Questfire Energy Corp.

Financial Statements

For the year ended December 31, 2011

(amounts in Canadian dollars)

Independent Auditors' Report

To the Shareholders of Questfire Energy Corp.

We have audited the accompanying financial statements of Questfire Energy Corp. which comprise the balance sheets as at December 31, 2011 and 2010 and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the year ended December 31, 2011 and for the period from incorporation on January 15, 2010 to December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made my management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis of our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Questfire Energy Corp. as at December 31, 2011 and 2010, and its financial performance and its cash flows for the year ended December 31, 2011 and for the period from incorporation on January 15, 2010 to December 31, 2010 in accordance with International Financial Reporting Standards.

Signed “Collins Barrow Calgary LLP”

CHARTERED ACCOUNTANTS

Calgary, Canada
March 13, 2012

Questfire Energy Corp.
Balance Sheets
(amounts in Canadian dollars)

	Notes	December 31, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents	16	$ 4,473,765	$ 1,501,562
Accounts receivable	4(c)	141,875	5,556
Deposits and prepaid expenses		30,000	8,272
Total current assets		4,645,640	1,515,390
Non-current assets			
Property and equipment	6	607,648	26,456
Exploration and evaluation assets	7	3,390,131	331,339
Total non-current assets		3,997,779	357,795
Total assets		$ 8,643,419	$ 1,873,185
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4(d)	$ 1,920,082	$ 37,738
Flow-through share premium	12(c)(e)	966,970	318,461
Total current liabilities		2,887,052	356,199
Non-current liabilities			
Decommissioning provisions	9	128,297	-
Convertible Class B Shares liability	10	3,638,810	-
Deferred tax liabilities	11	756,069	-
Total liabilities		7,410,228	356,199
Shareholders' Equity			
Share capital	12(b)	4,193,633	1,573,679
Equity component of convertible Class B Shares	10	(2,081,352)	-
Contributed surplus	13	25,327	-
Deficit		(904,417)	(56,693)
Total equity attributable to equity holders of the Corporation		1,233,191	1,516,986
Total liabilities and shareholders' equity		$ 8,643,419	$ 1,873,185

Commitments (note 18)

See accompanying notes to the financial statements.

(Signed) "Richard Dahl", Director

(Signed) "Roger MacLeod", Director

Questfire Energy Corp.

Statements of Loss and Comprehensive Loss

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (*amounts in Canadian dollars)*

	Notes	December 31, 2011	December 31, 2010
Expenses			
Exploration and evaluation		$ 177,825	$ -
General and administrative		599,274	53,852
Stock-based compensation	13	25,327	-
Depreciation		8,700	4,400
		811,126	58,252
Finance income	14	23,547	1,559
Finance expense	14	(75,305)	-
Net finance expense		(51,758)	1,559
Loss before income taxes		(862,884)	(56,693)
Deferred income tax (recovery)	11	(15,160)	-
		(15,160)	-
Loss and comprehensive loss for the period		$ (847,724)	$ (56,693)
Loss per share			
Basic and diluted	12(f)	$ (0.08)	$ (0.06)

See accompanying notes to the financial statements.

Questfire Energy Corp.
Statements of Changes in Equity
(amounts in Canadian dollars)

	Notes	Share capital	Equity component of Class B Shares	Contributed surplus	Deficit	Total equity
Balance at January 15, 2010		$ -	$ -	$ -	$ -	$ -
Issuance of Common Shares	12	1	-	-	-	1
Issuance of flow-through Common Shares	12	1,576,539	-	-	-	1,576,539
Share issuance costs	12	(2,861)	-	-	-	(2,861)
Loss for the period		-	-	-	(56,693)	(56,693)
Balance at December 31, 2010		1,573,679	-	-	(56,693)	1,516,986
Issuance of Common Shares	12	50,000	-	-	-	50,000
Issuance of flow-through Class A Shares	12	3,088,000	-	-	-	3,088,000
Issuance of flow-through Class B Shares	10, 12	-	(2,081,352)	-	-	(2,081,352)
Share issuance costs, net of tax	12	(518,046)	-	-	-	(518,046)
Stock-based compensation related to stock options	13	-	-	25,327	-	25,327
Loss for the period		-	-	-	(847,724)	(847,724)
Balance at December 31, 2011		$ 4,193,633	$ (2,081,352)	$ 25,327	$ (904,417)	$ 1,233,191

See accompanying notes to the financial statements.

Questfire Energy Corp.

Statements of Cash Flows

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (*amounts in Canadian dollars)*

	Notes	December 31, 2011	2010
Cash and cash equivalents provided by (used in):			
Cash flows from (used in) operating activities			
Loss for the period		$ (847,724)	$ (56,693)
Adjustments for:			
Depreciation		8,700	4,400
Deferred income tax recovery		(15,160)	-
Net finance (income) expense	14	51,758	(1,559)
Stock-based compensation	13	25,327	-
Changes in non-cash working capital	5	22,754	3,470
Net cash used in operating activities		(754,345)	(50,382)
Cash flows from (used in) investing activities			
Additions to exploration and evaluation assets		(3,514,361)	(331,339)
Additions to property and equipment		(6,026)	(30,856)
Interest received	14	23,547	1,559
Change in non-cash working capital	5	1,680,165	19,440
Net cash used in investing activities		(1,816,675)	(341,196)
Cash flows from (used in) financing activities			
Interest paid	14	(13,427)	-
Deferred financing charges		-	-
Share issuance costs		(690,728)	(2,861)
Proceeds from issuance of Class A and B Shares		6,226,000	1,895,001
Change in non-cash working capital	5	21,378	1,000
Net cash from financing activities		5,543,223	1,893,140
Change in cash and cash equivalents		2,972,203	1,501,562
Cash and cash equivalents, beginning of period		1,501,562	-
Cash and cash equivalents, end of period		$ 4,473,765	$ 1,501,562

See accompanying notes to the financial statements.

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 conducts many of 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). As at December 31, 2011 the Corporation has no oil or natural gas production. The address, and principal place of business, of the Corporation is Suite 400, 703 – 6th Ave SW, Calgary, Alberta, T2P 0T9.

2. Basis of preparation

(a) Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements were authorized for issuance by the Board of Directors on March 13, 2012.

(b) Basis of measurement

The financial statements were prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

Depletion and valuation of property and equipment (P&E)

The amounts recorded for depletion and depreciation of P&E and the valuation of P&E are based on estimates. These estimates include proved and probable reserves, production rates, future oil and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Corporation's reserve estimates are evaluated annually pursuant to *National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities*.

Valuation of exploration and evaluation (E&E) assets

The valuation of E&E assets depends on the discovery of economically recoverable reserves which in turn depends on future oil and natural gas prices, future capital expenditures, and environmental and regulatory restrictions.

Decommissioning provisions

The value of decommissioning liabilities depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Corporation utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities.

Stock-based compensation

The amounts recorded relating to the fair value of stock options issued are based on estimates of the future volatility of the Corporation's share price, estimated market price of the Corporation's shares at grant date, expected lives of the options, expected dividends and other relevant assumptions.

Share capital, flow-through share premium and convertible Class B Shares

The amounts recorded as share capital, flow-through share premium and convertible Class B Shares are based on factors including estimated value of Class A Shares on issue date excluding the flow-through provision, estimated borrowing rates the Corporation would be able to borrow funds at, and other relevant assumptions.

3. Significant accounting policies

(a) Jointly controlled operations and jointly controlled assets

Many of the Corporation's oil and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include the Corporation's share of these jointly controlled assets, the relevant revenue and related costs.

(b) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issuance. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as a component of cash and cash equivalents.

(c) E&E and P&E expenditures

(i) E&E assets

Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net income (loss) as E&E expense.

E&E costs include the costs of acquiring licences, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. E&E costs are capitalized as E&E assets when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. E&E assets are measured at cost and are not depleted or depreciated. E&E assets, net of any impairment loss, are transferred to P&E when proved and/or probable reserves are determined to exist.

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. E&E assets are also assessed for impairment upon their reclassification to P&E.

Exchanges or swaps that involve only E&E assets are accounted for at cost. Any gains or losses from the divestiture of E&E assets are recognized in net earnings.

(ii) P&E

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests and are measured at cost less accumulated depletion and depreciation and net of impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion and equipping of wells, gathering systems and other infrastructure, decommissioning liabilities and transfers of E&E assets.

Costs of replacing parts of P&E are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of P&E are recognized in income as incurred.

Exchanges or swaps of P&E are measured at fair value unless the transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of P&E are recognized in net income.

(iii) Depletion and depreciation

Oil and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved plus probable reserves, that affect the unit-of-production calculations do not give rise to prior-period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment will be depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little or no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the respective items.

Other assets, referred to as corporate and other, are depreciated on a declining balance basis at rates approximating their estimated useful lives.

The estimated annual rates for other assets are as follows:

Furniture and fixtures	20 %
Office equipment	20 %
Computer hardware	30 %
Computer software	50 %

(d) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred tax assets, are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. E&E assets are assessed for impairment when they are reclassified to P&E and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purposes of assessing impairment, E&E assets and P&E are grouped into cash-generating units (CGUs), defined as the lowest levels for which there are separately identifiable independent cash inflows. Goodwill, if any, is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill. E&E assets are tested with the producing CGU to which the activity can be attributed or separately when there is no CGU related to the E&E activity.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's-length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved plus probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in net earnings.

Impairment losses recognized in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

(e) Provisions and contingent liabilities

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, the obligation's amount can be reliably estimated and it is probable that an outflow of economic resources will be required to settle it. Provisions are stated at the present value of the expected settlement expenditure. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(i) *Decommissioning provisions*

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Corporation's E&E assets and P&E. The best estimate of the expenditure required to settle the present obligation at the balance sheet date is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated E&E or P&E asset and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to financing expenses with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred are recorded as a gain or loss.

(f) Flow-through shares

From time to time, the Corporation finances a portion of its exploration and development activities through the issuance of flow-through shares. Under the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. The stated capital recorded on flow-through share issuances is equal to the estimated fair value of the Common Shares, exclusive of the flow-through component, on the date of issuance. The difference between the gross proceeds received and the stated capital recorded is a liability ("flow-through share premium") until qualifying expenditures are incurred. When the expenditures are incurred the resulting deferred tax liability is recorded through income tax expense less the reversal of the flow-through share premium previously reported.

(g) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(h) Compound instruments

The components of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the issuance date, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability based on amortized cost until the instrument is converted or the instrument matures. The equity component is determined by deducting the liability component from the total fair value of the compound instrument and is recognized as equity, net of income tax effects, with no subsequent re-measurement.

(i) Leases

Leases that transfer substantially all of the benefits and risks of ownership to the Corporation are accounted for at the commencement of the lease term as finance leases and are recorded as P&E at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments, together with an offsetting liability. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. All other leases are accounted for as operating leases and the lease costs are expensed as incurred.

(j) Revenue

Revenue from the production of oil and natural gas is recognized when title passes from the Corporation to the customer. Transportation costs are reported as a separate expense and are not netted against revenue.

(k) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in the statement of income, using the effective interest rate method.

Finance expense comprises interest expense on borrowings and flow-through expenditures made under the "look-back rule", accretion of the discount on decommissioning provisions, accretion of the convertible Class B Share liability and impairment losses recognized on financial assets.

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes substantial time to get ready for use or sale.

When funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. When the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using the weighted average of rates applicable to relevant general borrowings of the Corporation during the period.

All other borrowing costs are recognized in the statement of income in the period in which they are incurred using the effective interest method.

(l) Stock-based compensation

The Corporation has a stock option plan as described in note 13 and stock options granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(m) Earnings per share

Basic earnings per share is calculated by dividing net and comprehensive income or loss by the weighted average number of common shares outstanding during the period. Diluted per share information reflects the potential dilution effect of options and convertible Class B Shares. The Corporation computes the dilutive impact on common shares assuming the proceeds received from the pro forma exercise of in-the-money share options are used to purchase common shares at average market prices. The number of Class A Shares assumed to be issued upon conversion of each Class B Share will be equal to $10.00 divided by the greater of $1.00 and the weighted average trading price of the Class A Shares for the last 30 consecutive trading days as of the balance sheet date.

(n) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through the statement of income”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost” as defined by International Accounting Standard (IAS) 39, “Financial Instruments: Recognition and Measurement”.

Financial assets and financial liabilities at “fair value through the statement of income” are either classified as “held for trading” or “designated at fair value through the statement of income” and are measured at fair value with changes in fair value recognized in the income statement. Transaction costs are expensed when incurred. The Corporation accounts for cash and cash equivalents and derivative commodity contracts as “fair value through the statement of income”.

Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. “Held-to-maturity” financial assets are non-derivative investments that an entity has the intention and ability to hold to maturity. “Financial liabilities measured at amortized cost” are non-derivative financial liabilities not designated as “fair value through the statement of income”. The Corporation has designated accounts receivable as “loans and receivables”, and accounts payable and accrued liabilities as “financial liabilities measured at amortized cost”.

Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives either designated as such or remaining unclassified in other categories.

(ii) *Derivative financial instruments*

The Corporation may enter into certain financial derivative contracts in order to manage its commodity price market risk. The Corporation's policy is not to utilize derivative financial instruments for speculative purposes. All financial derivative contracts are classified as "fair value through the statement of income".

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the statement of income. Changes in the fair value of separable embedded derivatives are recognized immediately in the income statement. The Corporation has not identified any embedded derivatives.

(iii) *Share capital*

Class A Shares are classified as equity. Convertible Class B Shares are classified as compound instruments. Incremental costs directly attributable to the issuance of Class A Shares and stock options are recognized as a reduction from equity, net of any tax effects.

(iv) *Impairment*

The Corporation assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as "fair value through the statement of income", are impaired. If so, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

(o) Recent accounting pronouncements

Financial Instruments

The IASB intends to replace IAS 39, “Financial Instruments: Recognition and Measurement” with IFRS 9, “Financial Instruments”. IFRS 9 will be published in three phases, of which the first phase has been published.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also imposes a single impairment method. For financial liabilities, the approach to the fair value option may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity’s credit risk.

IFRS 9 is currently effective for annual periods beginning on or after January 1, 2015. The Corporation is currently assessing the impact of this standard.

Fair Value Measurements

In May 2011 the IASB issued IFRS 13, “Fair Value Measurement”, which provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosure related to fair value measurement. Prospective application of this standard is effective for fiscal periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation is currently assessing the impact of this standard.

Reporting Entity

In May 2011, the IASB issued IFRS 10, “Consolidated Financial Statements”, IFRS 11, “Joint Arrangements”, and IFRS 12, “Disclosures of Interest in Other Entities”, and amendments to IAS 27, “Consolidated and Separate Financial Statements”, and IAS 28, “Investments in Associates”.

IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special-purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangement by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation to arrangements that meet the definition of a joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special-purpose vehicles.

Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted if all of the standards are adopted. The Corporation is assessing their impact.

Employee Benefits

In June 2011 the IASB issued amendments to IAS 19, “Employee Benefits”, which revises the recognition, presentation and disclosure requirements for defined-benefit plans. Retrospective application is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted. There will be no significant impact to the Corporation.

Presentation of Items of Other Comprehensive Income

In June 2011 the IASB issued an amendment to IAS 1, “Presentation of Financial Statements” requiring corporations to group items presented within other comprehensive income based on whether they may be subsequently reclassified to profit or loss. Retrospective application is effective for fiscal years beginning on or after July 1, 2012, with earlier adoption permitted. There will be no significant impact to the Corporation.

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 polices 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 convertible Class B Shares at December 31, 2011 was determined to be $2,417,904, based on the market price of $4.35 per Class B Share on that date.

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

The fair value of financial derivatives, including commodity contracts, 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.

(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. Substantially all of the Corporation's accounts receivable are due from joint venture partners and government agencies and are subject to normal industry credit risk. The Corporation will also have receivables from petroleum and natural gas marketers upon commencement of production in the first quarter of 2012.

Significant changes in industry conditions and risks that negatively impact 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 December 31, 2011 and December 31, 2010, the Corporation's accounts receivable were comprised of the following:

	Carrying amount	
	December 31, 2011	**December 31, 2010**
GST	$ 129,901	$ 3,997
Other	11,974	1,559
	$ 141,875	$ 5,556

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

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.

(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 ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through future operating cash flow, as well as future equity and debt financings.

The Corporations accounts payable and accrued liabilities as at December 31, 2011 and December 31, 2010 are aged as follows:

	December 31, 2011	December 31, 2010
0 to 30 days	$ 1,920,082	$ 20,240
31 to 60 days	-	17,498
61 to 90 days	-	-
Greater than 90 days	-	-
Total accounts payable and accrued liabilities	$ 1,920,082	$ 37,738

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 18.

(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 objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks are as follows:

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 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 exposed to interest rate risk to the extent that changes in market interest rates increase the cost of its borrowing under any floating-rate credit facility. The Corporation had no interest rate swaps or financial contracts in place as at or during the years ended December 31, 2011 or December 31, 2010.

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 in between the floor and the ceiling.

(e) Capital management

The Corporation's capital management policy is to maintain a strong capital base that optimizes the Corporation's ability to grow, 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 the requirement 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 the Corporation's capital and do so through quarterly meetings and regular reviews of financial information including budgets and forecasts. The Corporation's Board of Directors are responsible for overseeing this process. The Corporation considers its capital structure to include shareholders' equity, convertible Class B Share liability 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. The Corporation continually monitors business conditions including: changes in economic conditions; the risk of its drilling programs; forecasted 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. There were no changes to the Corporation's approach to capital management for the year ended December 31, 2011.

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

5. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Year ended December 31, 2011	Period ended December 31, 2010
Source (use) of cash:		
Accounts receivable	$ (136,319)	$ (5,556)
Deposits and prepaid expenses	(21,728)	(8,272)
Accounts payable and accrued liabilities	1,882,344	37,738
	$ 1,724,297	$ 23,910
Related to operating activities	$ 22,754	$ 3,470
Related to investing activities	1,680,165	19,440
Related to financing activities	21,378	1,000
Changes in non-cash working capital	$ 1,724,297	$ 23,910

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

6. P&E

	Oil and natural gas interests	Corporate and other	Processing and other equipment	Total
Cost				
Balance at January 15, 2010	$ -	$ -	$ -	$ -
Additions	-	30,856	-	30,856
Balance at December 31, 2010	-	30,856	-	30,856
Transfer from exploration and evaluation 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
Depletion, depreciation and impairment losses				
Balance at January 15, 2010	$ -	$ -	$ -	$ -
Depletion and depreciation for the period	-	4,400	-	4,400
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

	Oil and natural gas Interests	Corporate and other	Processing and other equipment	Total
Net book value:				
At January 15, 2010	$ -	$ -	$ -	$ -
At December 31, 2010	$ -	$ 26,456	$ -	$ 26,456
At December 31, 2011	$ 583,866	$ 23,782	$ -	$ 607,648

(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 (see also note 3(c)(iii)).

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

(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 December 31, 2011, the Corporation has not capitalized any general and administrative expenses to P&E. No interest has been capitalized.

7. E&E assets

	E&E Assets
Balance at January 15, 2010	$ -
Additions	331,339
Balance at December 31, 2010	331,339
Additions	3,514,361
Transfers to property and equipment (note 6)	(548,619)
Decommissioning provision	93,050
Balance at December 31, 2011	$ 3,390,131

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.

8. Impairment

Oil and natural gas CGUs

At December 31, 2011, 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 percent and forecast cash flows, with escalating prices and future development costs, as obtained from an externally prepared reserve estimates. The forecast prices used to estimate the fair value less cost to sell are those used by independent industry reserve engineers. No oil and natural gas property interest CGUs were considered impaired as at or during the year ended December 31, 2011.

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

The prices used in the impairment test of the Corporation's CGUs at December 31, 2011 were:

	Oil	Natural Gas
	Edmonton Par Benchmark *(Cdn$/bbl)*	**AECO-C Hub Benchmark** *(Cdn$/mmbtu)*
2012	97.96	3.49
2013	101.02	4.13
2014	101.02	4.59
2015	101.02	5.05
2016	101.02	5.51
2017	101.02	5.97
2018	102.40	6.21
2019	104.47	6.33

Prices are assumed to increase at a rate of approximately 2.0 percent per year after 2019. Adjustments were made to the benchmark prices, for purposes of the impairment test, to reflect varied delivery points and quality differentials in the products to be delivered.

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, is approximately $141,116 at December 31, 2011, which has been discounted using a risk-free rate of 1.6 percent at December 31, 2011. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to seven 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 year ended December 31, 2011:

	December 31, 2011
Decommissioning provisions, beginning of year	$ -
Liabilities incurred	128,297
Decommissioning provisions, end of year	$ 128,297

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

10. Class B Shares

On October 18, 2011 the Corporation completed its initial public offering (note 12(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:

	December 31, 2011
Balance, beginning of year	$ -
Liability component on date of issuance	3,576,932
Accretion of convertible Class B Share liability	61,878
Balance, end of year	$ 3,638,810

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.

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

11. Income tax expense

Reconciliation of effective tax rate:

	December 31, 2011	December 31, 2010
Loss before income tax	$ (862,884)	$ (56,693)
Statutory tax rate	26.5%	28.0%
Expected income tax recovery	(228,664)	(15,874)
Non-deductible expenses	874	9
Statutory rate changes and other	12,512	1,701
Non-deductible stock-based compensation	6,712	-
Reversal of flow-through share premium	(448,544)	-
Flow-through expenditures incurred	656,830	-
Recognition of previously unrecognized tax losses	(14,880)	-
Current period loss for which no deferred tax asset recognized	-	14,164
Total income tax recovery	$ (15,160)	$ -

In 2011, $14,880 of the previously unrecognized tax losses and other deductions were recognized to offset the existing taxable temporary differences.

Recognized deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2011
Deferred tax liabilities	
Property and equipment	$ 140,149
Exploration and evaluation assets	550,671
Decommissioning provisions	(32,074)
Class B Shares liability	479,897
	1,138,643
Less deferred tax assets	
Unamortized share issuance costs	(138,580)
Non-capital losses	(243,994)
Net deferred tax liability	$ 756,069

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

The Corporation has available the following estimated non-capital loss carry-forwards for which a deferred tax asset has been recognized in the financial statements:

Year of Expiry	Amount
2030	$ 112,821
2031	863,155
	$ 975,976

Movement in the deferred tax liability or asset during the year:

	Balance December 31, 2010	Recognized in profit or loss	Recognized against flow-through share premium	Recognized directly in equity	Balance December 31, 2011
Property and equipment	$ 2,581	$ 137,568	$ -	$ -	$ 140,149
Exploration and evaluation assets	8,284	542,387	-	-	550,671
Decommissioning liability	-	(32,074)	-	-	(32,074)
Non-capital tax losses	(25,173)	(218,821)	-	-	(243,994)
Share issuance costs	(572)	34,674	-	(172,682)	(138,580)
Convertible Class B Share liability	-	(15,470)	-	495,367	479,897
Exploration expenditures incurred	-	(448,544)	448,544	-	-
Unrecognized (recognized) deferred tax asset	14,880	(14,880)	-	-	-
	$ -	$ (15,160)	$ 448,544	$ 322,685	$ 756,069

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

12. Share capital

(a) Authorization

At December 31, 2011, 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

(b) Issued

Class A Shares	**Number of shares**	**Amount**
Issued for cash as initial private capital	1	$ 1
Issued as flow-through shares for cash pursuant to private placement (note 12(c))	9,475,000	1,576,539
Share issuance costs		(2,861)
Balance, December 31, 2010	9,475,001	1,573,679
Issued for cash pursuant to private placement (note 12(d))	250,000	50,000
Issued as flow-through shares for cash pursuant to initial public offering (note 12(e))	3,088,000	3,088,000
Share issuance costs (net of $172,682 tax effect)		(518,046)
Balance, December 31, 2011	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 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 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 December 31, 2011, the Corporation had incurred $732,319 of qualifying flow-through expenditures, thereby reducing the related flow-through premium to $966,970.

(f) Basic and diluted loss per share has been calculated based on the weighted average common shares outstanding of 10,193,527 for the year ending December 31, 2011, and 974,572 for the period ending December 31, 2010. The potential dilutive effect of all stock options and Class B Shares has not been included in the calculation of diluted weighted average common shares as the effect would be antidilutive.

(g) Shares in escrow

At December 31, 2011, 7,375,500 Class A Shares were held in escrow pursuant to the requirements of the TSX-V. One-sixth of the remaining shares will be released from escrow in six-month intervals over a 30-month period, commencing April 25, 2012. 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.

13. Stock-based compensation

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.

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

The following options have been awarded under the stock option plan:

	Year ended December 31, 2011	
	Number	**Exercise price**
Outstanding, beginning of year	-	$ -
Granted	1,281,000	0.20
Forfeited	-	-
Outstanding at December 31	1,281,000	$ 0.20
Exercisable at December 31	-	$ -

The following table summarizes the expiry terms and exercise prices of the Corporation's outstanding stock options as at December 31, 2011:

Date of grant	**Outstanding options**	**Weighted average remaining contractual life (years)**	**Number of stock options exercisable**
October 18, 2011	1,281,000	9.8	-
	1,281,000	9.8	-

(b) Stock-based compensation expense

Compensation costs of $25,327 for the year ended December 31, 2011 (2010 - $nil) have been expensed and have resulted in a corresponding increase in contributed surplus.

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

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/warrant	$ 0.1574

A forfeiture rate of nil percent 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.

14. Finance income and expense

	Year ended December 31, 2011	Period ended December 31, 2010
Finance income		
Interest income on cash and cash equivalents	$ 23,547	$ 1,559
Finance expense		
Part XII.6 tax on flow-through share expenditures	(13,427)	-
Accretion on Class B Share liability (note 10)	(61,878)	-
	(75,305)	-
Net finance expense recognized in profit or loss	$ (51,758)	$ 1,559

15. Personnel expenses

The aggregate payroll expense of employees, officers and directors was $375,000 for the year ended December 31, 2011.

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

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. Key management personnel compensation is as follows:

	Year ended December 31, 2011	Period ended December 31, 2010
Salaries and short-term benefits (*of which $250,000 is included in general and administrative expense and $125,000 is included in E&E expenditures*)	$ 375,000	$ -
Amortization of share based payments	25,327	-
	$ 400,327	$ -

16. Cash and cash equivalents

	December 31, 2011	December 31, 2010
Bank balances	$ 4,473,765	$ 1,501,562
Term deposits	-	-
Cash and cash equivalents in the statements of cash flows	$ 4,473,765	$ 1,501,562

17. Related-party transactions

A director of Questfire is a partner of a law firm that provided legal services to Questfire in 2011. For the year ended December 31, 2011, Questfire incurred a total of $147,975 (year ended December 31, 2010 – $3,027) to this firm for legal fees and disbursements, of which $133,675 (2010 – $2,861) was charged to share issuance costs, and $14,300 (2010 – $166) was charged to general and administrative expenses. As at December 31, 2011, $15,000 (2010 - $1,954) of the amount above was included in accounts payable.

18. 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 $68,220 for 2012 and $45,480 for 2013.

Year ended December 31, 2011 (with comparative figures for the period from incorporation on January 15, 2010 to December 31, 2010) (amounts in Canadian dollars)

(b) Software license

The Corporation is committed under a software licence agreement expiring January 1, 2014 for future minimum payments estimated as follows:

2012	$ 58,677
2013	58,677
	$ 117,354

(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. In accordance with the terms of 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 $732,319 of related exploratory expenditures as at December 31, 2011.