Questfire Energy Corp.

Condensed Interim Financial Statements

For the three and nine months ended September 30, 2016

(amounts in Canadian dollars) (unaudited)

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

	Note	September 30, 2016	December 31, 2015
		$	$
Assets			
Current assets			
Accounts receivable	4(c)	**4,913,078**	4,900,981
Deposits and prepaid expenses		**427,721**	861,926
Total current assets		**5,340,799**	5,762,907
Non-current assets			
Property and equipment	5, 8	**87,320,691**	108,507,075
Exploration and evaluation assets	6	**916,516**	1,340,456
Deferred tax assets		**953,374**	-
Total assets		**94,531,380**	115,610,438
Liabilities			
Current liabilities			
Bank overdraft		**441,582**	172,382
Accounts payable and accrued liabilities		**8,531,007**	9,812,620
Risk management contracts	4(e)	**2,095,998**	-
Current portion of long-term contract obligation	7	**381,824**	344,448
Convertible Class B shares	9	**5,426,544**	5,086,857
Bank debt	10	**42,992,659**	-
Total current liabilities		**59,869,614**	15,416,307
Non-current liabilities			
Bank debt	10	**-**	41,406,473
Risk management contracts	4(e)	**369,738**	-
Decommissioning provisions	11	**16,017,016**	27,635,555
Long-term contract obligation	7	**13,893,316**	14,155,697
Deferred tax liabilities		**-**	2,745,062
Total liabilities		**90,149,684**	101,359,094
Shareholders' Equity			
Share capital	12(b)	**6,945,345**	6,945,345
Equity component of convertible Class B shares		**(2,061,132)**	(2,061,132)
Contributed surplus		**1,975,987**	1,565,190
Retained earnings (deficit)		**(2,478,504)**	7,801,941
Total shareholders' equity		**4,381,696**	14,251,344
Total liabilities and shareholders' equity		**94,531,380**	115,610,438

Going concern (note 2)
Commitments (notes 4(e) and 16)
Subsequent event (note 17)

(Signed) "Richard Dahl", Director

(Signed) "Roger MacLeod", Director

See accompanying notes to the financial statements.

Questfire Energy Corp.

Condensed Interim Statements of Loss and Comprehensive Loss

(amounts in Canadian dollars) (unaudited)

	Note	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
		$	$	**$**	$
Revenue					
Oil and natural gas sales		**8,162,248**	9,854,087	**21,734,487**	31,311,111
Royalties		**(404,365)**	(745,260)	**(1,008,162)**	(2,464,395)
		7,757,883	9,108,827	**20,726,325**	28,846,716
Realized gain (loss) on risk management		**(137,303)**	575,333	**339,050**	1,793,258
Unrealized gain (loss) on risk management	4(e)	**879,367**	(878,710)	**(2,465,736)**	(2,713,842)
Total revenue		**8,499,947**	8,805,450	**18,599,639**	27,926,132
Expenses					
Production and operating		**4,053,215**	5,070,386	**13,167,391**	15,748,462
Transportation		**425,477**	381,775	**1,320,493**	1,209,947
General and administrative		**993,265**	1,209,856	**3,311,180**	3,986,007
Share-based compensation		**88,870**	172,877	**410,797**	524,249
Exploration and evaluation		**616,869**	193,877	**1,049,241**	579,558
Depletion and depreciation	5	**2,515,569**	2,808,838	**7,854,090**	8,674,310
Bad debt	4(c)	**-**	200,000	**-**	200,000
Corporate reorganization		**91,767**	-	**393,371**	-
Property and equipment impairment	8	**-**	4,500,000	**-**	4,500,000
Total expense		**8,785,032**	14,537,609	**27,506,563**	35,422,533
Operating Loss		**(285,085)**	(5,732,159)	**(8,906,924)**	(7,496,401)
Gain on sale of assets	5	**303,960**	-	**433,839**	-
Finance expense	13	**(2,271,800)**	(1,505,382)	**(5,505,796)**	(4,436,442)
Loss Before Income Taxes		**(2,252,925)**	(7,237,541)	**(13,978,881)**	(11,932,843)
Deferred income tax recovery		**617,291**	1,907,081	**3,698,436**	2,698,223
Loss and Comprehensive Loss for the Period		**(1,635,634)**	(5,330,460)	**(10,280,445)**	(9,234,620)
Loss per Share					
Basic and diluted	12(c)	**(0.09)**	(0.31)	**(0.59)**	(0.53)

See accompanying notes to the financial statements.

Questfire Energy Corp.

Condensed Interim Statements of Changes in Equity

(amounts in Canadian dollars) (unaudited)

	Note	Share capital	Equity component of convertible Class B shares	Contributed surplus	Retained earnings (deficit)	Total
		$	$	$	$	$
Balance, January 1, 2015		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
Share-based compensation		-	-	200,365	-	200,365
Loss for the period		-	-	-	(1,152,161)	(1,152,161)
Balance, December 31, 2015		6,945,345	(2,061,132)	1,565,190	7,801,941	14,251,344
Share-based compensation		-	-	410,797	-	410,797
Loss for the period		-	-	-	(10,280,445)	(10,280,445)
Balance, September 30, 2016		**6,945,345**	**(2,061,132)**	**1,975,987**	**(2,478,504)**	**4,381,696**

See accompanying notes to the financial statements.

(amounts in Canadian dollars) (unaudited)

	Note	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
		$	$	**$**	$
Cash flows related to:					
Operating Activities					
Loss		**(1,635,634)**	(5,330,460)	**(10,280,445)**	(9,234,620)
Add (deduct) items not involving cash:					
Unrealized loss (gain) on risk management	4(e)	**(879,367)**	878,710	**2,465,736**	2,713,842
Share-based compensation		**88,870**	172,877	**410,797**	524,249
Exploration and evaluation	6	**458,602**	-	**458,602**	-
Depletion and depreciation	5	**2,515,569**	2,808,838	**7,854,090**	8,674,310
Property and equipment impairment	8	**-**	4,500,000	**-**	4,500,000
Deferred income tax recovery		**(617,291)**	(1,907,081)	**(3,698,436)**	(2,698,223)
Finance expense	13	**2,271,800**	1,505,382	**5,505,796**	4,436,442
Gain on sale of assets	5	**(303,960)**	-	**(433,839)**	-
Funds flow from operations		**1,898,589**	2,628,266	**2,282,301**	8,916,000
Decommissioning costs incurred	11	**(299,957)**	(256,227)	**(984,126)**	(1,094,245)
Change in non-cash working capital	14	**(434,822)**	1,081,320	**(612,078)**	1,683,944
Cash from operating activities		**1,163,810**	3,453,359	**686,097**	9,505,699
Investing Activities					
Exploration and evaluation expenditures	6	**-**	-	**(34,662)**	-
Property and equipment expenditures	5	**(103,235)**	(2,309,671)	**(384,969)**	(4,872,305)
Disposal of property and equipment	5	**307,387**	-	**2,257,387**	-
Purchase of risk management contracts	4(e)	**-**	(258,175)	**-**	(766,106)
Change in non-cash working capital	14	**(35,468)**	1,599,640	**(322,673)**	(2,370,167)
Cash from (used in) investing activities		**168,684**	(968,206)	**1,515,083**	(8,008,578)
Financing Activities					
Net bank debt draws (repayments)		**250,279**	(1,527,549)	**1,586,186**	62,046
Long-term contract obligation repayments	7	**(58,693)**	(76,304)	**(225,005)**	(221,272)
Interest and financing costs paid	13	**(1,759,242)**	(947,228)	**(3,906,807)**	(2,800,509)
Change in non-cash working capital	14	**98,225**	208,804	**75,246**	188,347
Cash used in financing activities		**(1,469,431)**	(2,342,277)	**(2,470,380)**	(2,771,388)
Increase (decrease) in cash and cash equivalents		**(136,937)**	142,876	**(269,200)**	(1,274,267)
Cash and cash equivalents (bank overdraft), beginning of period		**(304,645)**	(223,936)	**(172,382)**	1,193,207
Bank overdraft, end of period		**(441,582)**	(81,060)	**(441,582)**	(81,060)

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. 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 23, 2016.

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, 2015, which were prepared in accordance with IFRS. The disclosure provided herein 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 or omitted from the interim financial statements.

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 condensed interim 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.

Going concern

These condensed interim financial statements were prepared on a going-concern basis, which assumes that the Corporation will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation's ability to continue as a going concern is uncertain due to:

- Uncertainty regarding the borrowing base that will be provided by the lenders in late November 2016 and the fact that the lenders are under no requirement to renew the current lending facility, which matures November 30, 2016;
- As at September 30, 2016, the Corporation had a working capital deficit of $47.0 million when excluding the risk management contracts (note 4(e)) and the convertible Class B shares, which will be converted into Class A shares during 2016 (note 9) and does not involve cash;
- Management is pursuing additional sales of certain of its oil and gas properties to generate cash to reduce outstanding bank debt. There is uncertainty as to the size and timing of sales that will occur; and
- Forecast funds flow from operations, when combined with cash finance expense and anticipated decommissioning costs and property and equipment expenditures, are positive for the remainder of 2016 and into 2017 when using commodity strip pricing forecasts. The direction and magnitude of commodity price movements through the remainder of 2016 and into 2017 remain uncertain, however.

The above matters cause material uncertainty casting significant doubt on the Corporation's ability to continue as a going concern. The Corporation and its Board of Directors are continuing to seek strategic alternatives for the Corporation. During the first three quarters of 2016, the Corporation raised $2.26 million in cash by disposing of non-core assets (note 5), which was applied to bank debt.

These condensed interim financial statements do not reflect any adjustments to the carrying amounts of the Corporation's assets, liabilities, revenues, expenses or balance sheet classifications that would be necessary if the going-concern assumption were not appropriate. The Corporation may, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business at amounts different from those reflected in these condensed interim financial statements.

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim financial statements and the reported amounts of revenue 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, 2015, 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, 2015. There were no new or amended accounting standards or interpretations adopted during the three and nine months ended September 30, 2016 that had a material effect on the Corporation's financial statements.

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 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, 2016, based on a discounted cash flow model assuming an 8.65 percent effective interest rate, is approximately $5.4 million (December 31, 2015 – $5.1 million).

The fair value of the long-term contract obligation at September 30, 2016, based on a discounted cash flow model assuming a 13.41 percent effective interest rate, is approximately $14.3 million (December 31, 2015 – $14.5 million).

(amounts in Canadian dollars) (unaudited)

c) Credit risk

The Corporation considers all accounts receivable greater than 90 days to be past due. At September 30, 2016, $742,181 is past due (December 31, 2015 – $528,559). The Corporation considers this amount fully collectible. During the nine months ended September 30, 2016, the Corporation recognized bad debt expense of $Nil (nine months ended September 30, 2015 – $200,000) related to past due accounts receivable. As at September 30, 2016, $225,484 of the past due balance relates to claims with the Orphan Well Association.

d) Liquidity risk

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational, capital and other obligations through future operating cash flow, as well as future equity and debt financings. The next borrowing base re-determination on the Corporation's credit facility (note 10) is to occur on or before November 30, 2016. Assuming current economic conditions persist, management anticipates the borrowing base could be reduced and, if so, the Corporation will experience liquidity risk. Possible risk mitigation options are to sell assets or issue equity. During the nine months ended September 30, 2016, the Corporation disposed of non-core assets for approximately $2.26 million (note 5) in cash, which was used to reduce bank debt.

The timing of undiscounted cash flows relating to the financial liabilities outstanding at September 30, 2016 is outlined below:

	1 year	2 years	3 years	>3 years	Total
	$	$	$	$	$
Bank overdraft	441,582	-	-	-	441,582
Accounts payable and accrued liabilities	8,531,007	-	-	-	8,531,007
Risk management contracts	2,095,998	369,738	-	-	2,465,736
Bank debt (1)	42,992,659	-	-	-	42,992,659
Long-term contract obligation (2)	2,326,300	14,816,117	-	-	17,142,417

(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 strives to ensure it will have sufficient access to funds to meet short-term obligations by actively monitoring its credit facilities, and coordinating payment cycles with revenue cycles.

The Corporation is also subject to commitments as disclosed in note 16.

e) Market risk

Market risks are as follows:

Foreign currency risk

At September 30, 2016 and December 31, 2015, 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, 2016, a 1 percent increase in interest rates would decrease income by approximately $235,385 (nine months ended September 30, 2015 – approximately $222,228). The Corporation had no interest rate swaps or contracts as at or during the nine months ended September 30, 2016 or 2015.

(amounts in Canadian dollars) (unaudited)

Commodity price risk

At September 30, 2016, the Corporation's forward commodity contracts consisted of a mix of natural gas swaps and oil costless collars.

(i) Summary of risk management positions

At September 30, 2016, Questfire had the following natural gas risk management contracts with a total mark-to-market liability of $2,465,736:

Period	Commodity	Type of contract	Notional quantity	Pricing point	Contract price
May 1/16 - Dec. 31/17	Natural Gas	Swap	5,000 GJ/d	AECO 7A	Cdn$2.010/GJ
May 1/16 - Mar. 31/17	Natural Gas	Swap	2,500 GJ/d	AECO 7A	Cdn$1.910/GJ
May 1/16 - Mar. 31/17	Natural Gas	Swap	2,500 GJ/d	AECO 7A	Cdn$1.875/GJ
July 1/16 - Dec. 31/16	Natural Gas	Swap	2,500 GJ/d	AECO 7A	Cdn$2.020/GJ
May 1/16 - Oct. 31/16	Oil	Costless collar	100 bbls/d	WTI Nymex	Cdn$55.00/bbl-Cdn$60.70/bbl

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

	Nine months ended September 30, 2016
	$
Fair value of contracts, beginning of period	-
Change in fair value of contracts	(2,465,736)
Fair value of contracts, end of period	**(2,465,736)**

(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. Fluctuating commodity prices could have resulted in unrealized gains or losses on the Corporation's risk management contracts at September 30, 2016, affecting profit or loss for the nine months ended September 30, 2016 as follows:

Commodity	**Sensitivity range**	**Increase**	**Decrease**
		$	$
Natural gas commodity price	± $0.10 per Mcf – AECO 7A contracts	(233,277)	233,275
Oil commodity price	± $1.00 per bbl – WTI Canadian contract	(1,903)	1,761

f) Capital management

There were no changes to the Corporation's approach to capital management during the nine months ended September 30, 2016.

(amounts in Canadian dollars) (unaudited)

5. Property and equipment (P&E)

	Oil and natural gas interests	Corporate and other	Total
	$	$	$
Cost			
Balance, December 31, 2015	145,893,243	252,670	146,145,913
Additions	384,969	-	384,969
Disposals	(3,069,509)	-	(3,069,509)
Decommissioning provision	(11,780,893)	-	(11,780,893)
Balance, September 30, 2016	**131,427,810**	**252,670**	**131,680,480**
Accumulated depletion and depreciation			
Balance, December 31, 2015	37,514,441	124,397	37,638,838
Depletion and depreciation	7,830,614	23,476	7,854,090
Disposals	(1,133,139)	-	(1,133,139)
Balance, September 30, 2016	**44,211,916**	**147,873**	**44,359,789**
Balance, December 31, 2015	108,378,802	128,273	108,507,075
Balance, September 30, 2016	**87,215,894**	**104,797**	**87,320,691**

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

During the three months ended June 30, 2016, the Corporation disposed of non-core assets in Wildmere, part of the East Central cash-generating unit (CGU), and in the Brazeau River CGU, for proceeds of $1,950,000, resulting in a net gain on sale of assets of $129,879.

During the three months ended September 30, 2016, the Corporation disposed of non-core assets in the Westerose and Brazeau River CGUs for combined proceeds of $307,387, resulting in a net gain on sale of assets of $303,960.

6. Exploration and evaluation (E&E) assets

	Nine months ended September 30, 2016
	$
Balance, beginning of period	1,340,456
Additions	34,662
Expense	(458,602)
Balance, end of period	916,516

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, and expenses represent the Corporation's share of costs relating to expired mineral rights leases.

(amounts in Canadian dollars) (unaudited)

7. 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, which was used to repurchase convertible debentures. 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 facility 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 facility 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.

Any amounts owing by the Corporation for facility fees are subject to interest at prime plus 9 percent per annum. The Partner has the right to obtain payment of amounts owing through the sale of natural gas processed through the Lookout Butte and Medicine Hat facilities.

The following reconciles the long-term contract obligation:

	Nine months ended September 30, 2016
	$
Balance, beginning of period	14,500,145
Principal repayments	(225,005)
Balance, end of period	**14,275,140**

At September 30, 2016, $381,824 (December 31, 2015 – $344,448) of the balance is classified as a current liability.

8. Impairment

At September 30, 2016, the Corporation assessed its P&E CGUs and its E&E assets for indicators of impairment and noted none. Accordingly, no impairment tests were performed and no impairment was recorded during the three and nine months ended September 30, 2016.

At September 30, 2015, the Corporation assessed its P&E CGUs and its E&E assets 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.

(amounts in Canadian dollars) (unaudited)

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) Forward pricing at time of assessment; 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 were adjusted for quality differentials, heat content, distance to market and other factors.

Key inputs used in the estimation of cash flow from oil and natural gas reserves comprise:

(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, inventories, 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.

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 amounts of the impaired CGUs are classified as a level 3 fair value measurement.

(amounts in Canadian dollars) (unaudited)

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

There were no impairment reversals for either P&E or E&E during the three and nine months ended September 30, 2016 or 2015.

9. Convertible Class B shares

Class B shares are convertible (at Questfire's option) into Class A shares any time 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 30-day weighted-average 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 shareholder's option) 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 TSXV under the symbol "Q.B".

10. Bank debt

The Corporation has a $25.0 million extendible revolving term credit facility and a $14.5 million supplemental facility with a syndicate of Canadian banks (the "Syndicate") and a $5.0 million operating facility with one member of the Syndicate (together the "Credit Facility"), for a total available amount of $44.5 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 2.0 percent and 6.0 percent depending on the Corporation's ratio of senior debt, which excludes amounts under the long-term contract, to earnings before interest, taxes, depreciation and amortization (EBITDA) as defined by the agreement, effectively adjusting earnings for all other non-cash items. Amounts under the supplemental facility bear interest at an additional 2 percent to those under the revolving term credit facility. All proceeds from asset sales or debt or equity issuances, excluding flow through shares, will permanently reduce the availability of the supplemental facility and will be fully applied against the remaining balance. Should the loan not be extended, it matures on November 30, 2016.

The Corporation is subject to certain reporting, operational and financial covenants under its Credit Facility. The reporting covenant requires Questfire to maintain a liability management rating (LMR), as reported by the Alberta Energy Regulator (AER), of at least 1.10:1 at all times. This was met, as Questfire has maintained an LMR of 1.30 or higher since this metric was established as a covenant.

The operational covenant requires Questfire to maintain production volumes of at least 80 percent of that forecast by the Corporation and approved by the Syndicate. This covenant has been met.

(amounts in Canadian dollars) (unaudited)

The first financial covenant requires Questfire to have, at the end of each quarter, maximum consolidated net debt of $47.5 million, which for purposes of the covenant is calculated as long-term bank debt and working capital, excluding convertible Class B shares, and risk management contracts. The consolidated net debt, including letters of credit, at September 30, 2016 is $47.2 million. The second financial covenant requires Questfire to generate a minimum monthly EBITDA, as defined by the agreement, of 80 percent of that forecast by the Corporation and approved by the Syndicate. This covenant has been met. The third financial covenant requires Questfire to have a cumulative negative monthly cash flow variance of no more than $0.5 million compared to the amount forecast by the Corporation in August 2016 and approved by the Syndicate. This covenant has been met. The Corporation is also prohibited from entering into any further risk management contracts.

At September 30, 2016, $43.0 million of the Credit Facility was drawn (December 31, 2015 – $41.4 million). For the nine months ended September 30, 2016, the average effective interest rate was 6.2 percent (year ended December 31, 2015 – 4.1 percent).

At September 30, 2016, the Corporation had letters of credit of $200,000, reducing the borrowing capacity under the Credit Facility.

11. 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 $76.9 million at September 30, 2016 (December 31, 2015 – $76.9 million). This was inflated using a weighted-average rate of 2.0 percent (December 31, 2015 – 2.0 percent) to arrive at undiscounted future cash flows of approximately $140.7 million (December 31, 2015 – $142.4 million) and then discounted using a weighted-average credit-adjusted risk-free rate of 10.64 percent at September 30, 2016 (December 31, 2015 – 6.69 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.

The following reconciles the decommissioning provisions:

	Nine months ended September 30, 2016
	$
Balance, beginning of period	27,635,555
Disposals (note 5)	(112,822)
Costs incurred	(984,126)
Accretion (note 13)	1,259,302
Change in estimated future cash flows	(1,718,117)
Change in discount rate	(10,062,776)
Balance, end of period	**16,017,016**

(amounts in Canadian dollars) (unaudited)

Sensitivities

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

As at	**September 30, 2016**	
	Credit-adjusted risk-free discount rate	Inflation rate
	$	$
1 percent increase	(1,534,748)	2,021,868
1 percent decrease	1,868,250	(1,664,352)

12. 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, 2016 and December 31, 2015	**17,318,001**	**6,945,345**

c) Loss per share

The following sets forth the computation of per share amounts:

	Three months ended September 30,		**Nine months ended September 30,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Numerator				
Loss attributable to Class A shares	**(1,635,634)**	(5,330,460)	**(10,280,445)**	(9,234,620)
Numerator for diluted per share amounts	**(1,635,634)**	(5,330,460)	**(10,280,445)**	(9,234,620)
Denominator				
Weighted-average number of shares outstanding for basic per share calculation	**17,318,001**	17,318,001	**17,318,001**	17,318,001
Denominator for diluted per share amounts	**17,318,001**	17,318,001	**17,318,001**	17,318,001
	$	$	**$**	$
Basic and diluted loss per share attributable to Class A shares	**(0.09)**	(0.31)	**(0.59)**	(0.53)

For the three and nine-month periods ended September 30, 2016, the Corporation excluded the following instruments from the calculation of diluted loss per share as they would be anti-dilutive:

i. Stock options – 3,133,500 (three and nine months ended September 30, 2015 – 3,291,000), with a weighted-average exercise price of $0.69 (three and nine months ended September 30, 2015 – $0.99).
ii. Class B shares – 550,440 (three and nine months ended September 30, 2015 – 550,440).

(amounts in Canadian dollars) (unaudited)

d) Share-based compensation

During the three and nine months ended September 30, 2016, the Corporation granted no options (three and nine months ended September 30, 2015 – Nil and 675,000 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 initial fair value of the options granted during the three and nine months ended September 30, 2016 was estimated at $Nil (three and nine months ended September 30, 2015 – $Nil and $518,859, respectively), using the Black-Scholes option pricing model.

The following provides information with respect to stock option transactions:

	Nine months ended September 30, 2016	
	Options	Weighted-average exercise price
	#	$
Outstanding, beginning of period	3,566,000	0.82
Cancelled	(300,000)	2.05
Forfeited	(132,500)	0.99
Outstanding, end of period	**3,133,500**	**0.69**

The following provides information about stock options outstanding at September 30, 2016:

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	5.12	0.22	1,311,000	0.22
0.95 - 1.00	1,567,500	7.83	0.99	856,944	0.99
1.30	255,000	8.54	1.30	85,000	1.30
	3,133,500	**6.75**	**0.69**	**2,252,944**	**0.55**

(amounts in Canadian dollars) (unaudited)

13. Finance expense

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Finance expense				
Interest on bank debt (note 10)	**923,381**	422,127	**1,994,479**	1,202,549
Interest on long-term contract obligation (note 7)	**493,841**	505,101	**1,490,308**	1,522,960
Financing costs	**342,020**	20,000	**422,020**	75,000
Cash finance expense	**1,759,242**	947,228	**3,906,807**	2,800,509
Accretion on decommissioning provisions (note 11)	**396,881**	452,029	**1,259,302**	1,324,297
Accretion on convertible Class B share liability (note 9)	**115,677**	106,125	**339,687**	311,636
Non-cash finance expense	**512,558**	558,154	**1,598,989**	1,635,933
Total finance expense	**2,271,800**	1,505,382	**5,505,796**	4,436,442

14. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cash flows related to:				
Accounts receivable	**(604,852)**	45,862	**(12,097)**	2,737,552
Deposits and prepaid expenses	**111,971**	171,863	**434,205**	(58,950)
Accounts payable and accrued liabilities	**120,816**	2,672,039	**(1,281,613)**	(3,176,478)
Changes in non-cash working capital	**(372,065)**	2,889,764	**(859,505)**	(497,876)
Relating to:				
Operating activities	**(434,822)**	1,081,320	**(612,078)**	1,683,944
Investing activities	**(35,468)**	1,599,640	**(322,673)**	(2,370,167)
Financing activities	**98,225**	208,804	**75,246**	188,347
	(372,065)	2,889,764	**(859,505)**	(497,876)

(amounts in Canadian dollars) (unaudited)

15. Related-party transactions

A director of Questfire was a partner of a law firm that provides legal services to Questfire. The director retired from the law firm on December 31, 2015, but remains a director of Questfire. Legal fees of $41,461 and $105,348 were incurred by Questfire to the law firm in the respective three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015 – $6,000 and $35,990, respectively), of which $28,017 and $59,581, respectively (three and nine months ended September 30, 2015 – $6,000 and $35,990, respectively), was related to general and administrative expenses, $12,859 and $14,039, respectively (three and nine months ended September 30, 2015 – $Nil for both periods), was related to finance expense and $585 and $31,728, respectively (three and nine months ended September 30, 2015 – $Nil for both periods), was related to corporate reorganization. At September 30, 2016, $26,804 (December 31, 2015 – $12,988) of these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

16. Commitments

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

	2016	2017	2018	2019	2020	Thereafter
	$	$	$	$	$	$
Office lease	191,772	767,087	767,087	447,467	-	-

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

17. Subsequent Event

On November 10, 2016, the Corporation signed and closed an agreement with a private oil and gas company to dispose of non-core assets in Willesden Green, part of the Open Lake CGU, for total proceeds of $1.4 million. Proceeds were applied to the $14.5 million supplemental facility (note 10).