Report to Shareholders

Questfire Energy Corp. ("Questfire" or the "Corporation") (TSX Venture: Q.A and Q.B) is pleased to announce its unaudited financial and operating results for the three-month period ended March 31, 2012.

First Quarter 2012 Corporate Highlights

- The Corporation's first production came on stream in February with an initial production rate of approximately 100 boe per day net from a natural gas well in the W4 Richdale area. Production averaged 46 boe per day for the quarter.
- Questfire drilled, completed and tested a 100 percent working interest well in the Company's W5 exploration area at Thorsby. It encountered a thick Upper Mannville channel with 12 meters of high-quality reservoir and is a new pool discovery for liquids-rich natural gas and 39° API light oil.
- The Corporation acquired an additional two sections of land at 100 percent working interest, bringing its total land base to 23 sections (14,695 acres) at the end of the first quarter.

Subsequent to the period ended March 31, 2012, Questfire:

- Acquired an additional six sections of land at 100 percent working interest, bringing its total land base to 29 sections (18,535 acres).
- Has identified up to 16, 100 percent working interest drilling locations prospective for light oil on its existing lands at Thorsby and Bow Island. The Thorsby drilling locations are based on geological mapping and the Corporations proprietary 3D seismic survey.

President's Message

During the first quarter of 2012 Questfire continued to pursue its strategy of organic growth through exploration for conventional medium to light oil pools. At Thorsby our new pool discovery drilled in January encountered an Upper Mannville channel with 12 meters of excellent quality reservoir, with approximately 4 meters of gas pay over a 4.5 meter light oil column and with 3.5 meters of bottom water. The well was tested over a short period but saw gas rates as high as 1.5 mmscf per day and an oil rate as high as 70 bbls per day. The well is currently shut-in awaiting further drilling and the installation of company-owned and operated facilities.

Our land base at Thorsby continues to grow and is currently at 8 sections (5,120 acres), all 100 percent working interest. We have identified 15 potential drilling locations on our lands prospective for light oil. The next Thorsby well to be drilled will target two light oil zones and is in the licensing process. The well should be ready to drill following spring break-up.

In the Bow Island area of southeast Alberta, Questfire has 2.8 sections of 100 percent working interest lands prospective for 24° API oil. The target zone is the Sunburst Formation at a relatively shallow depth of 900 meters. Geological mapping and seismic data suggest the potential for a significant oil pool. The Corporation recently licensed a well to test this feature and is making preparations for a follow-up 3D seismic program. With success the pool could support up to 30 drilling locations on 20-acre spacing. The first well is planned for drilling before the end of the current quarter or early in the third quarter, depending on weather and access. The risk profile of this well is more exploratory in nature but the potential reward is very large. In addition to working on these plays, our exploration staff continues to prospect for oil opportunities in our focus areas.

In the short time since our relatively small initial public financing in October 2011, Questfire has made very good progress in building an inventory of high-quality oil prospects, has established a solid land base of 29 sections at 100 percent working interest, has drilled wells and brought initial oil and natural gas production on-stream, and has identified 16 potential drilling locations prospective for light oil.

On the macro scale, the entire oil and natural gas industry has been severely affected by the turmoil in the world's economy, the resulting weak equity markets and the dramatic decline in natural gas prices over the past winter. Understandably, investors have become very risk-averse and in general are seeking safe havens by either avoiding the energy sector altogether or by investing only in large, dividend-paying companies. Junior exploration and production (E&P) companies have been particularly affected by the weak equity markets and the acute lack of investment capital in the junior E&P sector. Questfire has slowed capital spending in the short term and is pursuing a number of options to access additional capital. We are preparing locations to drill and are laying out plans for additional 3D seismic programs to allow quick execution when capital becomes more available.

On the positive side, market forces are already at work correcting the natural gas over-supply situation, with natural gas rig counts dropping and natural gas demand for electrical generation in North America reaching an all-time high. In past economic cycles, sharp downturns in the E&P sector have been not uncommon, eventually being followed by sharp rebounds. A continued strengthening in natural gas prices and, one can hope, progress on the European debt crises, should reduce overall instability in equity markets and increase investor confidence and availability of capital for the junior E&P sector.

In closing, I would like to thank our investors for their support, the members of the management team at Questfire 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
May 22, 2012

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 ended March 31, 2012, including the 2011 comparative period, has been prepared in accordance with International Financial Reporting Standards (IFRS) and should be read in conjunction with the unaudited condensed interim financial statements and the notes thereto for the period ended March 31, 2012 and the audited financial statements for the year ended December 31, 2011. 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 assurances 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 current commodity price conditions is greater than 30 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 March 31, 2012 unaudited financial statements, the notes thereto and this MD&A. This MD&A is dated May 22, 2012.

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.

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 general and administrative expenses, depreciation and finance income (expense).

		Three months ended March 31, 2012 (unaudited)		Three months ended March 31, 2011 (unaudited)
Revenue				
Oil and natural gas sales	$	**58,026**	$	-
Royalties		**(9,139)**		-
		48,887		-
Expenses				
Production and operating		**(22,604)**		-
Transportation		**(2,787)**		-
Exploration and evaluation		**(1,061,809)**		-
General and administrative		**(299,505)**		(70,376)
Stock-based compensation		**(27,361)**		-
Depletion and depreciation		**(40,059)**		(2,000)
		(1,454,125)		(72,376)
		(1,405,238)		(72,376)
Finance income		**6,956**		4,114
Finance expense		**(87,699)**		(1,896)
Net finance income (expense)		**(80,743)**		2,218
Loss, before income taxes		**(1,485,981)**		(70,518)
Deferred income tax recovery		**304,235**		-
Loss and comprehensive loss	$	**(1,181,746)**	$	(70,518)
Loss and comprehensive loss per share – basic and diluted	$	**(0.09)**	$	(0.01)

Production

During the three-month period ended March 31, 2012 the Corporation produced, on average, 46 boe per day of natural gas and natural gas liquids compared to nil for the respective period in 2011.

Revenue

Revenue in the first quarter was $58,026, consisting of natural gas revenue and NGL revenue. This represented the first quarter of revenue generation for the Corporation.

Royalties

Royalty expense in the first quarter was $9,139, or 16 percent of revenues, representing freehold royalties applicable on the Corporation’s revenue.

Production and Operating Expense

Production and operating expense for the three months ended March 31, 2012, was $22,604 or $5.34 per boe.

Transportation Expense

Transportation expense for the three months ended March 31, 2012, was $2,787 or $0.66 per boe.

Exploration and Evaluation (E&E) Expenditures

The Corporation recorded E&E expenditures of $1,061,809 for the three-month period ended March 31, 2012, compared to $nil for the respective period in 2011. The increase is due to the start of geological salaries being paid in July 2011 and a $999,309 E&E impairment recorded in the quarter.

General and Administrative (G&A) Expense

G&A expense amounted to $299,505 for the three-month period ended March 31, 2012, compared to $70,376 for the three-month period ended March 31, 2011. Increases over 2011 are mainly due to executive officers being paid a salary starting in July 2011 and increased office activity in late 2011 related to commencing operations.

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 three-month period ended March 31, 2012, compared to $nil for the same period in 2011. The current period's increase over the prior periods is 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 $52,688. The remaining expense of $149,012, 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 no options are currently exercisable.

Depletion and Depreciation

The Corporation recorded depletion and depreciation expense of $40,059 for the period ended March 31, 2012, compared to $2,000 in the respective period in 2011. The current period's increase in depletion and depreciation from the first-quarter of 2011 is a result of the Corporation's first discovery well commencing production.

Finance Income

The Corporation earned finance income of $6,956 for the three-month period ended March 31, 2012, compared to $4,114 in the respective period of 2011. The Corporation raised its initial equity in November 2010 and completed its initial public offering in October 2011. The increases in finance income are a result of higher 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, accretion on the Class B Share liability and accretion on the Corporation's decommissioning liability) was $87,699 for the three-month period ended March 31, 2012 compared to $1,896 in the respective period 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 and accretion on the Class B Share liability starting in October 2011.

Deferred Income Tax

Deferred income tax recovery of $304,235 for the three-month period ended March 31, 2012 compared to $nil in the respective period of 2011 relating primarily to the loss incurred for the period.

Loss

The Corporation incurred a loss of $1,181,746 ($0.09 per share basic and diluted) in the three-month period ended March 31, 2012 compared to a loss of $70,518 ($0.01 per share basic and diluted) for the respective period of 2011.

Supplemental Quarterly Information

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

	Three months ended			
	June 30, 2011	September 30, 2011	December 31, 2011	March 31, 2012
Net loss	$ (94,361)	$ (264,558)	$ (418,647)	$ (1,181,746)
Per share, basic	(0.01)	(0.03)	(0.03)	(0.09)
Capital expenditures	275,694	258,669	2,986,024	1,115,759
Total assets (end of period)	$ 1,699,712	$ 1,796,508	$ 8,643,419	$ 5,596,977

	Three months ended			
	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011
Net loss	$ (19,392)	$ (922)	$ (36,213)	$ (70,158)
Per share, basic	(19,392)	(922)	(0.01)	(0.01)
Capital expenditures	-	-	362,195	-
Total assets (end of period)	$ 1	$ 1	$ 1,873,185	$ 1,781,495

Capital Expenditures

		Three months ended March 31, 2012
Land	$	**32,784**
Geological and geophysical		**2,880**
Drilling and completions		**729,647**
Production equipment and facilities		**285,693**
Workovers and recompletions		**64,755**
Administrative capital		**-**
	$	**1,115,759**

For the three-month period ended March 31, 2012 Questfire made expenditures of $1,115,759. The Corporation acquired two sections of land, placed the two wells drilled in 2011 on production and completed drilling of the Corporation's third well, all in the W4 and W5 exploration areas.

Overall at March 31, 2012 the Corporation had E&E assets of $1,528,413. These included 13,575 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 2012.

At March 31, 2012 the Corporation had Property & Equipment of $2,606,311. These included 1,120 acres of land and costs associated with the three 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 potential oil and natural gas prospects.

Share Capital and Option Activity

As at March 31, 2012 and as of this date 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 March 31, 2012 and as of this date 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. Nil options are exercisable as at March 31, 2012 and as of this date.

Liquidity and Capital Resources

At March 31, 2012 the Corporation had working capital of $1,270,560 (excluding the flow-through share premium), but has $4,583,900 of flow through share expenditures to incur by no later than December 31, 2012. The Corporation's ability to continue as a going concern is dependent upon its ability to attain profitable operations and to generate funds therefrom and/or financing from third parties sufficient to meet future obligations. There is no assurance that debt and future equity financings will be available on acceptable terms to meet the Corporation's ongoing capital requirements.

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

Pursuant to its initial public offering completed on October 18, 2011, the Corporation is committed to expending $6,176,000 by December 31, 2012 on activities that will qualify as Canadian exploration expenses (CEE) for income tax purposes. To March 31, 2012, the Corporation incurred approximately $1,592,100 of eligible expenditures.

The Corporation is committed under a software licence agreement expiring January 1, 2014 to making future minimum payments estimated at $44,008 for 2012 and $58,677 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 $51,165 for 2012 and $45,480 for 2013.

Related-Party Transactions

During the three-month period ended March 31, 2012, the Corporation incurred $7,497 of legal fees to Davis LLP, of which a partner is also a director of Questfire. This entire amount was charged to general and administrative expenses and $5,000 remains in accounts payable at March 31, 2012.

Hedging

The Corporation had no hedges in place as at March 31, 2012 and does not anticipate hedging in the immediate future.

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 financial statements. 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. These accounting policies 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.

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 National Instrument 51-101 Standards of Disclosure for Oil & Gas Activities.

Impairment

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

E&E asset 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 may 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 for 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 and environmental and regulatory restrictions.

Valuation of accounts receivable

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

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Corporation utilizing certain tax pools and assets which, in turn, 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 and convertible Class B Shares

The amounts recorded as share capital, flow-through share premium and convertible Class B Shares are based on factors including estimated value of Class A Shares on issue date excluding the flow-through provision, estimated interest rates at which the Corporation would be able to borrow funds, 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 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements, depending upon the date of initial application:

IFRS 9 – "Financial Instruments" addresses the classification and measurement of financial assets.

IFRS 10 – "Consolidated Financial Statements" builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent company.

IFRS 11 – "Joint Arrangements" establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 – "Disclosure of Interests in Other Entities" provides the disclosure requirements for interests held in other entities, including joint arrangements, associates, special-purpose entities and other off-balance-sheet entities.

IFRS 13 – "Fair Value Measurement" defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

International Accounting Standard (IAS) 1 – "Presentation of Financial Statements" requires corporations to group items presented within other comprehensive income based on whether they may be subsequently reclassified to profit or loss.

IAS 19 – "Employee Benefits" revises the recognition, presentation and disclosure requirements for defined benefit plans.

IAS 27 – "Separate Financial Statements" revises the existing standard which addresses the presentation of parent-company financial statements that are not consolidated financial statements.

IAS 28 – "Investments in Associates and Joint Ventures" revises the existing standard, prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has not completed its evaluation of the effect of adopting these standards 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

MICHAEL DER
Corporate Secretary

GRAHAM NORRIS
Assistant Corporate Secretary

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LEGAL COUNSEL
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Olympia Trust Company
Calgary, Alberta

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