Report to Shareholders

Questfire Energy Corp. (“Questfire” or the “Corporation”) (TSX Venture: Q.A and Q.B) is pleased to announce its audited financial and operating results for the year ended December 31, 2012 and its unaudited interim financial and operating results for the three months ended December 31, 2012.

Fourth quarter 2012 Corporate Highlights

- Averaged production of 82 barrels of oil equivalent (boe) per day (83 percent natural gas) for the quarter with low operating and transportation costs of $8.90/boe.
- Had production revenue, before royalties, of $212,957 for the quarter and $509,124 for the year.
- Signed a Letter of Interest on November 29, 2012 for the acquisition of approximately 5,900 boe per day of natural gas-weighted conventional assets. Subsequent to the end of the fourth quarter of 2012, Questfire continued to make progress with the acquisition and, as of this date, is working towards closing the acquisition by approximately April 30, 2013.

President’s Message

The fourth quarter of 2012 continued to be a challenging time for the oil and natural gas industry in Western Canada. In particular, publicly traded junior oil and gas companies like Questfire were severely challenged by very limited access to risk capital as stock markets and investors continued to be risk-averse. Natural gas prices remained a challenge with great uncertainty regarding the record-high natural gas storage levels and persistent low pricing heading into the 2012-2013 winter heating season. The modest uptick in natural gas prices experienced over the fall was not sufficient to revive the capital markets’ interest in Canadian gas-weighted junior producers.

By the third quarter of 2012, Questfire’s management team realized that the publicly traded, junior oil and gas model of organic growth via drilling, which had worked well for us in the past, was no longer feasible, due mainly to the lack of risk capital available. We then made the decision to focus our efforts on merger and acquisition opportunities. The Questfire team spent the fourth quarter of 2012 in merger discussions with a number of other junior companies and evaluated numerous asset packages for sale on the market.

Our efforts culminated in the preparation and submission of a bid in November for approximately 5,900 boe per day of natural gas-weighted assets offered for sale by Advantage Oil and Gas Ltd. (“Advantage”). Our bid was accepted and a Letter of Interest was signed on November 29, 2012. Subsequent to the end of 2012, and following further negotiations and completion of our due diligence review, a Purchase and Sale Agreement was signed on February 5, 2013 (and amended on March12, 2012). Further details of the acquisition have been disclosed in press releases by Questfire on February 6, 2013 and on April 8, 2013. Consideration for the acquisition consists of $40 million in cash (funded by new Questfire credit facilities with a Canadian chartered bank), $44 million in senior secured convertible debentures and 1.5 million Class B shares.

At the time of this report Questfire is working towards closing the Advantage acquisition on or about April 30, 2013. When the acquisition is closed, Questfire will be a completely different company. Annualized cash flow from operations in 2013 is forecast to be in the $20 million range, our production base will be approximately 5,600 boe per day at closing and Questfire will have a significant inventory of high-working-interest drilling and recompletion prospects for light oil and natural gas.

We will thereby be transformed from a micro-cap junior with limited cash flow and insufficient capital to fund substantial further drilling, into a mid-sized junior company with significant cash flow of a level sufficient to fund a multi-well drilling program on our asset base. This acquisition is therefore the most exciting and strategically significant event in Questfire's history since the Company's founding. I am very excited at the opportunity to begin seeking new reserves and creating new value on our greatly expanded asset base.

In closing, I would like to thank our investors for their continued support and patience, the members of the Questfire management team for their dedication and hard work and our Board of Directors for their guidance.

On behalf of the Board of Directors,

(Signed) "Richard H. Dahl"

Richard H. Dahl
President and Chief Executive Officer
April 28, 2013

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of financial condition and results of operations is for the three-month period and year ended December 31, 2012, including the 2011 comparative periods, was prepared in accordance with International Financial Reporting Standards (IFRS) and should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2012 as well as the Statement of Reserves Data and Other Oil and Gas Information. These documents, along with other statutory filings, are available on SEDAR at www.sedar.com and at the Corporation's website at www.questfire.ca.

This document contains forward-looking statements. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could influence actual results or events and cause actual results or events to differ materially from those stated, anticipated or implied. Such forward-looking statements necessarily involve risks associated with oil and natural gas exploration, property development, production, marketing and transportation, such as dry holes and non-commercial wells, facility and pipeline damage, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers and the ability to access sufficient capital from internal and external sources. Readers are cautioned not to place undue reliance on forward-looking statements, as no assurance can be given as to future results, levels of activity or achievements.

Petroleum and natural gas volumes are converted to an equivalent measurement basis referred to as a "barrel of oil equivalent" (boe) on the basis of 6,000 cubic feet of natural gas equalling 1 barrel of oil. This is based on an energy equivalency conversion method applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead, which under 2013 forecast commodity prices is approximately 25 mcf to 1 bbl. Readers are cautioned that boe figures may be misleading, particularly if used in isolation.

Questfire's Board of Directors and Audit Committee have reviewed and approved the December 31, 2012 audited financial statements, the notes thereto and this MD&A. This MD&A is dated April 28, 2013.

Description of Business

Questfire Energy Corp. (the "Corporation" or "Questfire") was incorporated on January 15, 2010, and issued one Common Share for a subscription price of $1.00. On November 25, 2010, the Corporation raised $1,895,000 by way of a private placement of Common Shares issued on a "flow-through" basis at $0.20 per share, and on August 18, 2011 the Corporation raised an additional $50,000 by way of a private placement of Common Shares at an issue price of $0.20 per share. On August 24, 2011, the articles of the Corporation were amended to remove the private company restrictions, to reclassify the Common Shares as Class A Shares, and to create Class B shares. On October 18, 2011, the Corporation closed its initial public offering, raising gross proceeds of $6,176,000 and issuing 3,088,000 Class A Shares on a flow-through basis at $0.20 per share, and 555,840 Class B Shares on a flow-through basis at $10.00 per share. On October 26, 2011, the Corporation's Class A and Class B Shares commenced trading on the TSX Venture Exchange. On June 28, 2012 the Corporation raised $1,510,000 by way of a private placement of unsecured senior convertible debentures.

The Corporation is engaged in the acquisition, exploration, development and production of oil and natural gas reserves in Canada. Specifically, the Corporation's focus is to generate and develop its own prospects, acquire oil and natural gas properties directly and/or through farm-in, and participate with joint venturers and other industry partners in oil and natural gas exploration and development in Alberta.

Results of Operations

The Corporation was incorporated on January 15, 2010 and completed its initial public offering on October 18, 2011. As such, prior-period results available for comparison are limited to exploration and evaluation expenditures, general and administrative expenses, depreciation and finance income or expense.

	Three months ended December 31, 2012 (unaudited)	Three months ended December 31, 2011 (unaudited)	Year ended December 31, 2012 (audited)	Year ended December 31, 2011 (audited)
Revenue				
Oil and natural gas sales	$ **212,957**	$ -	$ **509,124**	$ -
Royalties	**(1,766)**	-	**(31,057)**	-
	211,191	-	**478,067**	-
Expenses				
Production and operating	**(57,604)**	-	**(180,948)**	-
Transportation	**(9,154)**	-	**(24,321)**	-
Write-down of property and equipment	**(189,500)**	-	**(313,500)**	-
Exploration and evaluation	**(62,500)**	(80,610)	**(1,251,733)**	(177,825)
General and administrative	**(338,405)**	(243,792)	**(1,192,008)**	(599,274)
Flow-through share (FTS) indemnity and penalties	**(1,840,817)**	-	**(1,840,817)**	-
Stock-based compensation	**(27,361)**	(25,327)	**(109,443)**	(25,327)
Depletion and depreciation	**(100,821)**	(2,900)	**(299,209)**	(8,700)
	(2,626,162)	(352,629)	**(5,211,979)**	(811,126)
	(2,414,971)	(352,629)	**(4,733,912)**	(811,126)
Finance income	**401**	13,140	**11,296**	23,547
Finance expense	**(166,297)**	(62,904)	**(513,216)**	(75,305)
Net finance expense	**(165,896)**	(49,764)	**(501,920)**	(51,758)
Loss before income taxes	**(2,580,867)**	(402,393)	**(5,235,832)**	(862,884)
Deferred income tax (recovery)	**(1,190,521)**	16,254	**(1,711,210)**	(15,160)
Loss and comprehensive loss	$ **(1,390,346)**	$ (418,647)	$ **(3,524,622)**	$ (847,724)
Loss and comprehensive loss per share – basic and diluted	$ **(0.11)**	$ (0.03)	$ **(0.28)**	$ (0.08)

Production

Questfire's average production in the fourth quarter of 2012 was 82 boe per day, compared to nil in the prior year's quarter. Questfire's average production for the year ended December 31, 2012 was 68 boe per day, compared to nil for the year ended December 31, 2011. The current production rate, as of the date of this MD&A, is approximately 10 boe per day.

Realized Prices

For the fourth quarter, the Corporation's average realized price was $3.70 per mcf for natural gas and $60.86 per bbl for crude oil and natural gas liquids (NGL). For the year ended December 31, 2012, the Corporation's average realized price was $2.61 per mcf for natural gas and $66.61 per bbl for crude oil and NGL. All of the Corporation's production was marketed by a third-party marketer and no commodity hedges were entered into during the quarter or subsequently. It is anticipated the Corporation will hedge in 2013.

Revenue

Revenue in the fourth quarter was $212,957, consisting of natural gas, oil and NGL revenue, and represented the third full quarter of revenue for the Corporation. Revenue for the year ended December 31, 2012 was $509,124.

Royalties

Royalty expense in the fourth quarter was $1,766, or 1 percent of revenue and royalty expense for the year ended December 31, 2012 was $31,057 or 6 percent of revenue, representing Crown and freehold royalties applicable on the Corporation's revenue.

Production and Operating Expense

Production and operating expense for the fourth quarter was $57,604 or $7.68 per boe. For the year ended December 31, 2012 production and operating expense was $180,948 or $7.31 per boe. Operating expense is largely comprised of custom processing fees and equipment rentals and the Corporation expects to maintain operating costs on these assets at this level throughout 2013.

Transportation Expense

Transportation expense for the fourth quarter was $9,154 or $1.22 per boe. For the year ended December 31, 2012 transportation expense was $24,321 or $0.98 per boe.

Write-down of Property and Equipment (P&E)

The Corporation recorded a write-down of P&E of $189,500 for the fourth quarter, compared to $nil for the respective period in 2011. For the year ended December 31, 2012 the Corporation recorded a write-down of P&E of $313,500, compared to $nil for 2011. The increases in both periods are due to P&E impairments recorded during 2012 related to the Corporation's Richdale and Niton cash-generating units (CGU) and resulted from management's assessment of expected future recoverable proved plus probable reserves of the related asset being reduced from previous estimates.

Exploration and Evaluation (E&E) Expenditures

The Corporation recorded E&E expenditures of $62,500 for the fourth quarter compared to $80,610 for the respective period in 2011. For the year ended December 31, 2012 the Corporation recorded E&E expenditures of $1,251,733, compared to $177,825 for 2011. The increases in both periods are due to the commencement of geological salaries in July 2011 and a $999,309 E&E impairment recorded upon the transfer of assets in the Niton CGU to P&E in the second quarter of 2012.

General and Administrative (G&A) Expense

G&A expense amounted to $338,405 in the fourth quarter of 2012, compared to $243,792 in the fourth quarter of 2011. G&A expense amounted to $1,192,008 for 2012, compared to $599,274 for 2011. Increases over 2011 are mainly due to executive officers being paid a salary starting in July 2011 and increased office activity in 2012 related to commencing operations.

Flow-through Share (FTS) Indemnity and Penalties

FTS indemnity and penalties expense for the fourth quarter and for the year ended December 31, 2012 was $1,840,817, and was related to the unexpended portion of the 2010 and 2011 flow-through share renunciations, under which the Corporation had agreed to indemnify subscribers for the amount of tax benefits lost in the event the amount of qualifying expenditures renounced to subscribers was reduced.

Stock-based Compensation

Stock-based compensation expense was calculated using the Black-Scholes option pricing model to estimate the fair value of each option granted. The Corporation recorded stock-based compensation expense of $27,361 for the quarter and $109,443 for the year ended December 31, 2012, compared to $25,327 for the same periods in 2011. The current periods' increases over the prior periods are a result of stock options being issued in October 2011. The Corporation records an expense each period with a corresponding charge to contributed surplus. This expense was recognized for the options granted to directors, officers, employees and consultants.

The Corporation granted a total of 1,281,000 options in the year ended December 31, 2011 at a price of $0.20 per option, and has recorded a total stock-based compensation expense since inception of $134,770. The remaining expense of $66,929, calculated under the Black-Scholes option pricing model, will be expensed over the vesting periods of the options. There were no options outstanding prior to these grants and there were 427,000 options exercisable at December 31, 2012 and as of the date of this MD&A.

Depletion and Depreciation

The Corporation recorded depletion and depreciation expense of $100,821 in the fourth quarter and $299,209 for the year ended December 31, 2012, compared to $2,900 and $8,700 in the respective periods in 2011. The current periods' increases from the prior year's periods are a result of the Corporation commencing production in the first quarter of 2012 and thus beginning to incur depletion and depreciation charges on its oil and natural gas assets.

Finance Income

The Corporation earned finance income of $401 in the fourth quarter and $11,296 for the year ended December 31, 2012, compared to $13,140 and $23,547 in the respective periods of 2011. The Corporation raised its initial equity in November 2010 and completed its initial public offering in October 2011. The decreases in finance income are a result of lower average cash balances in 2012 than in 2011. The Corporation's cash balances earned a yield of approximately 1.1 percent per annum.

Finance Expense

Finance expense (composed of Part XII.6 tax on flow-through share expenditures, accretion and interest on the convertible debentures, accretion on the Class B Share liability and accretion on the Corporation's decommissioning provision) was $166,297 in the fourth quarter and $513,216 for the year ended December 31, 2012 compared to $62,904 and $75,305 in the respective periods of 2011. The increase is mainly due to Part XII.6 tax being accrued related to the unspent portion of the flow-through share renunciations, accretion on the Class B Share liability starting in October 2011 and accretion on the convertible debentures starting in July 2012.

Deferred Income Tax

Deferred income tax recovery was $1,190,521 in the fourth quarter and $1,711,210 for the year ended December 31, 2012 compared to an expense of $16,254 and a recovery of $15,160 in the respective periods of 2011, relating primarily to the loss incurred for the period.

Loss

The Corporation incurred a loss of $1,390,346 ($0.11 per share basic and diluted) in the fourth quarter and a loss of $3,524,622 ($0.28 per share basic and diluted) in the year ended December 31, 2012, compared to a loss of $418,647 ($0.03 per share basic and diluted) and $847,724 ($0.08 per share basic and diluted) for the respective periods of 2011. Increases during 2012 are mainly due to increased G&A, the write-down and impairment of P&E and E&E assets and the flow-through share indemnity and penalties.

Supplemental Quarterly Information

The following tables summarize key financial and operating information for the periods indicated:

	Three months ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Net loss	$ (1,181,746)	$ (384,985)	$ (567,545)	$ (1,390,346)
Per share, basic	(0.09)	(0.03)	(0.04)	(0.11)
Capital expenditures	1,115,759	600,202	777,103	77,257
Total assets (end of period)	$ 5,596,977	$ 6,913,099	$ 6,390,508	$ 5,684,123

	Three months ended			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
Net loss	$ (70,158)	$ (94,361)	$ (264,558)	$ (418,647)
Per share, basic	(0.01)	(0.01)	(0.03)	(0.03)
Capital expenditures	-	275,694	258,669	2,986,024
Total assets (end of period)	$ 1,781,495	$ 1,699,712	$ 1,796,508	$ 8,643,419

Capital Expenditures

	Three months ended December 31, 2012	Year ended December 31, 2012
Land	$ 14,280	$ 431,156
Geological and geophysical	-	79,217
Drilling and completions	44,461	1,392,486
Production equipment and facilities	18,447	602,638
Workovers and recompletions	69	64,824
	$ 77,257	$ 2,570,321

Questfire made capital expenditures of $77,257 in the fourth quarter. The Corporation incurred costs associated mainly with the surveying and licensing of certain wells to be drilled in 2013, all in the W4 and W5 exploration areas.

For the year ended December 31, 2012 Questfire made capital expenditures of $2,570,321. The Corporation acquired 8 sections of land, placed three wells on production and incurred costs associated with surveying and licensing of certain wells to be drilled in 2013, all in the W4 and W5 exploration areas.

Overall at December 31, 2012 the Corporation had E&E assets of $1,910,773. These included 17,087 acres of undeveloped land, 3.9 km^2 of 3D seismic data in the Richdale area and 21 km^2 of 3D seismic data in the Thorsby area. There were also costs incurred and capitalized for surveying and licensing of certain wells to be drilled in 2013.

At December 31, 2012 the Corporation had P&E of $3,140,632. These included 1,448 acres of developed land and costs associated with the four wells drilled to date. As well, $6,026 and $30,856 were incurred and capitalized in 2011 and 2010, respectively, to purchase computer systems and printers for use by management to evaluate oil and natural gas leads.

Share Capital and Option Activity

As at December 31, 2012 and as of the date of this MD&A, the Corporation has 12,813,001 Class A Shares and 555,840 Class B Shares outstanding.

There were 1,281,000 options to acquire Class A Shares outstanding at December 31, 2012 and as of the date of this MD&A, at an average exercise price of $0.20 per share, which were granted to directors, officers, employees and consultants of the Corporation pursuant to its stock option plan. There were 427,000 options exercisable as at December 31, 2012 and as of the date of this MD&A.

As at December 31, 2012 and as of the date of this MD&A, the Corporation has $1,510,000 of convertible debentures and 1,510,000 Class A Share purchase warrants outstanding.

Reserves

The reserves data set forth below is based on an evaluation by GLJ Petroleum Consultants Ltd. (GLJ), an independent reserves evaluator, with an effective date of December 31, 2012. The reserves data summarizes the oil, NGL and natural gas reserves of Questfire and the net present value of future net revenues for these reserves using forecast prices and costs. The forecast prices and costs are summarized below.

The reserves data conforms to the requirements of National Instrument 51-101 – Standards of Disclosure for Oil & Gas Activities (NI 51-101). The Corporation engaged GLJ to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves. All of Questfire’s reserves are in Alberta, Canada. The full Statement of Reserves Data and Other Oil and Gas Information is available on SEDAR at www.sedar.com.

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

Summary of Company Interest Crude Oil, Natural Gas and Natural Gas Liquids Reserves (forecast prices and costs)

As at December 31, 2012	Oil (mbbls)		Natural gas (mmcf)		NGL (mbbls)		Total (mboe)	
	TCI[1]	Net[2]	TCI [1]	Net [2]	TCI [1]	Net [2]	TCI [1]	Net [2]
Proved								
Developed producing	3	3	591	542	19	13	120	106
Developed non-producing	0	0	181	169	1	1	31	29
Undeveloped	0	0	-	-	-	-	-	-
Total proved	3	3	771	711	20	13	151	135
Probable	73	67	492	451	13	8	168	151
Total proved plus probable	76	70	1,264	1,162	33	22	319	286

(1) Total company interest (TCI); includes working interest reserves.
(2) Net reserves are TCI reserves, net of royalties.

Proved developed non-producing reserves are reserves on wells that had been drilled by December 31, 2012 and were subsequently completed and classified as proved, but were not producing as of the effective date of the engineering report. These wells required minor capital expenditures to bring them on-production. Questfire had a total of 31,000 boe of reserves classified as proved non-producing. Proved undeveloped reserves are those reserves expected to be recovered from known accumulations for which a significant expenditure (for example, a substantial proportion of the cost of drilling a well) is required to render them capable of production. Proved reserves have a 90 percent probability of being recovered.

Summary of Net Present Values of Future Net Revenue (forecast prices and costs) as at December 31, 2012 ($000)

	Net present value before income taxes discounted at		
	5%	10%	15%
Proved			
Developed producing	1,906	1,584	1,354
Developed non-producing	260	242	227
Undeveloped	-	-	-
Total proved	2,166	1,826	1,580
Probable	2,996	2,235	1,750
Total proved plus probable	5,161	4,061	3,331

The prices used in the above table were GLJ forecast prices as at January 1, 2013. The estimated future net revenues are presented before deducting future estimated site restoration costs, and are reduced for estimated future abandonment costs and future capital costs associated with non-producing, undeveloped and probable additional reserves. Estimated values disclosed do not necessarily represent fair market value.

GLJ Petroleum Consultants Ltd. Forecast Price File Effective January 1, 2013

	Cdn$/US$ exchange rate	WTI crude oil US$	Edmonton light crude oil Cdn$	Henry Hub natural gas US$/mmbtu	AECO-C spot natural gas Cdn$/mmbtu
2013	1.00	90.00	85.00	3.75	3.38
2014	1.00	92.50	91.50	4.25	3.83
2015	1.00	95.00	94.00	4.75	4.28
2016	1.00	97.50	96.50	5.25	4.72
2017	1.00	97.50	96.50	5.50	4.95
2018	1.00	97.50	96.50	5.80	5.22
2019	1.00	98.54	97.54	5.91	5.32
2020	1.00	100.51	99.51	6.03	5.43
2021	1.00	102.52	101.52	6.15	5.54
2022	1.00	104.57	103.57	6.27	5.64
2023 and thereafter	1.00	+2%/yr	+2%/yr	+2%/yr	+2%/yr

Reserves by Major Property

As at December 31, 2012				Proved plus probable discounted @		
Area	Proved developed producing (mboe)	Total proved (mboe)	Proved plus probable (mboe)	5% ($000)	10% ($000)	15% ($000)
Bow Island	-	-	45	1,056	856	705
Niton	3	3	20	274	176	98
Pembina	117	117	205	3,353	2,604	2,143
Richdale	-	31	49	479	426	383
Total	120	151	319	5,161	4,061	3,331

Total Company Reserve Reconciliation

	Total proved				Total proved plus probable			
	Crude oil (mbbls)	Natural gas (mmcf)	NGL (mbbls)	Total (mboe)	Crude oil (mbbls)	Natural gas (mmcf)	NGL (mbbls)	Total (mboe)
December 31, 2011	-	340	5	62	-	481	7	87
Additions, through drilling	-	637	20	127	56	1,025	33	260
Technical revisions	3	(72)	(4)	(13)	21	(108)	(5)	(3)
Production	(1)	(134)	(2)	(25)	(1)	(134)	(2)	(25)
December 31, 2012	3	771	20	151	76	1,264	33	319

In 2012 Questfire added 260,000 boe of proved plus probable reserves, all resulting from exploration drilling, with proved reserves accounting for 47 percent of the total reserves at year-end.

Undeveloped Land

Undeveloped land is an important component of an exploration and production company's asset base as it represents future drilling opportunities. At December 31, 2012, Questfire held 17,087 net acres of undeveloped land.

Liquidity and Capital Resources

At December 31, 2012 the Corporation had a working capital deficit of $1,531,123 and the net cash used in operating activities for the year ended December 31, 2012 is $1,176,609. The Corporation's ability to continue as a going concern and to meet its obligations depends on its ability to attain profitable operations and to generate funds there from and/or financing from external parties sufficient to meet future obligations. Subsequent to year end the Corporation has signed an asset purchase agreement to acquire certain producing assets and anticipates closing this transaction on or before April 30, 2013. Assuming the transaction closes the funds generated from operations related to these assets and the available bank financing will be well in excess of the current working capital deficit. The Corporation had raised $1,510,000 through the issuance of convertible debentures during the year ended December 31, 2012, however, there is no assurance that further debt or future equity financings will be available on acceptable terms to meet the Corporation's ongoing obligations.

Off-Balance-Sheet Arrangements

The Corporation does not have any special-purpose entities nor is it a party to any arrangements that would be excluded from the balance sheet.

Commitments

The Corporation is committed under a software licence agreement expiring January 1, 2014 to making future minimum payments estimated at $65,215 for 2013.

The Corporation entered into a lease for office space that runs to August 31, 2013. The estimated remaining amounts due under the lease, exclusive of estimated related operating expenses and taxes, are $45,480 for 2013.

Related-Party Transactions

During the three-month period and year ended December 31, 2012, the Corporation incurred $21,812 and $80,339, respectively (three-month period and year ended December 31, 2011 - $51,894 and $147,975, respectively) of legal fees to Davis LLP, of which a partner is also a director of Questfire. Of these amounts, $nil and $34,000, respectively (2011 periods - $nil) was charged to debenture issuance costs, $nil (2011 - $37,594 and $133,675, respectively) was charged to share issuance costs, and $21,812 and $46,339, respectively (2011 periods - $14,300 and $14,300, respectively) was charged to general and administrative expenses. As at December 31, 2012, $24,824 (December 31, 2011 - $15,000) of the amounts incurred in 2012 was included in accounts payable and accrued liabilities.

Hedging

The Corporation had no hedges in place as at December 31, 2012, however does anticipate hedging in 2013.

Subsequent Events

The Corporation signed an asset purchase and sale agreement dated February 5, 2013, as amended March 12, 2013, to acquire certain producing oil & natural gas assets as well as certain derivative forward swap contracts from Advantage Oil & Gas Ltd. (“Advantage”) for total consideration of $94 million consisting of $40 million of cash, $44 in million Convertible Senior Secured Debentures (the “Debentures”) and 1.5 million Class B Shares of the Corporation. The acquisition is anticipated to close on or before April 30, 2013 and is subject to satisfaction of customary closing conditions. All closing adjustments between the effective date of November 1, 2012 and the closing date will be applied to the Debentures.

The Corporation will fund the cash portion of the purchase price by entering into credit facilities with National Bank of Canada (“National Bank”). The National Bank facility will provide for a revolving operating demand loan of $60 million, subject to closing conditions. The facility will bear interest at a range of prime plus 1% to prime plus 3% per annum depending on the Corporation’s senior net debt to cash flow ratio, will require the Corporation to maintain an adjusted working capital ratio of at least 1:1 and will be secured by all assets of the Corporation. In addition to other customary banking fees, Questfire has agreed to pay National Bank Financial Inc. a success fee conditional on closing of the Asset purchase and the Credit Facilities.

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

- 6% for the period from closing to April 30, 2014;
- 7% for the period from May 1, 2014 to April 30, 2015;

- 9% for the period from May 1, 2015 to maturity.

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

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

(i) if the Corporation chooses to pay interest by delivering shares to the debenture trustee as described above;
(ii) any event of default;
(iii) any conversion by the Corporation of Class B Shares into Class A Shares;
(iv) the date 30 months from closing;
(v) upon the occurrence of a Change of Control; or upon an equity financing by the Corporation whereby the holder of a Debenture has the option of conversion (at the financing price), up to a maximum of 50% of the total shares issued in the financing, unless mutually agreed to otherwise.

As the above transaction is subject to shareholder, regulatory and final TSXV approval, the Corporation can give no assurances that the transaction will be completed as described.

Risks and Uncertainties

The oil and natural gas industry is subject to numerous risks that can affect cash flow from operating activities and the ability to grow. Further discussion can be found under “Risk Factors” in the Corporation’s Prospectus dated September 30, 2011.

Critical Accounting Estimates

The Corporation’s accounting policies are described in note 3 to the audited financial statements for the year ended December 31, 2012. Certain accounting policies are identified as critical accounting policies because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain. The use of these accounting policies, estimates and judgments could result in materially different results should the underlying conditions change or the assumptions prove incorrect.

Management’s assumptions are based on factors that, in management’s opinion, are relevant and appropriate. Management’s assumptions may change over time as operating conditions change. The key areas subject to judgment and estimation are described below.

Assessment of commercial reserves

Amounts recorded for depletion and depreciation and amounts used for impairment testing are based on estimates of proved and probable petroleum and natural gas reserves, production rates, commodity prices, future costs and other relevant assumptions. The impact of changes in such estimates on the financial statements of future periods could be material. The Company's reserve estimates are evaluated annually by an independent qualified reservoir engineering firm pursuant to NI 51-101.

Impairment

The Corporation monitors internal and external indicators of impairment relating to its intangible and tangible assets, which could indicate that the carrying value of the assets might not be recoverable. The assessment of impairment indicators involves judgment.

E&E assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Oil and natural gas properties are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable. The assessment of impairment depends on estimates of reserves, production rates, future prices, future costs and other relevant assumptions.

Decommissioning provision

Amounts recorded as decommissioning provision and the related accretion expense require the use of estimates with respect to the amount and timing of decommissioning and restoration costs. Revisions to the estimated timing of funds flows or to the original estimated undiscounted cost could result in an increase or decrease to the obligation.

Share-based payments

Estimating the fair value of the options granted requires the input of several variables including estimated volatility of the issuer's stock price over the life of the option, future interest rates, and the estimated life of the option. Changes in these estimates would alter the option's fair value and the related expense as determined by the valuation model.

Valuation of E&E assets

The value 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, technical success and environmental and regulatory restrictions.

Valuation of accounts receivable

The value 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 substantively enacted. They are also based on estimates of the probability of the Corporation utilizing certain tax pools and assets which, in turn, depends 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.

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

The amounts recorded as share capital, flow-through share premium, convertible Class B Shares and convertible debentures are based on factors including estimated value of Class A Shares on issuance date excluding the flow-through provision, the Corporation's estimated borrowing rates if debt were incurred, estimated market interest rates for similar non-convertible instruments and other relevant assumptions.

Changes in Accounting Policies

The following pronouncements by the International Accounting Standards Board (IASB) will become effective for financial reporting periods beginning on or after January 1, 2013 (after January 1, 2015 for IFRS 9) and have not yet been adopted by the Corporation. The Corporation has reviewed new and revised accounting standards that have been issued but are not yet effective, and determined that the following may have an impact on the Corporation.

For the annual periods beginning on or after January 1, 2013, the Corporation will be required to adopt the following:

IFRS 7, "Financial Instruments" provides additional information about offsetting of financial assets and liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

IFRS 10, "Consolidated Financial Statements" provides a single model to be applied in control analysis for all investees including special purpose entities.

IFRS 11, "Joint Arrangements" redefines joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint operations will need to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12, "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.

IFRS 13 "Fair Value Measurement" defines the fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In addition to the issuance of new standards as detailed above, there have also been amendments to existing standards, which are also effective January 1, 2013, including:

IAS 1 "Presentation of Financial Statements", amended to require presentation of an additional opening balance sheet when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification and to clarify the disclosure requirements.

IAS 32 “Financial Instruments: Presentation”, amended to clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of offset in respect of its financial instruments and clarifying the treatment of income taxes related to distributions and transaction costs.

For annual periods beginning on or after January 1, 2015, the Corporation will be required to adopt:

IFRS 9 “Financial Instruments”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

The Corporation has not yet completed its assessment and evaluation of the effect of adopting the new and amended standards and the impact it may have on its financial statements.

Additional Information

Additional information regarding the Corporation is available on SEDAR at www.sedar.com or can be obtained by contacting the Corporation at Questfire Energy Corp., Suite 400, 703 – 6th Ave S.W., Calgary, Alberta, T2P 0T9.

Corporate Information

BOARD OF DIRECTORS

RICHARD DAHL [(1)(3)]
President & CEO,
Questfire Energy Corp.
Calgary, Alberta

NEIL DELL [(1)(2)(3)]
Independent Businessman
Calgary, Alberta

ROGER MACLEOD [(1)(2)]
Partner
Davis LLP
Calgary, Alberta

JOHN RAMESCU [(2)(3)]
Vice President, Land
Questfire Energy Corp.
Calgary, Alberta

Notes:
(1) Audit Committee
(2) Corporate Governance and Compensation Committee
(3) Reserves Committee

OFFICERS AND KEY PERSONNEL

RICHARD DAHL
President & Chief Executive Officer

DARREN KISSER
Vice President, Engineering and Operations

FRED LAUDEL
Vice President, Exploration

JOHN RAMESCU
Vice President, Land

BRUCE SHEPARD
Vice President, Exploitation

RONALD WILLIAMS
Vice President, Finance & Chief Financial Officer

RODNEY KELLER
Project Manager

GRAHAM NORRIS
Corporate Secretary

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GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL
Davis LLP
Calgary, Alberta

TRANSFER AGENT
Olympia Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING
The TSX Venture Exchange
Symbols: Q.A and Q.B