent an estimate of the value at the business entity level, which may be significantly different.

TOTAL FUTURE NET REVENUE (UNDISCOUNTED)
as at September 30, 2012
FORECAST PRICES AND COSTS

RESERVES CATEGORY	REVENUE (\$000's)	ROYALTIES (\$000's)	OPERATING COSTS (\$000's)	DEVELOP- MENT COSTS (\$000's)	ABANDONMENT AND RECLAMATION COSTS (\$000's)	FUTURE NET REVENUE BEFORE INCOME TAXES (\$000's)	FUTURE INCOME TAXES (\$000's)	FUTURE NET REVENUE AFTER INCOME TAXES (\$000's)
Proved Reserves	959,502	118,520	438,155	41,277	22,351	339,200	61,919	277,281
Proved Plus Probable Reserves	1,542,579	198,477	670,929	49,663	29,209	594,300	127,135	467,165

**FUTURE NET REVENUE
BY PRODUCTION GROUP
as at September 30, 2012
FORECAST PRICES AND COSTS**

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (\$000's)	UNIT VALUE (\$/boe)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	31,391	30.64
	Heavy Oil (including solution gas and other by-products)	565	37.17
	Natural Gas (including by-products but excluding solution gas and by-products from oil wells)	140,055	9.57
	TOTAL	172,012	9.70
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	49,565	29.86
	Heavy Oil (including solution gas and other by-products)	748	30.41
	Natural Gas (including by-products but excluding solution gas and by-products from oil wells)	197,141	9.33
	TOTAL	247,454	9.60

Pricing Assumptions

The following tables set forth the benchmark reference prices, as at August 30, 2012, reflected in the Reserves Data. These price assumptions were provided to us by Sproule and were Sproule's then current forecasts at the date of the Sproule Report.

**SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS⁽¹⁾
as at August 30, 2012
FORECAST PRICES AND COSTS**

Year	WTI Cushing Oklahoma (\$US/bbl)	Light Sweet Crude Oil at Edmonton 40° API (\$Cdn/bbl)	Medium Crude Oil 29° API (\$Cdn/bbl)	Hardisty Heavy 12° API (\$Cdn/bbl)	NATURAL GAS AECO-C Spot (\$Cdn/ MMBtu)	NATURAL GAS LIQUIDS Edmonton Pentanes Plus (\$Cdn/bbl)	NATURAL GAS LIQUIDS Edmonton Butanes (\$Cdn/bbl)	INFLATION RATES %/Year	EXCHANGE RATE ⁽²⁾ (\$US/\$Cdn)
2011	95.00	95.16	87.86	69.10	3.72	104.12	70.93	1.5	1.012
Forecast ⁽³⁾									
2012	92.25	88.03	80.99	61.62	2.74	98.36	65.62	2.0	0.992
2013	93.57	94.36	86.81	71.71	3.28	101.03	70.33	2.0	0.992
2014	91.20	91.97	84.61	69.90	3.68	98.47	68.55	2.0	0.992
2015	91.79	92.57	85.16	70.35	4.45	99.11	68.99	2.0	0.992
2016	99.37	100.21	92.19	76.16	5.82	107.29	74.69	2.0	0.992
2017	101.35	102.21	94.03	77.68	5.94	109.44	76.18	2.0	0.992
2018	103.38	104.25	95.91	79.23	6.06	111.62	77.71	2.0	0.992
2019	105.45	106.34	97.83	80.82	6.19	113.86	79.26	2.0	0.992
2020	107.56	108.47	99.79	82.43	6.32	116.13	80.85	2.0	0.992
2021	109.71	110.64	101.79	84.08	6.45	118.46	82.46	2.0	0.992
2022	111.90	112.85	103.82	85.77	6.59	120.83	84.11		
	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%		

Notes:

1. This summary table identifies benchmark reference pricing schedules that might apply to a reporting issuer.
2. The exchange rate used to generate the benchmark reference prices in this table.
3. As at August 30, 2012.

Weighted average historical prices, including hedging, realized by Advantage for the 9 month period ending September 30, 2012, were \$2.02/Mcf for natural gas, \$82.72/bbl for crude oil, and \$58.46/bbl for NGLs.

Additional Information Relating to Reserves Data

Undeveloped Reserves

Undeveloped reserves are attributed by Sproule in accordance with standards and procedures contained in the COGE Handbook. Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production. Probable undeveloped reserves are those reserves that are less certain to be recovered than proved reserves and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production. Proved and probable undeveloped reserves have been assigned in accordance with engineering and geological practices as defined under NI 51-101. In general, undeveloped reserves are planned to be developed over the next two years.

In some cases, it will take longer than two years to develop these reserves. There are a number of factors that could result in delayed or cancelled development, including the following: (i) changing economic conditions (due to pricing, operating and capital expenditure fluctuations); (ii) changing technical conditions (including production anomalies, such as water breakthrough or accelerated depletion); (iii) multi-zone developments (for instance, a prospective formation completion may be delayed until the initial completion is no longer economic); (iv) a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and (v) surface access issues (including those relating to land owners, weather conditions and regulatory approvals). For more information, see "*Risk Factors*" herein

Sproule has assigned 3372.2 Mboe of gross proved undeveloped reserves in the Sproule Report under forecast prices and costs, together with \$40.3 million of associated undiscounted future capital expenditures. Proved undeveloped capital spending in the first two forecast years of the Sproule Report accounts for \$30.3 million, or 75.1%, of the total forecast. These figures account for \$40.3 million or 100% of the total forecast, during the first five years of the Sproule Report.

Sproule has assigned 2485.6 Mboe of gross probable undeveloped reserves and has allocated future development capital of \$8.4 million to all gross probable undeveloped reserves with \$8.2 million or 98% scheduled for the first five years.

Significant Factors or Uncertainties

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on Current Production forecasts, prices and economic conditions. The Corporation's reserves are evaluated by Sproule.

As circumstances change and additional data become available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, commodity prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices, and reservoir performance. Such revisions can be either positive or negative.

In addition, high operating costs substantially reduce our netback, which in turn reduces the amount of cash available for reinvestment in drilling opportunities. This becomes most relevant during periods of low commodity prices when profits are more significantly impacted by high costs.

Future Development Costs

The following table sets forth development costs deducted in the estimation of our future net revenue attributable to the reserve categories noted below.

Year	Forecast Prices and Costs	
	Proved Reserves (MM\$)	Proved Plus Probable Reserves (MM\$)
2012	0.0	0.3
2013	19.8	23.2
2014	11.2	15.6
2015	10.0	10.1
2016	0.1	0.1
Total: Undiscounted for all years	41.3	49.7

To fund our capital program, including future development costs, we have many financing alternatives available including partial retention of cash flow from operations, bank debt financing, issuance of additional Common Shares, and issuance of convertible debentures. We evaluate the appropriate financing alternatives closely and have made use of all these options dependent on the given investment situation and the capital markets. We maintain a capital structure that is similar to our industry peer group and that are intended to maximize the investment return to Shareholders as compared to the cost of financing. We expect to continue using all financing alternatives available to continue pursuing our oil and gas development strategy. The assorted financing instruments have certain inherent costs which we consider in the economic evaluation of pursuing any development opportunity.

There can be no guarantee that funds will be available or that we will allocate funding to develop all of the reserves attributed in the Sproule Report. Failure to develop those reserves would have a negative impact on future production and cash flow and could result in negative revisions to our reserves.

Other Oil and Gas Information

The properties are spread geographically throughout the Western Canadian Sedimentary Basin. This sedimentary basin covers a large portion of the four western Canadian provinces, with all of Corporation's properties concentrated in Alberta. These properties produce from a variety of various aged geological formations and reservoirs. The Corporation operates over 75% of its properties, which allows the Corporation to control the nature and timing of the capital investments necessary to maximize the potential in developing these assets.

The properties can be divided on the broad basis of commodity and of production type. Light or medium gravity oil and natural gas liquids account for 20% of Total Current Production and 17% of gross proved reserves, and natural gas accounts for 80% of Total Current Production and 83% of gross proved reserves.

The following property descriptions are as of February 22, 2013 unless otherwise noted and reserves quoted are as reported in the Sproule Report.

Property Descriptions

Southern Alberta

Lookout Butte, Alberta

The Lookout Butte property is located approximately 90 kilometres southwest of Lethbridge, Alberta. Production occurs primarily from the Mississippian Rundle Formation where natural gas has been trapped in a foothills overthrust structure in front of Waterton Park. We have a 100% working interest in the Rundle gas production. Production began in 1963 and production decline is low at approximately 12% per year. A well drilled in 2004 in the southern portion of the pool when shut in exhibits significant pressure recharge from undrained reserves beneath adjacent Waterton and Glacier National parks. The property includes a 100% operated working interest plant and

associated gas gathering system which dehydrates the gas before final processing at Shell's Waterton gas plant. Production from this field at year end 2012 was 1,037 boe/d.

The Sproule Report assigns 25.9 bcf of gross proved natural gas reserves and 1008.6 Mbbls of gross proved crude oil and NGL reserves to Lookout Butte. In addition, 11.4 bcf of gross probable natural gas reserves and 452.8 Mbbls of gross probable crude oil and NGL reserves have been assigned to this property.

Medicine Hat, Alberta

The Medicine Hat property lies 20 kilometres northeast of the City of Medicine Hat in the heart of the south-eastern shallow gas area. We have a 100% working interest in 24 sections of land from where production is taken from all of the main shallow gas producing formations including the Medicine Hat "A", "C" and "D" sands, as well as both the Upper and Lower Milk River sands. These sands occur at approximately 500 metres of depth and typical of shallow gas, these sands are resource plays which require a large number of wells to extract the very large in place reserves at relatively low per well production rates. As a result, they have a long production life (long reserve life index or "RLI"). The wells are gathered by an extensive network of low pressure pipelines which feed into large central gas compression facilities. This property has been down-spaced and co-mingled to allow for multiple gas wells per section from multiple producing horizons per well bore. Current Production from this property averaged 810 boe/d or 4.9 MMcf/d of gas production.

The Sproule Report assigns 23.1 bcf of gross proved natural gas reserves to the Medicine Hat property. In addition, 11.7 bcf of gross probable natural gas reserves have been assigned to this property.

West Central Alberta

Willesden Green (Open Lake), Alberta

The Willesden Green property is located approximately 35 kilometres north of the Town of Rocky Mountain House. There are two principle areas in this property, being the Jurassic Rock Creek gas play on the east side of the property and the Cretaceous Ostracod/Glaucinite oil on the north side of the property. The Rock Creek is a mixed lithology reservoir in which liquids rich gas is trapped stratigraphically in individual lenses of sand. 3D seismic is used to explore for this porosity and a number of future targets have been identified. The Ostracod is developed in a linear sand bar and produces 39°API oil. Additional drilling targeting both the Second White Specks and Glaucinite are being evaluated. Current production from this area was 695 boe/d.

The Sproule Report assigns 3.2 bcf of gross proved natural gas reserves and 378 Mbbls of gross proved crude oil and NGL reserves to the Willesden Green property. In addition, 1.5 bcf of gross probable natural gas reserves and 181 Mbbls of gross probable crude oil and NGL reserves have been assigned to this property.

Brazeau - Alberta

The Brazeau area is located between 50 and 80 kilometres west of the town of Drayton Valley. The property produces sour light oil and natural gas from Devonian aged Nisku pinnacle reefs. The majority of the production is from a non-operated 50% working interest in the Nisku C, D and E pools. Additional gas production occurs from several non-operated Rock Creek, Basal Quartz and Notikewin pools. Current Production from this area was 430 boe/d.

The Sproule Report assigns 3.3 bcf of gross proved natural gas reserves and 332 Mbbls of gross proved crude oil and NGL reserves to the Brazeau area. In addition, 1.7 bcf of gross probable natural gas reserves and 189 Mbbls of gross probable crude oil and NGL reserves have been assigned to this area.

Northeast and East Central Alberta

Chigwell and Oberlin (Nevis), Alberta

Advantage has two coal bed methane ("CBM") fields in the Chigwell and Oberlin (Nevis) areas of Alberta which produce natural gas from Horseshoe Canyon Formation coal beds and adjacent associated sandstones. These fields lie approximately 60 kilometers northeast and east of the City of Red Deer, Alberta respectively. The wells on these fields are completed on a commingled basis in multiple layers of individual coals which range in thickness from 1 to 3 meters along with associated and adjacent gas charged sandstones. The fields are for the most part developed on the basis of 4 vertical wells per section. These wells are shallow with completed intervals ranging between 150 and 550 meters in depth. The wells are connected with low pressure gathering system to central compression facilities which allows the fields to be drawn down to very low operating pressure of between 35 and 70 kpa. Advantage operates the Oberlin property while the Chigwell property is a combination of operated and non-operated with a wide range of working interests. Current production from these fields was 1,192 boe/d.

The Sproule Report assigns 19.3 bcf of gross proved natural gas reserves to these CBM properties. In addition, 8.0 bcf of gross probable natural gas reserves have been assigned to this area.

Northeastern Shallow Gas

Advantage has shallow gas properties located in the eastern side of Alberta, including the Wainwright property, which is located north of the town of Wainwright, and the Tweedie and Cache properties which are located west of the town of Bonnyville. These properties produce from multiple horizons generally all at depths of 750 meters or less. The principle producing intervals are Cretaceous Mannville Formation sands, Viking Formation sands and Second White Specks sands and silts. Current Production from these fields was 473 boe/d.

The Sproule Report assigns 9.6 bcf of gross proved natural gas reserves and 3.9 Mbbls of gross proved crude oil and NGL reserves to these fields. In addition, 3.2 bcf of gross probable natural gas reserves and 5.5 Mbbls of gross probable crude oil and NGL reserves have been assigned.

Oil and Gas Wells

The following table sets forth the number and status of wells as at September 30, 2012 in which AOG has a working interest.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)
Alberta	279	85	65	37	1054	844	590	135
Total	279	85	65	37	1054	844	590	135

Notes:

1. "Gross" wells means the number of wells in which the Corporation has a working interest or a royalty interest that may be converted into a working interest.
2. "Net" wells means the aggregate number of wells obtained by multiplying each gross well by the AOG percentage working interest therein.

Properties with no Attributed Reserves

The following table sets out our unproved properties as at September 30, 2012.

	<u>Gross Acres</u>	<u>Net Acres</u>
Alberta	217,419	61,153
Total	<u>217,419</u>	<u>61,153</u>

In the year ended December 31, 2011, rights to explore, develop and exploit 8,469 net acres of undeveloped land expired. We expect that rights to explore, develop and exploit 11,203 net acres of our undeveloped land holdings will expire by December 31, 2012. The land expirations do not consider Advantages 2012 exploitation and development program that may result in extending or eliminating such potential expirations. We closely monitor land expirations as compared to our development program with the strategy of minimizing undeveloped land expirations relating to significant identified opportunities.

Forward Contracts

Our operational results and financial condition will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely in recent years. Such prices are primarily determined by economic, and in the case of oil prices, political factors. Supply and demand factors, as well as weather, general economic conditions, and conditions in other oil and natural gas regions of the world also impact prices. Any upward or downward movement in oil and natural gas prices could have an effect on our financial condition and capital development.

Advantage has approved a hedging policy using, amongst others, costless collars and fixed price swaps to hedge up to 50% of its gross oil, NGLs and natural gas production for a maximum period of 2 years. These hedging activities could expose the Corporation to losses or gains. To the extent that the Corporation engages in risk management activities related to commodity prices, it will be subject to credit risk associated with the parties with which it contracts. This credit risk will be mitigated by entering into contracts with only stable and creditworthy parties and through the frequent review of the Corporation's exposure to these entities. See "*Risk Factors*".

Additional Information Concerning Abandonment and Reclamation Costs

The costs to abandon and reclaim all non-producing and producing wells, gas plants, pipelines, batteries, and other facilities are estimated. No salvage value is netted against the estimated cost. The model for estimating the amount of future abandonment and reclamation expenditures is done on an area well and facility level. Estimated average expenditures for area wells and facilities are based on internal estimates, applied at the end of the reserve life of each area.

We estimate that we will incur reclamation and abandonment costs on 1,101 net producing and non-producing wells (approximately 625 of which are shallow gas wells with limited abandonment and reclamation liability) and 236 net abandoned wells. The approximate net cost to abandon and reclaim all wells and facilities, discounted at 10%, totals \$16.5 million, of which \$4.2 million is included in the estimate of future net revenue in the Sproule Report. Abandonment and reclamation costs expected to be incurred over the next three years total \$4.5 million (undiscounted).

Tax Horizon

In 2012, Questfire did not pay any income related taxes and it is expected, based on current legislation, that cash income taxes will need to be paid by Questfire in 2014. See "*Risk Factors*".

Exploration and Development Activities

The following table sets forth the gross and net wells comprising the Assets in which Advantage participated in during the first 9 months ended September 2012:

	Exploratory		Development		Total	
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)
Oil wells	1.0	1.0	0.0	0.0	0.0	0.0
Gas wells	0.0	0.0	0.0	0.0	0.0	0.0
Service wells	0.0	0.0	0.0	0.0	0.0	0.0
Dry holes	0.0	0.0	0.0	0.0	0.0	0.0
Total ⁽¹⁾	1.0	1.0	0.0	0.0	0.0	0.0

Notes:

- "Gross" wells means the number of wells in which the Corporation has a working interest or a royalty interest that may be converted into a working interest.
- "Net" wells means the aggregate number of wells obtained by multiplying each gross well by the Corporation's percentage working interest therein.

Production Estimates

The following table sets out the average forecast volume of production estimated by the Sproule Report for the 4th quarter ended December 2012:

	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids		Total	
	(bbls/d)		(bbls/d)		(Mcf/d)		(bbls/d)		(Boe/d)	
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)
Proved Producing	403	349	5	8	26,848	24,413	675	509	5,558	4,935
Proved Developed Non-Producing	0	0	0	0	0	0	0	0	0	0
Proved Undeveloped	0	0	0	0	0	0	0	0	0	0
Total Proved	403	349	5	8	26,848	24,413	675	509	5,558	4,935
Total Probable	27	23	1	1	1,272	1,174	29	22	269	242
Total Proved Plus Probable ⁽¹⁾	430	372	6	9	28,120	25,587	704	529	5,827	5,177

Notes:

- Gross Production" is the Corporation's working interest share of production before the deduction of royalties owned by others.
- "Net Production" is the Corporation's working interest share of production less all Crown, freehold, and overriding royalties and interests owned by others.

Production History

The following tables summarize certain information in respect of production, prices received, royalties paid, operating expenses and resulting netback for the periods indicated below:

	Quarter Ended 2012			
	Mar. 31	June 30 (4)	Sept. 30 (4)	9 Months
Average Daily Production				
Crude Oil (bbls/d)	591	517	491	533
Gas (Mcf/d)	31,089	27,436	24,982	27,825
NGLs (bbls/d)	714	603	558	625
Combined (boe/d)	6,487	5,693	5,213	5,795

	Quarter Ended 2012			
	Mar. 31	June 30 (4)	Sept. 30 (4)	9 Months
Average Net Production Prices Received ⁽²⁾				
Crude Oil (\$/bbl)	87.24	79.99	80.18	82.72
Gas (\$/Mcf)	2.10	1.79	2.16	2.02
NGLs (\$/bbl)	67.21	58.11	47.76	58.46
Combined (\$/boe)	25.43	22.04	23.04	23.60
Royalties Paid				
Crude Oil (\$/bbl)	15.96	14.27	12.75	14.42
Gas (\$/Mcf)	(0.19)	(0.16)	(0.14)	(0.17)
NGLs (\$/bbl)	21.06	16.92	14.95	17.90
Combined (\$/boe)	2.85	2.33	2.12	2.46
Operating Expenses ⁽³⁾⁽⁴⁾				
Crude oil (\$/bbl)	15.35	17.53	18.26	16.95
Natural gas (\$/Mcf)	2.10	2.11	2.10	2.10
NGLs (\$/bbl)	12.69	15.02	16.07	14.45
Combined (\$/boe)	12.85	13.35	13.49	13.21
Netback Received ⁽⁵⁾				
Crude Oil (\$/bbl)	55.92	48.19	49.17	51.34
Gas (\$/Mcf)	0.20	(0.16)	0.21	0.08
NGLs (\$/bbl)	33.46	26.16	16.74	26.11
Combined (\$/boe)	9.73	6.36	7.43	7.93

Notes:

1. Before deduction of royalties.
2. This figure includes all field operating expenses.
3. Operating expenses are not recorded on a commodity basis. Information in respect of operating expenses for crude oil and NGLs (\$/bbl) and natural gas (\$/Mcf) has been determined by allocating expenses on a well by well basis based upon the relative volume of production of crude oil and NGLs and natural gas.
4. Production for the quarters ended June 30 and September 30 at Lookout Butte were reduced due to third party shutdowns.
5. Information in respect of netbacks received for crude oil & NGLs (\$/bbl) and natural gas (\$/Mcf) is calculated using operating expense figures for crude oil and NGLs (\$/bbl) and natural gas (\$/Mcf), which figures have been estimated. See note (4) above.

The following table indicates our approximate average daily production from our important fields for the month ended December 2012:

Properties	Natural Gas (Mcf/d)	NGLs (bbls/d)	Crude Oil (bbls/d)	Total (boe/d)
Alberta				
Red Deer (Oberlin, Chigwell, Joffre, Ferrybank)	7,250	66	21	1,295
Willesden Green (Open Lake)	2,580	148	130	708
Lookout Butte	5,420	92	-	996
Medicine Hat	4,730	-	-	788
Westrose	1,390	87	56	375
Brazeau	1,640	57	107	437
Wainwright (Viking Kinsella, Vermilion)	2,380	-	5	402
North Eastern Alberta (Cache, Tweedie, Liege)	1,250	-	8	206
Crossfield (Carstairs, Gadsby, Turner Valley)	1,360	116	76	419
Fir-Windfall	1,090	8	27	199
Peace River Arch	350	3	84	145
Total	29,440	577	514	5,998

**SCHEDULE “E”
PRO FORMA FINANCIAL INFORMATION**

Pro Forma Consolidated Operating Statements of

QUESTFIRE ENERGY CORP.

For the nine months ended September 30, 2012 and the year ended December 31, 2011 (unaudited)

QUESTFIRE ENERGY CORP.

Pro Forma Consolidated Operating Statement

For the nine months ended September 30, 2012

(amounts in Canadian dollars) (unaudited)

	Questfire Energy Corp.	Acquired Assets	Pro Forma
Petroleum and natural gas revenue	\$ 296,167	37,473,913	\$ 37,770,080
Royalties	(29,291)	(3,903,436)	(3,932,727)
	266,876	33,570,477	33,837,353
Operating and transportation expense	138,511	20,970,215	21,108,726
Operating income	\$ 128,365	12,600,262	\$ 12,728,627

see accompanying notes

QUESTFIRE ENERGY CORP.

Pro Forma Consolidated Operating Statement

For the year ended December 31, 2011

(amounts in Canadian dollars) (unaudited)

	Questfire Energy Corp.	Acquired Assets	Pro Forma
Petroleum and natural gas revenue	\$ -	85,866,318	\$ 85,866,318
Royalties	-	(12,399,796)	(12,399,796)
	-	73,466,522	73,466,522
Operating and transportation expense	-	34,711,904	34,711,904
Operating income	\$ -	38,754,618	\$ 38,754,618

see accompanying notes

SCHEDULE “F”
QUESTFIRE FINANCIAL STATEMENTS

Questfire Energy Corp.
Condensed Interim Financial Statements
For the three and nine months ended September
30, 2012
(amounts in Canadian dollars)
(unaudited)

Questfire Energy Corp.

Condensed Interim Balance Sheets

(amounts in Canadian dollars)

(unaudited)

	Notes	September 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	17	\$ 954,613	\$ 4,473,765
Accounts receivable	4(c)	145,845	141,875
Deposits and prepaid expenses		36,102	30,000
Total current assets		1,136,560	4,645,640
Non-current assets			
Property and equipment	6	3,374,781	607,648
Exploration and evaluation assets	7	1,879,167	3,390,131
Total non-current assets		5,253,948	3,997,779
Total assets		\$ 6,390,508	\$ 8,643,419
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4(d)	\$ 439,010	\$ 1,920,082
Flow-through share premium	13(e)	668,208	966,970
Total current liabilities		1,107,218	2,887,052
Non-current liabilities			
Decommissioning provisions	9	215,656	128,297
Convertible Class B Shares liability	10	3,881,800	3,638,810
Convertible debentures	11	1,326,613	-
Deferred tax liabilities		570,162	756,069
Total liabilities		7,101,449	7,410,228
Shareholders' Equity			
Share capital	13(b)	4,193,633	4,193,633
Equity component of convertible Class B Shares	10	(2,081,352)	(2,081,352)
Equity component of convertible debentures	11	79,767	-
Warrants	11	28,295	-
Contributed surplus		107,409	25,327
Deficit		(3,038,693)	(904,417)
Total equity attributable to equity holders of the Corporation		(710,941)	1,233,191
Total liabilities and shareholders' equity		\$ 6,390,508	\$ 8,643,419

Going Concern (note 3)

Commitments (note 19)

See accompanying notes to the condensed interim financial statements.

(Signed) "Richard Dahl", Director

(Signed) "Roger MacLeod", Director

Questfire Energy Corp.

Condensed Interim Statements of Loss and Comprehensive Loss

(amounts in Canadian dollars)

(unaudited)

	Notes	Three months ended September 30, 2012 September 30, 2011		Nine months ended September 30, 2012 September 30, 2011	
Revenue					
Oil and natural gas sales		\$ 138,123	\$ -	\$ 296,167	\$ -
Royalties		(7,399)	-	(29,291)	-
		130,724	-	266,876	-
Expenses					
Production and operating		49,791	-	123,344	-
Transportation		6,359	-	15,167	-
Write-down of property and equipment	6(d)	124,000	-	124,000	-
Exploration and evaluation		64,624	72,527	1,189,233	97,215
General and administrative		292,592	218,249	853,603	355,482
Stock-based compensation	14(b)	27,360	-	82,082	-
Depletion and depreciation	6	94,468	1,900	198,388	5,800
		659,194	292,676	2,585,817	458,497
		(528,470)	(292,676)	(2,318,941)	(458,497)
Finance income	15	3,604	2,522	10,895	10,407
Finance expense	15	(166,405)	(5,818)	(346,919)	(12,401)
Net finance expense		(162,801)	(3,296)	(336,024)	(1,994)
Loss before income taxes		(691,271)	(295,972)	(2,654,965)	(460,491)
Deferred income tax recovery	12	(123,726)	(31,414)	(520,689)	(31,414)
Loss and comprehensive loss for the period		\$ (567,545)	\$ (264,558)	\$ (2,134,276)	\$ (429,077)
Loss per share					
Basic and diluted	13(f)	\$ (0.04)	\$ (0.03)	\$ (0.17)	\$ (0.05)

See accompanying notes to the condensed interim financial statements.

Questfire Energy Corp.

Condensed Interim Statements of Changes in Equity

(amounts in Canadian dollars)

(unaudited)

	Notes	Share capital	Equity component of convertible Class B Shares	Equity component of convertible debentures	Warrants	Contributed surplus	Deficit	Total equity
Balance at December 31, 2010		\$ 1,573,679	\$ -	\$ -	\$ -	\$ -	\$ (56,693)	\$ 1,516,986
Issuance of Common Shares	13(d)	50,000	-	-	-	-	-	50,000
Loss for the period		-	-	-	-	-	(429,077)	(429,077)
Balance at September 30, 2011		1,623,679	-	-	-	-	(485,770)	1,137,909
Issuance of flow-through Class A Shares	13(e)	3,088,000	-	-	-	-	-	3,088,000
Issuance of flow-through Class B Shares	10	-	(2,081,352)	-	-	-	-	(2,081,352)
Share issuance costs, net of tax	13(b)	(518,046)	-	-	-	-	-	(518,046)
Stock-based compensation related to stock options		-	-	-	-	25,327	-	25,327
Loss for the period		-	-	-	-	-	(418,647)	(418,647)
Balance at December 31, 2011		4,193,633	(2,081,352)	-	-	25,327	(904,417)	1,233,191
Issuance of convertible debenture units, net of issuance costs and income taxes	11	-	-	79,767	28,295	-	-	108,062
Stock-based compensation related to stock options	14(b)	-	-	-	-	82,082	-	82,082
Loss for the period		-	-	-	-	-	(2,134,276)	(2,134,276)
Balance at September 30, 2012		\$ 4,193,633	\$ (2,081,352)	\$ 79,767	\$ 28,295	\$ 107,409	\$ (3,038,693)	\$ (710,941)

See accompanying notes to the condensed interim financial statements.

Questfire Energy Corp.

Condensed Interim Statements of Cash Flows

(amounts in Canadian dollars)

(unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2012	2011	2012	2011
Cash and cash equivalents provided by (used in):					
Cash flows from (used in) operating activities					
Loss for the period		\$ (567,545)	\$ (264,558)	\$ (2,134,276)	\$ (429,077)
Adjustments for:					
Depletion and depreciation	6	94,468	1,900	198,388	5,800
Deferred income tax recovery	12	(123,726)	(31,414)	(520,689)	(31,414)
Exploration and evaluation impairment	7	-	-	999,309	-
Write-down of property and equipment	6(d)	124,000	-	124,000	-
Net finance expense	15	162,801	3,296	336,024	1,994
Stock-based compensation	14(b)	27,360	-	82,082	-
Change in non-cash working capital	5	(76,354)	36,821	(59,338)	582
Net cash used in operating activities		(358,996)	(253,955)	(974,500)	(452,115)
Cash flows from (used in) investing activities					
Additions to exploration and evaluation assets	7	(761,232)	(258,669)	(2,314,673)	(534,363)
Additions to property and equipment	6	(15,871)	-	(178,391)	-
Interest received	15	3,604	2,522	10,895	10,407
Change in non-cash working capital	5	75,344	104,175	(1,437,626)	92,325
Net cash used in investing activities		(698,155)	(151,972)	(3,919,795)	(431,631)
Cash flows from (used in) financing activities					
Proceeds from issuance of common shares	13(d)	-	50,000	-	50,000
Proceeds from issuance of convertible debenture units	11	-	-	1,510,000	-
Issuance costs	11	-	-	(65,503)	-
Deferred financing charges		-	(243,268)	-	(243,268)
Interest paid	15	(56,413)	(5,818)	(75,174)	(12,401)
Change in non-cash working capital	5	(54,491)	215,473	5,820	221,056
Net cash from (used in) financing activities		(110,904)	16,387	1,375,143	15,387
Change in cash and cash equivalents		(1,168,055)	(389,540)	(3,519,152)	(868,359)
Cash and cash equivalents, beginning of period		2,122,668	1,022,743	4,473,765	1,501,562
Cash and cash equivalents, end of period		\$ 954,613	\$ 633,203	\$ 954,613	\$ 633,203

See accompanying notes to the condensed interim financial statements.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

1. General business description

Questfire Energy Corp. ("Questfire" or the "Corporation") was incorporated under the laws of Alberta on January 15, 2010. The Corporation is engaged in the exploration for and development and production of oil and natural gas and may conduct its activities jointly with others; these financial statements reflect only the Corporation's proportionate interest in such activities. The Class A Shares and Class B Shares of the Corporation are listed on the TSX Venture Exchange (TSX-V). The address and principal place of business of the Corporation is Suite 400, 703 – 6th Ave S.W., Calgary, Alberta, T2P 0T9.

The condensed interim financial statements were authorized for issuance by the Board of Directors on November 27, 2012.

2. Basis of preparation

Statement of compliance

These condensed interim financial statements were prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2011. They were prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB). Accordingly, certain financial information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) has been omitted or condensed. The disclosure provided herein is incremental to the disclosure included in the annual financial statements. The condensed interim financial statements should be read in conjunction with Questfire's annual audited financial statements for the year ended December 31, 2011.

3. Going concern

These financial statements were prepared on the going-concern assumption that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of operations. At September 30, 2012, the Corporation has working capital of \$697,550 (excluding the flow-through share premium), but has \$3,761,761 (note 19(c)) of flow-through share expenditures to incur by no later than December 31, 2012. The Corporation has indemnified flow-through subscribers for their income taxes payable as a result of any deficiency in flow-through share renouncements ultimately made by the Corporation. These factors cast significant doubt on the Corporation's ability to continue as a going concern. The Corporation's ability to continue as a going concern and to meet its flow-through share obligations depends upon its ability to attain profitable operations and to generate funds there from and/or financing from third parties sufficient to meet future obligations. There is no guarantee that management will be able to raise funds sufficient to meet its flow-through share obligations. These financial statements do not reflect the adjustments that would be necessary to the presentation and carrying amounts of the assets and liabilities if the Corporation were not able to continue operations and such adjustments and reclassifications could be material.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

4. Financial instruments and risk management

(a) Risk management overview

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosure is included throughout this document. The Corporation employs risk management strategies and policies to ensure that risk exposure complies with the Corporation's business objectives and risk tolerance. While the Board of Directors has overall responsibility for the Corporation's risk management framework, Questfire's management administers and monitors these risks.

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying value due to the short-term maturity of those instruments. The fair value of the convertible debentures is approximated by their carrying value given interest rates the Corporation believes it would currently have to pay on an instrument with similar terms.

The fair value of convertible Class B Shares at September 30, 2012 was determined to be \$1,222,848 based on the market price of \$2.20 per Class B Share on that date.

The fair value of financial derivatives, including commodity contracts, if any, is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate adjusted for the Corporation's non-performance risk and the non-performance risk of the counterparty.

The significance of inputs used in making fair-value measurements is examined and classified according to a fair-value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on their Level 1 designation. Derivative financial instruments, including commodity contracts, if any, are measured at fair value based on a Level 2 designation.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk with respect to accounts receivable and cash and cash equivalents.

Substantially all of the Corporation's accounts receivable are due from purchasers of Questfire's oil and natural gas production, joint venture partners and government agencies and are subject to normal industry credit risk. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation mitigates the credit risk associated with the marketing of its petroleum and natural gas production by establishing the marketing relationships with large, credit-worthy purchasers.

Significant changes in industry conditions and risks that weaken partners' ability to generate cash flow will increase collection risk. Management of Questfire believes the risk is mitigated by the size and reputation of the companies to which the Corporation extends credit. Questfire's management believes all receivables will be collected.

As at September 30, 2012 and December 31, 2011, the Corporation's accounts receivable were comprised of the following:

	Carrying amount	
	September 30, 2012	December 31, 2011
Oil and natural gas sales	\$ 91,126	\$ -
GST	54,719	129,901
Other	-	11,974
	\$ 145,845	\$ 141,875

The Corporation manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Corporation's liquidity is affected by various external events and conditions, including commodity price fluctuations and global economic instability.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational, capital and other obligations through future operating cash flow, as well as future equity and debt financings (see note 3).

The Corporation's accounts payable and accrued liabilities as at September 30, 2012 and December 31, 2011 are aged as follows:

	September 30, 2012	December 31, 2011
0 to 30 days	\$ 439,010	\$ 1,920,082
31 to 60 days	-	-
61 to 90 days	-	-
Greater than 90 days	-	-
Total accounts payable and accrued liabilities	\$ 439,010	\$ 1,920,082

The Corporation expects to satisfy its obligations under accounts payable and accrued liabilities within the next year.

The Corporation is also subject to future commitments as disclosed in note 19.

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates, will reduce the Corporation's net earnings or the value of financial instruments. These risks are largely outside the Corporation's control. The Corporation's objective is to manage and mitigate market risk exposure within acceptable limits, while maximizing returns. Market risks are as follows:

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

Foreign currency risk

Crude oil prices are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Corporation are influenced by U.S. and Canadian supply and demand and, to a much lesser degree, by imports of liquefied natural gas. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease the revenues received from the sale of oil and natural gas. The impact of such exchange rate fluctuations cannot be predicted. As at September 30, 2012 and December 31, 2011, the Corporation had no forward exchange rate contracts nor any working capital denominated in foreign currencies.

Interest rate risk

Interest rate risk is the risk that future cash flows will fall as a result of changes in market interest rates. The Corporation is currently not exposed to interest rate cashflow risk as its borrowing bears interest at fixed rates. The Corporation had no interest rate swaps or financial contracts in place as at or during the nine months ended September 30, 2012 or the year ended December 31, 2011.

Commodity price risk

The Corporation's operations expose it to fluctuations in commodity prices. Commodity prices for oil and natural gas are affected by global economic events that influence supply and demand. Questfire's management continuously monitors commodity prices and may consider risk-management instruments when it deems appropriate.

The Corporation's production is usually sold using "spot" or near-term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Corporation, however, may consider the appropriateness of entering into long-term, fixed-price marketing contracts. Its policy is to enter into commodity price contracts when considered appropriate to a maximum of 50 percent of forecast production volume. The Corporation may enter into derivative financial instruments, being collars, to meet this objective. Collars ensure that the commodity prices realized will fall into a contracted range for a contracted sale volume based on the monthly index price. Monthly gains and losses are determined based on the differential between the daily settlement price and the monthly index price when the monthly index price falls between the floor and the ceiling.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

(f) Capital management

The Corporation's capital management policy is to maintain a strong capital base that optimizes the Corporation's ability to grow and to maintain investor and creditor confidence, and provides a platform to create value for its shareholders. The Corporation maintains a flexible capital structure to maximize its ability to pursue oil and natural gas exploration opportunities and to sustain future development of the business. The Corporation monitors risks for each capital project to balance the proportion of debt and equity in its capital structure. The Corporation's officers are responsible for managing its capital and do so through quarterly meetings and regular reviews of financial information including budgets and forecasts. The Corporation's Board of Directors is responsible for overseeing this process. The Corporation considers its capital structure to include shareholders' equity, convertible Class B Shares liability, convertible debentures and bank debt, if any.

The Corporation monitors capital based on its current working capital, projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Corporation prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by management and approved by the Board of Directors. The budget results are regularly reviewed and updated as required.

In order to maintain or adjust the capital structure, the Corporation may issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Corporation's ability to raise additional debt or equity financing is affected by external conditions, including future commodity prices, particularly of natural gas, and by global economic conditions (see note 3). The Corporation continually monitors business conditions including: changes in economic conditions; the risk encountered in its drilling programs; forecast commodity prices; and potential corporate or asset acquisitions.

The Corporation has no externally imposed capital requirements and has not paid or declared any dividends since the date of incorporation. Other than issuing convertible debentures (see note 11), there were no changes to the Corporation's approach to capital management during the nine months ended September 30, 2012.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

5. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Source (use) of cash:				
Accounts receivable	\$ (101,164)	\$ 6,592	\$ (3,970)	\$ 774
Deposits and prepaid expenses	9,583	7,109	(6,102)	(20,625)
Accounts payable and accrued liabilities	36,080	342,768	(1,481,072)	333,814
	\$ (55,501)	\$ 356,469	\$ (1,491,144)	\$ 313,963
Related to operating activities	\$ (76,354)	\$ 36,821	\$ (59,338)	\$ 582
Related to investing activities	75,344	104,175	(1,437,626)	92,325
Related to financing activities	(54,491)	215,473	5,820	221,056
Changes in non-cash working capital	\$ (55,501)	\$ 356,469	\$ (1,491,144)	\$ 313,963

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

6. Property and equipment (P&E)

	Oil and natural gas interests	Corporate and other	Processing and other equipment	Total
Cost				
Balance at December 31, 2010	\$ -	\$ 30,856	\$ -	\$ 30,856
Transfer from exploration and evaluation (E&E) assets (note 7)	548,619	-	-	548,619
Additions	-	6,026	-	6,026
Decommissioning provision	35,247	-	-	35,247
Balance at December 31, 2011	583,866	36,882	-	620,748
Transfer from E&E assets (note 7)	2,868,981	-	-	2,868,981
Additions	178,391	-	-	178,391
Decommissioning provision	42,149	-	-	42,149
Balance at September 30, 2012	\$ 3,673,387	\$ 36,882	\$ -	\$ 3,710,269
Depletion, depreciation and impairment losses				
Balance at December 31, 2010	\$ -	\$ 4,400	\$ -	\$ 4,400
Depletion and depreciation for the period	-	8,700	-	8,700
Balance at December 31, 2011	-	13,100	-	13,100
Impairment loss	124,000	-	-	124,000
Depletion and depreciation for the period	193,088	5,300	-	198,388
Balance at September 30, 2012	\$ 317,088	\$ 18,400	\$ -	\$ 335,488
Net book value:				
At December 31, 2010	\$ -	\$ 26,456	\$ -	\$ 26,456
At December 31, 2011	\$ 583,866	\$ 23,782	\$ -	\$ 607,648
At September 30, 2012	\$ 3,356,299	\$ 18,482	\$ -	\$ 3,374,781

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

(a) Depletion and depreciation charge

The depletion, depreciation and impairment of P&E, and any eventual reversal thereof, are recognized in depletion and depreciation in the income statement.

(b) Contingencies

Although the Corporation believes that it has title to its oil and natural gas interests, it cannot control or completely protect itself against the risk of title disputes or challenges.

(c) Capitalized general and administrative and financing costs

To September 30, 2012, the Corporation has not capitalized any general and administrative expenses to P&E. No interest has been capitalized.

(d) Impairment

During the three-month and nine-month periods ended September 30, 2012, the Corporation recorded an impairment of its P&E assets of \$124,000 and \$124,000 respectively, which was recorded as a write-down of property and equipment on the statement of loss and comprehensive loss. The impairment related to the Corporation's Richdale cash generating unit (CGU) and was a result of management's assessment of expected future recoverable proved and probable reserves of the related asset being reduced from previous estimates. The impairment loss was based on the fair value less cost to sell of the CGU, estimated based on a 15% discounted cash flow model.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

7. Exploration and evaluation (E&E) assets

	E&E assets
Balance at December 31, 2010	\$ 331,339
Additions	3,514,361
Transfers to P&E (note 6)	(548,619)
Decommissioning provision	93,050
Balance at December 31, 2011	3,390,131
Additions	2,314,673
Impairment	(999,309)
Transfers to P&E (note 6)	(2,868,981)
Decommissioning provision	42,653
Balance at September 30, 2012	\$ 1,879,167

E&E assets consist of the Corporation's exploration projects which are pending the determination of proved and/or probable reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the period.

During the three-month and nine-month periods ended September 30, 2012, the Corporation recorded an impairment of its E&E assets of \$Nil and \$999,309 respectively, upon the transfer of assets in the Niton CGU to P&E, which was recorded as exploration and evaluation expense on the statement of loss and comprehensive loss. The impairment was a result of management's assessment of expected future recoverable proved and probable reserves of the related asset. The impairment loss was based on the fair value less cost to sell of the transferred assets based on a 10% discounted cash flow model.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

8. Impairment

Oil and natural gas CGUs

At September 30, 2012, the Corporation tested its CGUs for impairment.

The recoverable amount of the CGU was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a discount rate of 10% for properties with oil as their principal reserves and a discount rate of 15% for properties with natural gas as their principal reserves, and forecast cash flows, with escalating prices and future development costs, as obtained from both externally and internally prepared reserve estimates. The forecast prices used to estimate the fair value less costs to sell are those used by independent industry reserve engineers. One oil and one natural gas CGU was considered impaired as at or during the nine months ended September 30, 2012 (note 6(d) and note 7).

9. Decommissioning provisions

The Corporation's decommissioning provisions result from its ownership interest in oil and natural gas assets, including well sites and gathering systems. The total decommissioning provision is estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provisions, before considering salvage, are approximately \$245,620 at September 30, 2012, which was discounted using a risk-free rate of 1.6 percent at September 30, 2012. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 18 years into the future and will be funded from general corporate resources at the time of abandonment.

The following table summarizes changes in the decommissioning provisions for the nine months ended September 30, 2012:

	Nine months ended September 30, 2012	Year ended December 31, 2011
Decommissioning provisions, beginning of period	\$ 128,297	\$ -
Accretion	2,557	-
Liabilities incurred	29,114	128,297
Change in estimates	55,688	-
Decommissioning provisions, end of period	\$ 215,656	\$ 128,297

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

10. Class B Shares

On October 18, 2011, the Corporation completed its initial public offering (note 13(e)) which included the issuance of 555,840 Class B Shares with a face value of \$5,558,400 (\$10.00 per Class B Share).

The Class B Shares are convertible (at the Corporation's option) into Class A Shares at any time after September 30, 2014 and on or before November 30, 2016. The number of Class A Shares to be issued upon conversion of one Class B Share is calculated by dividing \$10 by the greater of \$1 and the then-current market price of the Class A Shares. If conversion has not occurred by the close of business on November 30, 2016, the Class B Shares become convertible (at the option of the shareholder) into Class A Shares on the same basis. Effective at the close of business on December 31, 2016, all remaining Class B Shares will be automatically converted into Class A Shares. The Class B Shares are listed and posted for trading on the TSX-V under the symbol "Q.B".

The Class B Shares were determined to be compound instruments. As the Class B Shares are convertible into Class A Shares, based on the conversion formula above, the number of Class A Shares is unknown, and therefore presented as a liability. The Class B Share liability, estimated at \$3,576,932 based on the present value of discounted cash flows using a discount rate of 9 percent, is accreted using the effective interest rate method over the term of the Class B Shares, such that the carrying amount of the financial liability will be equal to the principal of \$5,558,400 at maturity.

The following table is a continuity of the convertible Class B Shares liability:

	Nine months ended September 30, 2012
Balance, beginning of period	\$ 3,638,810
Accretion of convertible Class B Shares liability (note 15)	242,990
Balance, end of period	\$ 3,881,800

Upon issuance of the Class B Shares, the Corporation recognized the equity component of the convertible Class B Shares as a conversion option of \$1,585,985 and \$495,367 related to the deferred income tax effect of the Class B Shares, for a total of \$2,081,352.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

11. Convertible debentures

On June 28, 2012, the Corporation completed the issuance of unsecured senior convertible debentures for gross proceeds of \$1,510,000 (net proceeds of \$1,444,497). Of the \$1,510,000 raised, \$750,000 was raised from officers and directors of the Corporation. The Corporation issued 302 units at a price of \$5,000 per unit, with each unit being comprised of one \$5,000 debenture and 5,000 Class A Share purchase warrants. The debentures bear interest at a rate of 12 percent per annum, which is payable quarterly in arrears commencing on September 30, 2012, mature on June 30, 2014 and can be converted into common shares of Questfire at any time at the option of the holders at a conversion price of \$0.50 per Class A Share. In aggregate the Corporation issued 1,510,000 share purchase warrants and each warrant entitles the holder to acquire one Class A Share at a price of \$0.75 until June 30, 2014.

The debentures have been classified as debt, net of issuance costs and net of the fair value of the conversion feature and the warrants (the "Conversion Features") at the date of issuance, which have been classified in shareholders' equity. The issuance costs will be amortized over the term of the debentures and the debt portion will accrete up to the original face value of the debentures at maturity. The accretion, amortization of issuance costs and the interest paid are expensed on the statement of loss and comprehensive loss. The fair value of the Conversion Features was determined at the time of issuance as the difference between the face value of the debentures and the discounted cash flows assuming an 18 percent effective interest rate, which was the estimated rate for debt with similar terms but without any Conversion Features. If the debentures or the warrants are converted to Class A Shares, a portion of the value of the Conversion Features under shareholders' equity will be reclassified to share capital along with the conversion price paid.

The following table sets forth a reconciliation of the convertible debentures for the period ended September 30, 2012:

	Liability component	Warrants	Equity conversion feature	Total
Balance, January 1, 2012	\$ -	\$ -	\$ -	\$ -
Gross cash proceeds	1,360,946	39,028	110,026	1,510,000
Accretion on discount	26,198	-	-	26,198
Issuance costs	(60,531)	(1,302)	(3,670)	(65,503)
Deferred tax liability	-	(9,431)	(26,589)	(36,020)
Balance, September 30, 2012	\$ 1,326,613	\$ 28,295	\$ 79,767	\$ 1,434,675

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

12. Income tax expense

Reconciliation of effective tax rate:

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Loss before income tax	\$ (691,271)	\$ (295,972)	\$ (2,654,965)	\$ (460,491)
Statutory tax rate	25.0%	26.5%	25.0%	26.5%
Expected income tax recovery	(172,817)	(78,432)	(663,741)	(122,030)
Non-deductible expenses	187	270	813	401
Statutory rate changes and other	-	4,001	-	6,461
Non-deductible stock-based compensation	6,841	-	20,521	-
Reversal of flow-through share premium	(103,244)	(31,414)	(298,762)	(31,414)
Flow-through expenditures incurred	145,307	46,719	420,480	46,719
Unrecognized tax asset	-	27,442	-	68,449
Total income tax recovery	\$ (123,726)	\$ (31,414)	\$ (520,689)	\$ (31,414)

13. Share capital

(a) Authorization

At September 30, 2012, the Corporation was authorized to issue the following:

Unlimited number of voting Class A Shares

Unlimited number of voting Class B Shares (note 10)

Unlimited number of preferred shares, issuable in series

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

(b) Issued

Class A Shares	Number of shares	Amount
Balance, December 31, 2010	9,475,001	\$ 1,573,679
Issued for cash pursuant to private placement (note 13(d))	250,000	50,000
Issued as flow-through shares for cash pursuant to initial public offering (note 13(e))	3,088,000	3,088,000
Share issuance costs (net of \$172,682 tax effect)	-	(518,046)
Balance, December 31, 2011 and September 30, 2012	12,813,001	\$ 4,193,633

- (c) During 2010, the Corporation issued 9,475,000 Class A Shares, on a flow-through basis, at \$0.20 per share for total proceeds of \$1,895,000. The Corporation estimates that the Class A Shares issued without a flow-through provision would have been issued at a 16.8 percent discount to the flow-through price and, therefore, the flow-through premium of \$318,461 was recorded as a liability with the remainder of \$1,576,539 recorded as share capital. As at December 31, 2011, the Corporation had incurred \$1,895,000 (December 31, 2010 - \$nil) of qualifying flow-through expenditures thereby reducing the related flow-through share premium to \$nil (December 31, 2010 - \$318,461).
- (d) On August 18, 2011, the Corporation issued 250,000 Class A Shares at \$0.20 per share for total proceeds of \$50,000.
- (e) On October 18, 2011, the Corporation completed its initial public offering for gross proceeds of \$6,176,000. A total of 6,176 units at a price of \$1,000 per unit were sold, each consisting of 500 Class A Shares at a price of \$0.20 per share and 90 Class B Shares (note 10) at a price of \$10.00 per share, all of which were issued on a flow-through basis under the Income Tax Act (Canada). The Corporation estimates that had these shares been issued without a flow-through provision they would have been issued at a 17.8 percent discount to the flow-through price and, therefore, the flow-through share premium of \$1,097,053 was recorded as a liability at the time of issuance.

The value of the Class A Shares on issuance, reduced by the flow-through share premium, was determined to be \$3,088,000 (\$1.00 per Class A Share).

As at September 30, 2012, the Corporation had incurred \$2,414,239 of qualifying flow-through expenditures, thereby reducing the related flow-through share premium to \$668,208.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

- (f) Basic and diluted loss per share was calculated based on the weighted average common shares outstanding of 12,813,001 for the three-month and nine-month periods ending September 30, 2012, and of 9,593,133 and 9,514,378 for the three-month and nine-month periods ending September 30, 2011 respectively. The potential dilutive effect of stock options, warrants, Class B Shares and convertible debentures was not included in the calculation as the effect would be anti-dilutive.

- (g) Shares in escrow

At December 31, 2011, 7,375,500 Class A Shares were held in escrow pursuant to TSX-V requirements. On April 25, 2012, 1,229,250 Class A Shares were released from escrow and a total of 6,146,250 Class A Shares remained in escrow at September 30, 2012. The remaining shares will be released from escrow in equal installments at six-month intervals, commencing October 25, 2012 with the last release on October 25, 2014. The above escrow release schedule is subject to acceleration in accordance with National Policy 46-201 - *Escrow for Initial Public Offerings* and the policies of the TSX-V in the event that the Corporation subsequently meets certain listing requirements.

14. Stock-based compensation

- (a) Stock options

On August 30, 2011, the Corporation adopted a stock option plan under which it is authorized to issue stock options to employees, officers, directors and consultants for up to 10 percent of the total issued and outstanding number of Class A and Class B Shares. Options under the stock option plan cannot have an exercise price less than the closing market price on the day immediately preceding the date of grant and will expire a maximum of ten years from the date of grant. It is the Corporation's intention that options granted will generally vest as to one-third on each of the first, second and third anniversaries of the date of grant and expire ten years from the date of grant.

The following options have been awarded under the stock option plan:

	Nine months ended September 30, 2012	
	Number	Exercise price
Outstanding, beginning of period	1,281,000	\$ 0.20
Granted	-	-
Forfeited	-	-
Outstanding at September 30	1,281,000	\$ 0.20

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

Exercisable at September 30	-	\$	-
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The following table summarizes the expiry terms and exercise prices of the Corporation's outstanding stock options as at September 30, 2012:

Date of grant	Exercise price	Outstanding options	Weighted average remaining contractual life (years)	Number of stock options exercisable
October 18, 2011	\$ 0.20	1,281,000	9.0	-
	\$ 0.20	1,281,000	9.0	-

(b) Stock-based compensation expense

Compensation costs of \$27,360 and \$82,082 for the three and nine months ended September 30, 2012 respectively (three and nine months ended September 30, 2011 - \$nil) have been expensed, with a corresponding increase in contributed surplus.

The fair value of stock options granted during the year ended December 31, 2011 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2011
Risk-free interest rate	2.0%
Expected volatility	75%
Expected life	10 years
Expected dividend yield	0%
Estimated forfeiture rate	0%
Fair value per option	\$ 0.1574

A forfeiture rate of nil was used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Corporation over the vesting period. This estimate is adjusted to the actual forfeiture rate.

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

15. Finance income and expense

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Finance income				
Interest income on cash and cash equivalents	\$ 3,604	\$ 2,522	\$ 10,895	\$ 10,407
Finance expense				
Part XII.6 tax on flow-through share expenditures	(9,438)	(5,818)	(28,199)	(12,401)
Interest on convertible debenture	(46,975)	-	(46,975)	-
Accretion on decommissioning provision (note 9)	(1,046)	-	(2,557)	-
Accretion on Class B Shares liability (note 10)	(82,748)	-	(242,990)	-
Accretion on convertible debenture (note 11)	(26,198)	-	(26,198)	-
	(166,405)	(5,818)	(346,919)	(12,401)
Net finance expense recognized in profit or loss	\$ (162,801)	\$ (3,296)	\$ (336,024)	\$ (1,994)

16. Personnel expenses

The aggregate payroll expense of employees, officers and directors was \$187,500 and \$562,500 for the three and nine months ended September 30, 2012 respectively (three and nine months ended September 30, 2011 - \$187,500 and \$187,500).

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

Key management personnel include executive officers and non-executive directors. Executive officers were paid a salary commencing in July 2011 and participate in the Corporation's stock option program. The executive officers are the Chief Executive Officer, Chief Financial Officer, Vice President, Land, Vice President, Engineering & Operations, Vice President, Exploration and the Vice President, Exploitation. Non-executive directors also participate in the Corporation's stock option program. The Corporation currently has no employees not considered key management personnel. Compensation of key management personnel is as follows:

	Three months ended September 30, 2012		Nine months ended September 30, 2012	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Salaries and short-term benefits (of which \$375,000 is included in general and administrative expense and \$187,500 is included in E&E expenditures for the nine months ended September 30, 2012)	\$ 187,500	\$ 187,500	\$ 562,500	\$ 187,500
Amortization of share-based payments	27,360	-	82,082	-
	\$ 214,860	\$ 187,500	\$ 644,582	\$ 187,500

17. Cash and cash equivalents

	September 30, 2012	December 31, 2011
Bank balances	\$ 954,613	\$ 4,473,765
Term deposits	-	-
Cash and cash equivalents in the statements of cash flows	\$ 954,613	\$ 4,473,765

Questfire Energy Corp.

Notes to the Condensed Interim Financial Statements

Nine months ended September 30, 2012 (with comparative figures for the nine months ended September 30, 2011)

(amounts in Canadian dollars)

(unaudited)

18. Related-party transactions

A director of Questfire is a partner of a law firm that provided legal services to Questfire in 2012. For the three and nine months ended September 30, 2012, Questfire incurred a total of \$7,756 and \$58,527 respectively (three and nine months ended September 30, 2011 – \$96,081 and \$96,081 respectively) to this firm for legal fees and disbursements, of which \$nil and \$34,000 respectively (2011 – \$nil and nil) was charged to debenture issuance costs, \$7,756 and \$24,527 respectively (2011 - \$nil and \$nil) was charged to general and administrative expenses and \$nil and \$nil (2011 - \$96,081 and \$96,081) was charged to deferred financing charges. Of the \$34,000 related to debenture issuance costs, \$31,419 was charged to the convertible debenture liability, while \$1,904 and \$677 were charged to the equity component of convertible debentures and warrants, respectively. As at September 30, 2012, \$5,000 (September 30, 2011 - \$96,081) of the amount above was included in accounts payable.

19. Commitments

(a) Office lease

The Corporation is committed under a lease on its office premises expiring August 31, 2013 for future minimum rental payments, excluding estimated operating costs, of \$17,055 for 2012 and \$45,480 for 2013.

(b) Software licence

The Corporation is committed under a software licence agreement expiring January 1, 2014 for future minimum payments estimated as follows:

2012	\$ 14,669
2013	<u>58,677</u>
	<u>\$ 73,346</u>

(c) Flow-through share commitments

On October 18, 2011, the Corporation issued a total of 3,088,000 flow-through Class A Shares and 555,840 flow-through Class B Shares for gross proceeds of \$6,176,000 (note 13(e)). In accordance with the offering, the Corporation is required to expend \$6,176,000 on qualifying exploration activities no later than December 31, 2012. The Corporation renounced the tax benefit to subscribers effective December 31, 2011. The Corporation has incurred \$2,414,239 of related exploratory expenditures as at September 30, 2012.