Questfire Energy Corp.

Condensed Interim Financial Statements
For the three and nine months ended September 30, 2015

(amounts in Canadian dollars) (unaudited)

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

	Note	**September 30, 2015**	December 31, 2014
		$	$
Assets			
Current assets			
Cash and cash equivalents		**-**	1,193,207
Accounts receivable	4(c)	**5,950,357**	8,687,909
Risk management contracts	4(e)	**418,474**	2,366,210
Deposits and prepaid expenses		**839,682**	780,732
Total current assets		**7,208,513**	13,028,058
Non-current assets			
Property and equipment	5, 6	**110,957,623**	119,155,988
Exploration and evaluation assets		**1,679,187**	1,679,187
Total assets		**119,845,323**	133,863,233
Liabilities			
Current liabilities			
Bank overdraft		**81,060**	-
Accounts payable and accrued liabilities		**14,338,809**	17,515,287
Current portion of long-term contract obligation	8	**332,821**	300,242
Total current liabilities		**14,752,690**	17,815,529
Non-current liabilities			
Bank debt	7	**39,062,046**	39,000,000
Decommissioning provisions	9	**28,506,514**	28,172,822
Convertible Class B shares		**4,978,421**	4,666,785
Long-term contract obligation	8	**14,246,294**	14,500,145
Deferred tax liabilities		**3,096,218**	5,794,441
Total liabilities		**104,642,183**	109,949,722
Shareholders' Equity			
Share capital	10(b)	**6,945,345**	6,945,345
Equity component of convertible Class B shares		**(2,061,132)**	(2,061,132)
Contributed surplus		**1,364,825**	840,576
Retained earnings		**8,954,102**	18,188,722
Total equity attributable to equity holders of the Corporation		**15,203,140**	23,913,511
Total liabilities and shareholders' equity		**119,845,323**	133,863,233

Commitments (note 14)

(Signed) "Richard Dahl", Director

(Signed) "Roger MacLeod", Director

See accompanying notes to the financial statements.

Questfire Energy Corp.

Condensed Interim Statements of Income (Loss) and Comprehensive Income (Loss)

(amounts in Canadian dollars) (unaudited)

	Note	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
		$	$	**$**	$
Revenue					
Oil and natural gas sales		**9,854,087**	17,614,154	**31,311,111**	55,700,544
Royalties		**(745,260)**	(2,417,662)	**(2,464,395)**	(7,779,107)
		9,108,827	15,196,492	**28,846,716**	47,921,437
Realized gain (loss) on risk management		**575,333**	(677,978)	**1,793,258**	(2,868,794)
Unrealized gain (loss) on risk management	4(e)	**(878,710)**	1,318,632	**(2,713,842)**	593,720
		8,805,450	15,837,146	**27,926,132**	45,646,363
Expenses					
Production and operating		**5,070,386**	7,221,381	**15,748,462**	20,716,662
Transportation		**381,775**	430,982	**1,209,947**	1,333,308
General and administrative		**1,209,856**	1,627,985	**3,986,007**	4,878,343
Share-based compensation		**172,877**	159,833	**524,249**	395,171
Exploration and evaluation		**193,877**	159,302	**579,558**	384,302
Depletion and depreciation	5	**2,808,838**	3,825,360	**8,674,310**	9,799,008
Bad debt	4(c)	**200,000**	-	**200,000**	-
Property and equipment impairment	6	**4,500,000**	-	**4,500,000**	-
		14,537,609	13,424,843	**35,422,533**	37,506,794
Operating Income (Loss)		**(5,732,159)**	2,412,303	**(7,496,401)**	8,139,569
Gain on sale of assets		**-**	39,232	**-**	1,986,963
Gain on repurchase of Class B shares		**-**	-	**-**	7,294,966
Gain on repurchase of convertible debentures		**-**	-	**-**	17,722,983
Finance expense	11	**(1,505,382)**	(1,541,681)	**(4,436,442)**	(6,122,185)
Income (Loss) Before Income Taxes		**(7,237,541)**	909,854	**(11,932,843)**	29,022,296
Deferred income tax recovery (expense)		**1,907,081**	(261,388)	**2,698,223**	(5,827,033)
Income (Loss) and Comprehensive Income (Loss) for the Period		**(5,330,460)**	648,466	**(9,234,620)**	23,195,263
Income (Loss) per Share					
Basic	10(c)	**(0.31)**	0.04	**(0.53)**	1.59
Diluted	10(c)	**(0.31)**	0.03	**(0.53)**	0.81

See accompanying notes to the financial statements.

Condensed Interim Statements of Changes in Equity

(amounts in Canadian dollars) (unaudited)

	Note	Share capital	Equity component of convertible Class B shares	Equity component of convertible debentures	Warrants	Contributed surplus	Retained earnings (deficit)	Total
		$	$	$	$	$	$	$
Balance, January 1, 2014		4,272,595	(2,081,352)	75,805	28,295	288,768	(6,607,513)	(4,023,402)
Repurchase of Class B shares		-	20,220	-	-	-	-	20,220
Issued on conversion of convertible debentures		1,510,805	-	(75,805)	-	-	-	1,435,000
Issued on exercise of warrants		1,122,358	-	-	(27,358)	-	-	1,095,000
Expiry of warrants		-	-	-	(937)	-	937	-
Share-based compensation		-	-	-	-	395,171	-	395,171
Issued on exercise of options		39,587	-	-	-	(15,837)	-	23,750
Income for the period		-	-	-	-	-	23,195,263	23,195,263
Balance, September 30, 2014		6,945,345	(2,061,132)	-	-	668,102	16,588,687	22,141,002
Share-based compensation		-	-	-	-	172,474	-	172,474
Income for the period		-	-	-	-	-	1,600,035	1,600,035
Balance, December 31, 2014		6,945,345	(2,061,132)	-	-	840,576	18,188,722	23,913,511
Share-based compensation		-	-	-	-	524,249	-	524,249
Loss for the period		-	-	-	-	-	(9,234,620)	(9,234,620)
Balance, September 30, 2015		**6,945,345**	**(2,061,132)**	**-**	**-**	**1,364,825**	**8,954,102**	**15,203,140**

See accompanying notes to the financial statements.

Questfire Energy Corp.

Condensed Interim Statements of Cash Flows

(amounts in Canadian dollars) (unaudited)

	Note	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
		$	$	**$**	$
Cash flows related to:					
Operating Activities					
Income (loss)		**(5,330,460)**	648,466	**(9,234,620)**	23,195,263
Add (deduct) items not involving cash:					
Unrealized loss (gain) on risk management	4(e)	**878,710**	(1,318,632)	**2,713,842**	(593,720)
Share-based compensation		**172,877**	159,833	**524,249**	395,171
Depletion and depreciation	5	**2,808,838**	3,825,360	**8,674,310**	9,799,008
Property and equipment impairment	6	**4,500,000**	-	**4,500,000**	-
Acquired office lease amortization		**-**	23,181	**-**	162,267
Gain on repurchase of Class B shares		**-**	-	**-**	(7,294,966)
Gain on repurchase of convertible debentures		**-**	-	**-**	(17,722,983)
Deferred income tax expense (recovery)		**(1,907,081)**	261,388	**(2,698,223)**	5,827,033
Finance expense	11	**1,505,382**	1,541,681	**4,436,442**	6,122,185
Gain on sale of assets		**-**	(39,232)	**-**	(1,986,963)
Funds flow from operations		**2,628,266**	5,102,045	**8,916,000**	17,902,295
Decommissioning costs incurred	9	**(256,227)**	(564,626)	**(1,094,245)**	(2,206,132)
Change in non-cash working capital	12	**1,081,320**	904,267	**1,683,944**	315,251
Cash from operating activities		**3,453,359**	5,441,686	**9,505,699**	16,011,414
Investing Activities					
Exploration and evaluation expenditures		**-**	(7,730,210)	**-**	(7,730,210)
Property and equipment expenditures	5	**(2,309,671)**	(2,196,312)	**(4,872,305)**	(8,612,639)
Disposal of property and equipment		**-**	-	**-**	3,792,346
Disposal of assets held for sale		**-**	39,232	**-**	479,667
Purchase of risk management contracts	4(e)	**(258,175)**	(83,720)	**(766,106)**	(248,430)
Change in non-cash working capital	12	**1,599,640**	4,552,697	**(2,370,167)**	5,286,458
Cash used in investing activities		**(968,206)**	(5,418,313)	**(8,008,578)**	(7,032,808)
Financing Activities					
Net bank debt draws (repayments)		**(1,527,549)**	-	**62,046**	(4,000,000)
Common share issuance proceeds		**-**	23,750	**-**	1,118,750
Repurchase of Class B shares		**-**	-	**-**	(3,914,040)
Long-term contract obligation repayments	8	**(76,304)**	(82,252)	**(221,272)**	(161,807)
Long-term contract obligation draws		**-**	-	**-**	15,000,000
Convertible debenture repurchase		**-**	-	**-**	(13,600,000)
Interest and financing costs paid	11	**(947,228)**	(889,676)	**(2,800,509)**	(3,448,472)
Change in non-cash working capital	12	**208,804**	(64,678)	**188,347**	131,917
Cash used in financing activities		**(2,342,277)**	(1,012,856)	**(2,771,388)**	(8,873,652)
Increase (decrease) in cash and cash equivalents		**142,876**	(989,483)	**(1,274,267)**	104,954
Cash and cash equivalents (bank overdraft), beginning of period		**(223,936)**	927,236	**1,193,207**	(167,201)
Cash and cash equivalents (bank overdraft), end of period		**(81,060)**	(62,247)	**(81,060)**	(62,247)

See accompanying notes to the financial statements.

1. General business description

Questfire Energy Corp. ("Questfire" or the "Corporation") is engaged in the exploration for, and development and production of, oil and natural gas in Alberta and may conduct its activities jointly with others; these condensed interim financial statements reflect only the Corporation's proportionate interest in such activities. The Corporation's Class A shares and Class B shares are listed on the TSX Venture Exchange (TSXV). The address and principal place of business of the Corporation is 1100, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

The condensed interim financial statements were approved and authorized for issuance by the Corporation's Board of Directors on November 17, 2015.

2. Basis of preparation

Statement of compliance

These condensed interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and Canadian generally accepted accounting principles (GAAP) as applicable to interim financial statements, including International Accounting Standard (IAS) 34, *Interim Financial Reporting*, and should be read in conjunction with the annual financial statements for the year ended December 31, 2014, which were prepared in accordance with IFRS. The disclosure provided is incremental to that included with the annual financial statements. Certain information and disclosure included in the notes to the annual financial statements is condensed in the interim financial statements or disclosed only on an annual basis.

Basis of measurement

These condensed interim financial statements were prepared on a historical cost basis, except for certain financial instruments and share-based compensation transactions, which were measured at fair value.

The Corporation conducts many of its oil and natural gas production activities through jointly controlled operations and the financial statements reflect only the Corporation's proportionate interest in such revenues, expenses, assets and liabilities. Joint control for contractual arrangements governing the Corporation's assets is indicated where the Corporation has less than 100 percent working interest, and the partners control the arrangement collectively.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the period. These estimates are reviewed periodically and, as adjustments become necessary, are reported in the period in which they become known. By their nature, these estimates and related future cash flows are subject to measurement uncertainty, and the impact on future financial statements could be material.

In preparing these condensed interim financial statements, the significant estimates and judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those applicable to the financial statements for the year ended December 31, 2014, with the exception of changes in estimates that are required in determining the provision for income taxes. Income taxes in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual profit or loss.

3. Significant accounting policies

The accounting policies followed in these condensed interim financial statements are consistent with those for the year ended December 31, 2014. There were no new or amended accounting standards or interpretations adopted during the three and nine months ended September 30, 2015 that had a material effect on the Corporation's financial statements.

New or revised IFRS not yet adopted

In May 2014, the IASB published IFRS 15, *Revenue From Contracts With Customers*, replacing IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

On September 11, 2015, the IASB published an amendment to IFRS 15, deferring the effective date of the standard by one year to years beginning on or after January 1, 2018, with early adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is evaluating the impact on its financial statement of adopting IFRS 15.

A description of additional standards and interpretations that will be adopted by the Corporation in future periods can be found in the notes to the financial statements for the year ended December 31, 2014.

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 changes to the Corporation's exposure to each of these risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosure is included throughout this document. Questfire employs risk management strategies and policies to ensure its risk exposure is consistent with its business objectives and risk tolerance. While the Board of Directors has overall responsibility for Questfire's risk management framework, Questfire's management monitors the risks and administers the risk management measures.

b) Fair value of financial instruments

The fair value of convertible Class B shares at September 30, 2015, based on a discounted cash flow model assuming an 8.65 percent effective interest rate, is approximately $5.0 million (December 31, 2014 – $4.7 million).

The fair value of the long-term contract obligation at September 30, 2015, based on a discounted cash flow model assuming a 13.41 percent effective interest rate, is approximately $14.6 million (December 31, 2014 – $14.8 million).

c) Credit risk

The Corporation considers all accounts receivable greater than 90 days to be past due. At September 30, 2015, $538,616 is past due (December 31, 2014 – $379,774). The Corporation considers this amount fully collectible. During the nine months ended September 30, 2015, the Corporation recognized bad debt expense of $200,000 (nine months ended September 30, 2014 – $Nil) related to past due accounts receivable. As at September 30, 2015, $321,005 of the past due balance relates to claims with the Orphan Well Association.

(amounts in Canadian dollars) (unaudited)

d) Liquidity risk

The timing of undiscounted cash flows relating to the financial liabilities outstanding at September 30, 2015 is outlined below:

	1 year	2 years	3 years	>3 years	Total
	$	$	$	$	$
Bank overdraft	81,060	-	-	-	81,060
Accounts payable and accrued liabilities	14,338,809	-	-	-	14,338,809
Bank debt (1)	-	39,062,046	-	-	39,062,046
Long-term contract obligation (2)	2,326,300	2,326,300	14,816,117	-	19,468,717

(1) Excludes future interest payable on amounts drawn on the bank credit facility.

(2) Includes the payments required if the long-term contract obligation is repaid within 48 months of inception.

The Corporation is also subject to commitments as disclosed in note 14.

e) Market risk

Market risks are as follows:

Foreign currency risk

At September 30, 2015 and December 31, 2014, the Corporation had no forward exchange rate contracts nor any working capital denominated in foreign currencies.

Interest rate risk

For the nine months ended September 30, 2015, a 1 percent increase in interest rates would decrease income by approximately $222,228 (nine months ended September 30, 2014 – approximately $208,125). The Corporation had no interest rate swaps or contracts as at or during the nine months ended September 30, 2015 or 2014.

Commodity price risk

At September 30, 2015, the Corporation's forward commodity contracts consisted of a mix of natural gas costless collars and purchased put options.

(i) Summary of risk management positions

At September 30, 2015, Questfire had the following natural gas risk management contracts with a total mark-to-market asset of $418,474:

Period	Commodity	Type of contract	Notional quantity	Pricing point	Contract price
Jan. 1/15 - Dec. 31/15	Natural gas	Purchased put (1)	15,000 GJ/d	AECO 7A	Cdn$3.00/GJ
Jan. 1/15 - Dec. 31/15	Natural gas	Costless collar	5,000 GJ/d	AECO 7A	Cdn$2.85-$4.00/GJ

(1) Requires the Corporation to pay a monthly premium of approximately $85,400 over the term for a total premium of $1,024,281, of which $258,175 remains to be paid.

(amounts in Canadian dollars) (unaudited)

Reconciliation of changes of fair value of Questfire's risk management contracts:

Nine months ended September 30,	**2015**
	$
Fair value of contracts, beginning of period	2,366,210
Contracts entered into	766,106
Change in fair value of contracts	(2,713,842)
Fair value of contracts, end of period	**418,474**

(ii) Commodity price sensitivities – risk management positions

The following summarizes the sensitivity of the fair value of Questfire's risk management contracts to fluctuations in commodity prices, with all other variables held constant. Management believes the price fluctuations identified below are a reasonable measure of volatility. The impact of fluctuating commodity prices on the Corporation's risk management contracts at September 30, 2015 could have resulted in unrealized gains or losses affecting profit or loss for the nine months ended September 30, 2015 as follows:

Commodity	**Sensitivity range**	**Increase**	**Decrease**
		$	$
Natural gas commodity price	± $0.10 per Mcf – AECO 7A contracts	(113,400)	119,096

f) Capital management

There were no changes to the Corporation's approach to capital management during the nine months ended September 30, 2015.

5. Property and equipment (P&E)

	Oil and natural gas interests	**Corporate and other**	**Total**
	$	$	$
Cost			
Balance, December 31, 2014	141,989,762	250,353	142,240,115
Additions	4,869,988	2,317	4,872,305
Decommissioning provision	103,640	-	103,640
Balance, September 30, 2015	**146,963,390**	**252,670**	**147,216,060**
Accumulated depletion and depreciation			
Balance, December 31, 2014	23,001,446	82,681	23,084,127
Depletion and depreciation	8,643,023	31,287	8,674,310
Impairment (note 6)	4,500,000	-	4,500,000
Balance, September 30, 2015	**36,144,469**	**113,968**	**36,258,437**
Balance, December 31, 2014	118,988,316	167,672	119,155,988
Balance, September 30, 2015	**110,818,921**	**138,702**	**110,957,623**

To date, the Corporation has not capitalized any interest nor general and administrative expenses to P&E.

(amounts in Canadian dollars) (unaudited)

6. Impairment

At September 30, 2015, the Corporation assessed its P&E cash-generating units (CGUs) and its exploration and evaluation assets (E&E) for indicators of impairment and after noting significant declines in commodity prices, conducted impairment test calculations on certain CGUs to assess whether their carrying values were recoverable. The impairment tests were based on the fair value less costs of disposal for each CGU identified to be at risk.

The net present value of the after-tax cash flows from proved plus probable oil and natural gas reserves for each at-risk CGU was based on reserves estimated by the Corporation's independent reservoir engineers at December 31, 2014, updated for forward commodity price estimates and reductions to operating costs of 10 percent, based on recent corporate experience of reduced oilfield service costs.

The following table outlines forecast commodity prices used in the Corporation's CGU tests at September 30, 2015. The forecast commodity prices are consistent with those used by the Corporation's independent reservoir engineers, and are a key assumption in assessing the recoverable amount.

	Crude Oil		Natural Gas	Natural Gas Liquids				
	WTI Cushing	Canadian Light					Pentane	Exchange
	40˚ API	40˚ API	AECO-C Hub	Ethane	Propane	Butane	plus	rate
Year	(US$/bbl)	($/bbl)	($/MMBtu)	($/bbl)	($/bbl)	($/bbl)	($/bbl)	(US$/Cdn$)
2015(1)	45.00	56.00	2.97	9.54	14.00	36.40	58.88	0.750
2016	50.00	61.33	3.43	11.12	15.33	39.87	65.63	0.750
2017	55.00	64.52	3.62	11.77	19.35	45.16	69.03	0.775
2018	60.00	68.75	3.72	12.12	24.06	51.56	73.56	0.800
2019	65.00	72.73	3.81	12.44	25.45	54.55	77.82	0.825
2020	70.00	76.47	3.90	12.74	26.76	57.35	81.82	0.850
2021	75.00	82.35	4.10	13.43	28.82	61.76	88.12	0.850
2022	80.00	88.24	4.30	14.12	30.88	66.18	94.41	0.850
2023	85.00	94.12	4.50	14.81	32.94	70.59	100.71	0.850
2024	89.63	98.41	4.78	15.77	34.44	73.81	105.30	0.850
Thereafter	2% annual price increase							

Notes:

(1) Represents three months remaining in 2015.

(2) Source: GLJ Petroleum Consultants Ltd. price forecast, effective October 1, 2015.

(3) In performing the impairment tests the benchmark commodity prices forecast above are adjusted for quality differentials, heat content, distance to market and other factors.

Key estimated inputs used in the calculation of cash flow from oil and natural gas reserves include:

(i) Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in geo-scientific interpretation, production forecasts, current and estimated future commodity prices, costs and related future cash flows may change the economic status of reserves and may ultimately result in reserves being restated.

(ii) Oil and natural gas prices – Forward estimates of oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

(iii) Discount rate – The discount rate used to calculate the net present value of cash flows is based on a CGU's individual characteristics, other economic and operating factors.

(amounts in Canadian dollars) (unaudited)

At September 30, 2015, Questfire recorded P&E impairments pertaining to the Brazeau CGU of $0.7 million, based on a recoverable amount of $8.1 million, the Crossfield CGU of $0.8 million, based on a recoverable amount of $3.1 million, and the Open Lake CGU of $3.0 million, based on a recoverable amount of $17.9 million. Impairment calculations for each of the CGUs used a discount rate of 15 percent. The estimated recoverable amount of the impaired CGUs are classified as a level 3 fair value measurement.

The following summarizes the sensitivity of the fair value less costs of disposal to fluctuations in the after-tax discount rate and forecast commodity prices, with all other variables held constant. Management believes the fluctuations set out below are reasonable indicators of volatility. The impact of fluctuating discount rates and forecast commodity prices would have resulted in increases or decreases to property and equipment impairment for the nine months ended September 30, 2015 as follows:

	Discount rate		Commodity prices	
	1 percent increase	**1 percent decrease**	**5 percent increase**	**5 percent decrease**
	$	**$**	**$**	**$**
Brazeau CGU	337,900	(372,400)	(644,800)	621,300
Crossfield CGU	153,700	(167,100)	(383,000)	369,700
Open Lake CGU	654,200	(700,000)	(1,674,700)	1,378,700
Property and equipment impairment increase (decrease)	**1,145,800**	(1,239,500)	**(2,702,500)**	2,369,700

No impairments were recognized during the three and nine months ended September 30, 2014.

There were no impairment reversals for either P&E or E&E during the three and nine months ended September 30, 2015 or 2014.

7. Bank debt

The Corporation has a $45.0 million extendible revolving term credit facility with a syndicate of Canadian banks (the "Syndicate") and a $10.0 million operating facility with one member of the Syndicate (together the "Credit Facility"), for a total amount available under the Credit Facility of $55.0 million. The Credit Facility provides that advances may be made by way of direct advances, bankers' acceptances or standby letters of credit, with advances secured by a $150 million first charge demand debenture on the Corporation's oil and natural gas interests.

The Credit Facility bears interest at a floating rate based on the applicable Canadian prime rate, plus between 1.00 percent and 3.50 percent depending on the Corporation's adjusted senior debt to EBITDA ratio as defined by the agreement. The Credit Facility constitutes a revolving facility for a 364-day term which is extendible annually for a further 364-day revolving period, subject to a one-year term-out period should the lender not agree to an annual extension. The current conversion date, should the loan not be extended, is May 30, 2016.

The Corporation is subject to certain reporting and financial covenants under its Credit Facility. The financial covenants require the Corporation to maintain, at the end of each quarter, a minimum adjusted working capital ratio of at least 1:1 (for purposes of the covenant, bank debt and the fair value of any risk management contracts are excluded and the undrawn portion of the Credit Facility is added to current assets), and to maintain a debt to EBITDA ratio, as defined by the agreement, of less than 3.75:1 at September 30, 2015, 4.0:1 at December 31, 2015, 3.75:1 at March 31, 2016, 3.5:1 at June 30, 2016 and 3.0:1 thereafter. The covenants were met at September 30, 2015 at 1.53:1 and 3.50:1, respectively.

At September 30, 2015, $39.1 million of the Credit Facility was drawn (December 31, 2014 – $39.0 million). For the nine months ended September 30, 2015, the average effective interest rate was 3.9 percent (year ended December 31, 2014 – 4.3 percent).

(amounts in Canadian dollars) (unaudited)

At September 30, 2015, the Corporation had letters of credit of $200,000, reducing the borrowing capacity under the Credit Facility.

8. Long-term contract obligation

On March 26, 2014, the Corporation entered into a facilities joint venture agreement with a third party (the "Partner"), transferring beneficial ownership of Questfire's natural gas processing facilities at Lookout Butte and Medicine Hat, in return for $15.0 million in cash, used to repay convertible debt. Questfire operates the facilities and continues to process its Lookout Butte and Medicine Hat natural gas production through the facilities. The Corporation will pay an annual facility fee of $2,326,300 for 17.5 years, after which beneficial ownership will revert to Questfire.

Questfire has the option to terminate the joint venture agreement on payment of an amount which will provide the Partner with a compound annual yield on its investment of 13.25 percent to the later of 48 months or the date the option is exercised. Upon the payment of aggregate processing fees to the Partner of a minimum of $19.5 million, the Partner has the option to sell back to Questfire its beneficial interest in the facilities for the sum equal to the total remaining scheduled processing payments, discounted at 17.5 percent to the time of exercise. The long-term contract obligation is secured by Questfire's Lookout Butte and Medicine Hat natural gas processing facilities. Questfire has also indemnified the Partner for all costs and expenses that may arise out of operating the facilities.

This transaction effectively left substantially all of the economic risks and rewards of ownership with Questfire, whereby Questfire recorded the facility as P&E on its balance sheet and accounted for the $15.0 million proceeds as a long-term contract obligation and the annual facility fee payments as blended repayments of principal and interest expense.

The following reconciles the long-term contract obligation:

Nine months ended	**September 30, 2015**
	$
Balance, beginning of period	14,800,387
Principal repayments	(221,272)
Balance, end of period	**14,579,115**

At September 30, 2015 $332,821 (December 31, 2014 – $300,242) of the balance is classified as a current liability.

9. Decommissioning provisions

The Corporation's decommissioning provisions result from its ownership interest in oil and natural gas assets, including well sites, facilities and gathering systems. The total decommissioning provision is estimated based on the Corporation's net ownership interest, estimated costs to reclaim and abandon its wells, facilities and gathering systems and the estimated timing of the costs to be incurred in future years. The estimated cash flows required to settle the provisions, excluding salvage, are approximately $94.0 million at September 30, 2015 (December 31, 2014 – $93.0 million). This was inflated using a weighted-average rate of 2.0 percent (December 31, 2014 – 2.0 percent) to arrive at undiscounted future cash flows of approximately $187.0 million (December 31, 2014 – $187.4 million) and then discounted using a weighted-average credit-adjusted risk-free rate of 6.75 percent at September 30, 2015 (December 31, 2014 – 6.80 percent) to arrive at the present value of the decommissioning provision as disclosed below. The weighted-average credit-adjusted risk-free rate is based on a combination of Government of Canada benchmark bond rates and an adjustment for Questfire's estimated credit risk. These obligations are to be settled based on the estimated economic lives of the underlying assets, which currently extend up to 50 years, and will be funded from general corporate resources at the time of abandonment.

(amounts in Canadian dollars) (unaudited)

The following reconciles the decommissioning provisions:

Nine months ended	**September 30, 2015**
	$
Balance, beginning of period	28,172,822
Additions	37,851
Costs incurred	(1,094,245)
Accretion (note 11)	1,324,297
Change in estimated future cash flows	(105,397)
Change in discount rate	171,186
Balance, end of period	**28,506,514**

Sensitivities

Changes to the risk-free discount rate or the inflation rate would have had the following impact on the decommissioning provisions:

As at	**September 30, 2015**	
	Credit-adjusted risk-free discount rate	Inflation rate
	$	$
1 percent increase	(4,042,536)	5,814,696
1 percent decrease	5,565,239	(4,240,690)

10. Share capital

a) **Authorized** – Unlimited number of Class A and Class B common shares with no par value.

b) **Issued – Class A shares**

	Shares	**Amount**
	#	$
Balance, September 30, 2015 and December 31, 2014	**17,318,001**	**6,945,345**

(amounts in Canadian dollars) (unaudited)

c) Income (loss) per share

The following sets forth the computation of per share amounts:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Numerator				
Income (loss) attributable to Class A shares	**(5,330,460)**	648,466	**(9,234,620)**	23,195,263
Adjustment for dilutive effect of convertible debentures, net of tax	**-**	-	**-**	685,259
Adjustment for dilutive effect of Class B shares, net of tax	**-**	-	**-**	531,069
Numerator for diluted per share amounts	**(5,330,460)**	648,466	**(9,234,620)**	24,411,591
Denominator				
Weighted-average number of shares outstanding for basic per share calculation	**17,318,001**	17,298,436	**17,318,001**	14,575,822
Stock options	**-**	1,539,574	**-**	1,466,980
Warrants	**-**	-	**-**	611,629
Convertible debentures	**-**	-	**-**	8,072,881
Class B shares	**-**	-	**-**	5,406,709
Denominator for diluted per share amounts	**17,318,001**	18,838,010	**17,318,001**	30,134,021
	$	$	**$**	$
Basic income (loss) per share attributable to Class A shares	**(0.31)**	0.04	**(0.53)**	1.59
Diluted income (loss) per share attributable to Class A shares	**(0.31)**	0.03	**(0.53)**	0.81

For the three and nine-month periods ended September 30, 2015, the Corporation excluded the following instruments from the calculation of diluted income per share as they would be anti-dilutive:

i. Stock options – 3,291,000 for both periods (three and nine months ended September 30, 2014 – 665,000 for both periods), with a weighted-average exercise price of $0.99 (three and nine months ended September 30, 2014 – $2.10 for both periods)
ii. Class B shares – 550,440 for both periods (three and nine months ended September 30, 2014 – 550,440 and Nil, respectively)

d) Share-based compensation

During the three and nine months ended September 30, 2015, the Corporation granted nil and 675,000 options, respectively (three and nine months ended September 30, 2014 – 70,000 and 845,000 options, respectively) to acquire Class A shares. The options vest one-third on each of the first, second and third anniversaries of grant and expire ten years from grant. The fair value of the options granted during the nine months ended September 30, 2015 was estimated at $518,859 (three and nine months ended September 30, 2014 – $98,926 and $928,303, respectively), using the Black-Scholes option pricing model with the following weighted-average assumptions: an exercise price of $1.33; a market price of Class A shares of $1.33; a risk-free interest rate of 1.04 percent; volatility of 73 percent; an expected life of six years; a forfeiture rate of 10 percent and no dividend yield.

(amounts in Canadian dollars) (unaudited)

The following provides information with respect to stock option transactions:

Nine months ended	**September 30, 2015**	
	Options	Weighted-average exercise price
	#	$
Outstanding, beginning of period	2,676,000	0.91
Granted	675,000	1.33
Forfeited	(60,000)	1.19
Outstanding, end of period	**3,291,000**	**0.99**

The following provides information about stock options outstanding at September 30, 2015:

Range of exercise prices ($)	**Number outstanding**	**Weighted-average remaining contractual life (years)**	**Options outstanding – weighted-average exercise price ($)**	**Number exercisable**	**Options exercisable – weighted-average exercise price ($)**
0.20 - 0.65	1,311,000	6.12	0.22	1,296,000	0.21
0.95 - 1.68	1,300,000	8.76	1.19	328,333	1.07
2.03 - 2.60	680,000	8.60	2.10	216,667	2.10
	3,291,000	**7.67**	**0.99**	**1,841,000**	**0.59**

11. Finance expense

	Three months ended September 30,		**Nine months ended September 30,**	
	2015	2014	**2015**	2014
	$	$	**$**	$
Finance expense				
Interest on convertible debentures	**-**	-	**-**	540,808
Interest on bank debt (note 7)	**422,127**	370,713	**1,202,549**	1,282,529
Interest on long-term contract obligation (note 8)	**505,101**	499,324	**1,522,960**	1,033,790
Financing costs	**20,000**	19,639	**75,000**	591,345
Cash finance expense	**947,228**	889,676	**2,800,509**	3,448,472
Accretion on decommissioning provisions (note 9)	**452,029**	554,644	**1,324,297**	1,592,750
Accretion on convertible Class B share liability	**106,125**	97,361	**311,636**	708,092
Accretion on convertible debentures	**-**	-	**-**	372,871
Non-cash finance expense	**558,154**	652,005	**1,635,933**	2,673,713
Total finance expense	**1,505,382**	1,541,681	**4,436,442**	6,122,185

(amounts in Canadian dollars) (unaudited)

12. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Cash flows related to:				
Accounts receivable	**45,862**	(128,602)	**2,737,552**	55,970
Deposits and prepaid expenses	**171,863**	119,592	**(58,950)**	(208,360)
Accounts payable and accrued liabilities	**2,672,039**	5,424,477	**(3,176,478)**	6,048,283
Changes in non-cash working capital	**2,889,764**	5,415,467	**(497,876)**	5,895,893
Acquired non-cash working capital items:				
Office lease amortization	**-**	(23,181)	**-**	(162,267)
Changes in non-cash working capital	**2,889,764**	5,392,286	**(497,876)**	5,733,626
Relating to:				
Operating activities	**1,081,320**	904,267	**1,683,944**	315,251
Investing activities	**1,599,640**	4,552,697	**(2,370,167)**	5,286,458
Financing activities	**208,804**	(64,678)	**188,347**	131,917
	2,889,764	5,392,286	**(497,876)**	5,733,626

13. Related-party transactions

A director of Questfire is a partner of a law firm that provides legal services to Questfire. Legal fees of $6,000 and $35,990 were incurred by Questfire to the law firm in the respective three and nine months ended September 30, 2015 (three and nine months ended September 30, 2014 – $64,108 and $254,474, respectively), of which $6,000 and $35,990, respectively (three and nine months ended September 30, 2014 – $48,433 and $100,451, respectively) was related to general and administrative expenses and $Nil for both periods (three and nine months ended September 30, 2014 – $15,675 and $154,023, respectively), was related to financing expense. At September 30, 2015, $25,200 (December 31, 2014 – $22,050) related to these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

14. Commitments

As part of its normal operations, Questfire has committed to paying certain amounts over the next five years and thereafter as follows:

	2015	**2016**	**2017**	**2018**	**2019**	**Thereafter**
	$	$	$	$	$	$
Office lease	200,813	803,254	803,254	803,254	468,565	-

Questfire's commitments related to its long-term contract obligation are disclosed in note 4(d), and commitments related to its risk management program are disclosed in note 4(e).