Questfire Energy Corp. – Financial and Operating Highlights

		Three months ended March 31,		
		2016		2015
Financial				
Oil and natural gas sales	**$**	**7,284,889**	$	10,854,042
Funds flow from operations [1]		**23,012**		3,051,539
Per share, basic		**-**		0.18
Per share, diluted		**-**		0.13
Loss		**(3,418,448)**		(2,000,065)
Per share, basic and diluted		**(0.20)**		(0.12)
Capital expenditures		**138,861**		1,648,568
Working capital deficit *(end of period)* [2]		**11,077,120**		4,102,872
Long-term contract obligation *(end of period)* [3]		**14,061,935**		14,418,416
Long-term bank debt *(end of period)*		**41,839,415**		40,774,076
Shareholders' equity *(end of period)*	**$**	**10,986,866**	$	22,088,628
Shares outstanding *(end of period)*				
Class A		**17,318,001**		17,318,001
Class B		**550,440**		550,440
Options outstanding *(end of period)*		**3,488,500**		2,751,000
Weighted-average basic and diluted shares outstanding		**17,318,001**		17,318,001
Class A share trading price				
High	**$**	**0.74**	$	1.76
Low		**0.38**		1.18
Close	**$**	**0.55**	$	1.39
Operations [4]				
Production				
Natural gas *(Mcf/d)*		**22,785**		22,341
Natural gas liquids (NGL) *(bbls/d)*		**744**		689
Crude oil *(bbls/d)*		**501**		790
Total *(boe/d)*		**5,043**		5,203
Benchmark prices				
Natural gas				
AECO *(Cdn$/GJ)*	**$**	**1.74**	$	2.60
Crude oil				
WTI *(US$/bbl)*		**33.45**		48.63
Canadian Light *(Cdn$/bbl)*		**41.22**		53.23
Average realized prices [5]				
Natural gas *(per Mcf)*		**1.97**		2.87
NGL *(per bbl)*		**25.40**		33.25
Crude oil *(per bbl)*		**32.35**		42.51
Operating netback *(per boe)* [6]		**3.67**		8.96
Funds flow netback *(per boe)* [6]	**$**	**0.05**	$	6.52

(1) See "Funds flow from operations".

(2) Working capital deficit includes risk management contract assets and convertible Class B share liabilities of $Nil and $5,197,655, respectively (March 31, 2015 –$1,695,519 and $Nil, respectively). Excluding this, the working capital deficit would be $5,879,465 (March 31, 2015 – $5,798,391).

(3) Long-term contract obligation excludes current portion of $356,482 (March 31, 2015 – $310,731), which is included in working capital deficit.

(4) For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".

(5) Before hedging.

(6) See "Non-GAAP measures".

First Quarter 2016 Corporate Highlights

- Achieved average production of 5,043 boe per day for the quarter, 75 percent natural gas.
- Achieved sales of $7.3 million and funds flow from operations of $23,012 ($Nil per basic share).
- Minimized capital spending with total capital expenditures of $138,861.
- Incurred record-low operating costs of $10.56 per boe, achieving a 9 percent reduction from first quarter 2015 operating costs of $11.57 per boe.

President's Message

The first quarter of 2016 saw the lowest average benchmark pricing for oil, natural gas and NGLs to date for Questfire. With our realized commodity prices at record lows in the first quarter we continued to aggressively focus on reducing all costs, minimizing capital spending and maintaining production. Operating costs for the quarter were $10.56 per boe, a reduction of 9 percent from a year earlier and a record low for the Corporation. No drilling occurred in the quarter and capital spending was less than $139,000. In order to further reduce our general and administrative costs, in February all of Questfire's head office and field office staff went to a four-day workweek with a 20 percent salary reduction and a reduction in benefits. The resulting funds flow from operations of $23,012 was modest but a significant accomplishment considering many operators experienced negative funds flow from operations for the quarter. Additional reductions in the number of staff and field operators have also occurred and we expect our 2016 G&A costs to be down by approximately 10 percent year-over-year.

A bright spot for Questfire has been the production performance of our low-decline asset base. We produced 5,043 boe per day in the first quarter, a decline of only 3 percent from the first quarter of 2015. This is a very modest decline considering we drilled only one well in 2015. Our base production decline rate is now in the 10 percent per year range which is very low by industry standards and a significant advantage in the current low-commodity-price, low-cash-flow environment. We expect to continue to defer drilling projects until commodity prices improve and will continue to pursue lower-cost optimization, workovers and recompletion projects to help offset production declines. Subsequent to the quarter, Questfire shut-in approximately 400 boe per day of higher-operating-cost natural gas production until natural gas prices recover. This will help to further reduce our per-boe operating costs.

As previously announced, Questfire engaged a financial advisor and initiated a strategic review process in the first quarter of 2016. This was a proactive decision taken by Questfire in order to evaluate all options including asset sales and corporate transactions. At the time of this report we have closed the sale of two minor non-core properties for approximately $2 million. The process remains underway and may result in further asset sales prior to year-end.

In spite of the current low commodity prices, supply and demand fundamentals are at work and, we believe, will lead inevitably to a recovery in commodity prices. The overall supply of oil and natural gas in North America is declining due to record low drilling rig counts. The decline in U.S. shale gas production is now marked and unmistakeable, at the same time as exports of LNG become regular and are set to climb dramatically. Excess world oil supply has declined to a very thin margin of only 2 or 3 percent even as the OPEC countries continue to produce at near full capacity. Worldwide capital spending for oil and gas projects has been significantly reduced, which will delay new supply coming to market. At the same time, demand has responded as expected. At approximately 95 million barrels per day, the world's oil consumption has never been higher and natural gas demand in North America is also at record high levels. At the time of this report, crude oil prices are very close to US$50 per bbl WTI, an increase of over 45 percent from the average price of US$33.45 per bbl in the first quarter.

In the meantime, we will continue to reduce costs, minimize capital spending with a focus on maximizing production and cash flow, while actively pursuing opportunities to sell assets and reduce debt. We are taking the necessary steps to get through this challenging commodity price environment and our longer-term goal of creating shareholder value has not changed.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
May 24, 2016

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Questfire Energy Corp. ("Questfire" or the "Corporation") is dated May 24, 2016 and is based on currently available information. It should be read in conjunction with the audited financial statements and accompanying notes for the years ended December 31, 2015 and 2014 and the unaudited condensed interim financial statements and accompanying notes for the three months ended March 31, 2016. Unless otherwise noted, all financial information is presented in Canadian dollars, and is 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 with Canadian generally accepted accounting principles (GAAP) as applicable to interim financial statements, including International Accounting Standard (IAS) 34, *Interim Financial Reporting*. These documents, along with other statutory filings, including the Corporation's Annual Information Form, are available on SEDAR at www.sedar.com and on the Corporation's website at www.questfire.ca.

Refer to the end of the MD&A for commonly used abbreviations.

Readers should read the section "Forward-Looking Statements" at the end of the MD&A, which explains the basis for and limitations of statements throughout this report that are not historical facts and may be considered "forward-looking statements" under securities regulations.

Description of Business

The Corporation is engaged in the acquisition, exploration, development and production of oil and natural gas reserves in Canada. 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. Questfire is traded on the TSX Venture Exchange under the symbols Q.A and Q.B.

Financial and Operating Results

Production

	Three months ended March 31, 2016	2015
Daily average volume		
Natural gas *(Mcf/d)*	**22,785**	22,341
NGL *(bbls/d)*	**744**	689
Crude oil *(bbls/d)*	**501**	790
Total sales *(boe/d)*	**5,043**	5,203
Total sales *(boe)*	**458,885**	468,269
Production weighting		
Natural gas	**75%**	72%
NGL	**15%**	13%
Crude oil	**10%**	15%
	100%	100%

Production decreased in the first quarter of 2016 from the first quarter of 2015 largely due to natural production declines. NGL production increased to a record quarterly level, resulting from higher liquid recoveries in Westerose. Crude oil production declines were a result of natural production declines. The Corporation's production remained higher than in each of the second, third and fourth quarters of 2015 due to successful optimization on its base of producing wells, as well as to successful drilling including a high-rate liquids-rich gas well that came on-production in the fourth quarter of 2015.

Sales

	Three months ended March 31, 2016	2015
	$	$
Natural gas	**4,090,190**	5,768,213
NGL	**1,719,976**	2,062,549
Crude oil	**1,474,723**	3,023,280
Total	**7,284,889**	10,854,042
Average realized prices before hedging		
Natural gas *($/Mcf)*	**1.97**	2.87
NGL *($/bbl)*	**25.40**	33.25
Crude oil *($/bbl)*	**32.35**	42.51
Combined average *($/boe)*	**15.88**	23.18

The Corporation, like almost all of the upstream oil and natural gas sector in Western Canada, experienced lower prices for all oil and natural gas products in the first quarter of 2016 than in the prior year's comparative period.

The timing of market rebalancing for energy commodities remains unknown. Over the short term, the Corporation anticipates continued elevated price volatility. On the oil side, a significant factor is the unknown impact of drilled but uncompleted shale oil wells, as well as inventory levels, in the United States.

The pricing required to encourage companies to complete these wells is unknown, as is how significantly the resulting new production would offset declining overall production. Also unknown is the impact on benchmark crude oil prices of the current wildfires in the oil sands region of northeast Alberta, which in early May had caused approximately 40 percent of Canada's oil sands production to be suspended. It is expected that there will be continued price volatility for the next several quarters as the various dynamics play out, which may not provide substantially higher realized prices for Questfire until 2017. Crude oil prices, which are benchmarked in U.S. dollars, declined during the most recent quarter, with realized prices benefiting from a strengthening of the U.S. dollar relative to the Canadian dollar, which increases the Canadian price received on Questfire's crude oil.

Realized commodity prices changed in step with the applicable underlying price benchmark after factoring in the U.S. to Canadian currency exchange rate. Questfire's natural gas production has an average heating value of approximately 39 megajoules per cubic metre, realizing a price premium over gas with standard heating content. Questfire's NGL is comprised approximately 50 percent of condensate, the highest-priced NGL. All of this is favourable to the Corporation's average realized prices.

Royalties

	Three months ended March 31,	
	2016	2015
	$	$
Royalties	**284,441**	803,444
Per boe	**0.62**	1.72
Percentage of sales	**3.9%**	7.4%

Questfire's royalty burden includes Crown, Indian, gross over-riding and freehold royalties applicable on the Corporation's production sales.

The royalty rate as a percentage of sales was lower in the first quarter of 2016 than for the comparative period as a result of lower commodity reference pricing used by the Alberta government to calculate royalties.

The Government of Alberta released its royalty review report on January 29, 2016, which contained highlights of a proposed Modernized Royalty Framework (MRF) that will be effective on January 1, 2017. The highlights include no changes to the royalty structure of wells drilled prior to 2017 for a 10-year period, the replacement of royalty credits/holidays on conventional wells by a revenue minus cost framework with a post-payout royalty rate based on commodity prices, and a neutral internal rate of return for any given play compared to the current royalty framework. On April 21, 2016, the Government of Alberta provided further details and calibration on the MRF. Fully understanding the impact of the changes proposed to conventional oil and gas royalties will require further consultation between industry and government. These changes could have a significant impact on Questfire's financial condition, results of operations and cash flows. An increase in the royalty rates applicable could make future capital expenditures or existing operations uneconomic. With additional information expected in the following weeks, the Corporation will continue to monitor and evaluate the overall impact to Questfire.

Production and Operating Expense

	Three months ended March 31, 2016	2015
	$	$
Production and operating expense	**4,846,677**	5,419,122
Per boe	**10.56**	11.57

Production and operating expenses decreased on a total and per-boe basis during the first quarter of 2016 from the comparative period of 2015 due to concentrated field efforts throughout the Corporation's properties to continue reducing operating costs, as well as due to new wells at Morningside coming on production during the fourth quarter of 2015 with lower per-boe operating costs. Management continues to look at production and operating costs to identify additional savings. The savings from these future efforts is unknown and may not be significant due to the extent of savings achieved to date, as well as the size of fixed costs such as property taxes and lease rentals.

Transportation Expense

	Three months ended March 31, 2016	2015
	$	$
Transportation expense	**470,814**	434,458
Per boe	**1.03**	0.93

Transportation expense in the first quarter of 2016 was higher than in the first quarter of 2015 due to a change in marketers for a portion of the Corporation's natural gas production, which occurred at the start of the fourth quarter of 2015 as Questfire took advantage of an opportunity to increase its natural gas pricing premium over benchmarks.

Risk Management

Questfire's cash flow is highly variable, in large part because oil and natural gas are commodities whose prices are determined by worldwide and/or regional supply and demand, transportation constraints, weather conditions, availability of alternative energy sources and other factors, all of which are beyond Questfire's control. World prices for oil and natural gas have fluctuated widely in recent years.

The substantial downward shift in the commodity price environment that began during the fourth quarter of 2014 continued in the first quarter of 2016. If crude oil and natural gas prices decline significantly from present levels and remain low for an extended period, the carrying value of Questfire's assets could be subject to impairment charges, future capital spending could be reduced, causing projects to be delayed or cancelled, and production could be curtailed, among other effects.

Management of cash flow variability is an integral component of the Corporation's business strategy. Business conditions are monitored regularly and reviewed with the Board of Directors to establish risk management guidelines used by management in carrying out the Corporation's strategic risk management program.

The Corporation has elected not to use hedge accounting and, accordingly, the fair value of the financial contracts is recorded at each period-end. The fair value may change substantially from period to period depending on commodity forward strip prices for the financial contracts outstanding at the balance sheet date. The change in fair value from period-end to period-end is reflected in the income for that period. As a result, income may fluctuate considerably.

Risk management contracts are considered financial instruments, and the resulting derivative financial asset or liability was recorded on the Corporation's balance sheet, with the unrealized gain or loss being recorded on the statement of loss and comprehensive loss.

	Three months ended March 31,	
	2016	2015
	$	$
Realized gain on risk management contracts	**-**	430,560
Per boe	**-**	0.92
Unrealized loss on risk management contracts	**-**	(923,254)
Per boe	**-**	(1.97)

During the first quarter of 2016, Questfire held no risk management contracts. Subsequent to quarter-end, the following risk management contracts were entered into:

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
May 1/16 - Oct. 31/16	Oil	Costless collar	100 bbls/d	WTI Nymex	Cdn$55.00/bbl-Cdn$60.70/bbl

It is Questfire's intention to purchase put options, costless collars and swaps on a go-forward basis.

General and Administrative (G&A) Expense

	Three months ended March 31,	
	2016	2015
	$	$
G&A	**1,422,542**	1,388,952
Total expense per boe	**3.10**	2.96

G&A expenses were higher than in the comparative period in 2015 predominantly due to fees paid to the Corporation's exclusive financial advisor for services related to the ongoing review of strategic alternatives. Excluding those fees, reductions were achieved in all major categories other than rent. In February 2016, Questfire implemented an across-the-board salary reduction of 20 percent. Salaries represent approximately 45 percent of all G&A expenditures.

Share-Based Compensation

	Three months ended March 31,	
	2016	2015
	$	$
Share-based compensation	**153,970**	175,182
Per boe	**0.34**	0.38

The decrease in share-based compensation from the comparative period in 2015 is a result of stock option forfeitures resulting from staffing reductions during the first quarter of 2016. Share-based compensation previously recognized for stock options unvested at the time of the forfeiture are reversed.

The Corporation did not grant any stock options to purchase Class A shares during the three months ended March 31, 2016. There were 3,488,500 options outstanding at March 31, 2016 and 3,433,500 as of the date of this MD&A. The reduction in options outstanding is due to additional staffing reductions during 2016. There were 1,941,000 options exercisable at March 31, 2016.

Exploration and Evaluation (E&E) Expenditures

	Three months ended March 31,	
	2016	2015
	$	$
E&E expense	**237,403**	187,087
Per boe	**0.52**	0.40

The increase in E&E expenditures recognized over the comparative 2015 periods is due to an allocation of the portion of G&A expenses attributable to supporting E&E activities.

Depletion and Depreciation (D&D)

	Three months ended March 31,	
	2016	2015
	$	$
D&D	**2,959,960**	3,129,782
Per boe	**6.45**	6.68

The Corporation experienced decreased D&D from the comparative period in 2015, resulting from a lower depletion rate on a per-boe basis in 2016 due to a combination of reserve increases in several cash generating units (CGUs) and the slight changes in the mix of individual CGU production rates, as each CGU has a separate depletion rate. Questfire continues to experience a low rate of depletion per boe, which it estimates is in the most advantageous decile of Canadian oil and natural gas producers, illustrating the value created from acquisitions and the Corporation's low finding and development costs per boe.

Finance Expense

	Three months ended March 31, 2016	2015
	$	$
Interest on bank debt	**499,989**	382,554
Interest on long-term contract obligation	**499,664**	510,177
Cash finance expense	**999,653**	892,731
Accretion on decommissioning provision	**425,313**	435,690
Accretion on Class B share liability	**110,798**	101,648
Non-cash finance expense	**536,111**	537,338
Total finance expense	**1,535,764**	1,430,069
Per boe	**3.34**	3.05

Interest on bank debt relates to interest and fees paid to Questfire's bankers for the bank debt, and bank overdraft. Interest on bank debt increased in the first quarter of 2016 over the 2015 comparative period due to higher debt as well as higher interest rate premiums resulting from lower cash flows associated with lower commodity prices.

Interest on the long-term contract obligation relates to the facilities joint venture agreement entered into on March 26, 2014 with a third party. Questfire received $15.0 million, a portion of which was used to repurchase the 2013 debentures, in exchange for beneficial ownership of Questfire's natural gas processing facilities at Lookout Butte and Medicine Hat, Alberta. The Corporation pays an annual facility fee of $2,326,300 for 17.5 years, after which beneficial ownership will revert to Questfire.

Accretion on the decommissioning provision decreased in 2016 from the 2015 comparative period due to longer forecast reserve lives for the East Central and Red Deer CGUs in the December 31, 2015 reserve report.

Class B share accretion for the first quarter is higher in 2016 than in 2015 due to the increased balance on which accretion is calculated. As of the date of this report, there were 550,440 Class B shares outstanding.

Deferred Income Tax

Deferred income tax recovery was $1,208,234, in the three months ended March 31, 2016, compared to a recovery of $606,683 in the comparative period in 2015. The increase in the recovery is a result of increased losses on which income tax is calculated.

Loss

The Corporation incurred a loss of $3,418,448 ($0.20 per share basic and diluted) for the three months ended March 31, 2016, compared to a loss of $2,000,065 ($0.12 per share basic and diluted) for the comparative period in 2015. The current period's increased loss resulted primarily from lower realized commodity prices.

Supplemental Quarterly Information

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

Funds Flow from Operations

	Three months ended March 31,	
	2016	2015
	$	$
Loss	**(3,418,448)**	(2,000,065)
Non-cash items:		
Unrealized loss on risk management	**-**	923,254
Share-based compensation	**153,970**	175,182
D&D	**2,959,960**	3,129,782
Deferred income tax recovery	**(1,208,234)**	(606,683)
Finance expense	**1,535,764**	1,430,069
Funds flow from operations	**23,012**	3,051,539

Netback Analysis

	Three months ended March 31,	
	2016	2015
	$/boe	$/boe
Average sales price	**15.88**	23.18
Royalties	**(0.62)**	(1.72)
Production and operating expense	**(10.56)**	(11.57)
Transportation expense	**(1.03)**	(0.93)
Operating netback	**3.67**	8.96
G&A	**(3.10)**	(2.96)
E&E	**(0.52)**	(0.40)
Realized gain on risk management	**-**	0.92
Funds flow netback	**0.05**	6.52
Finance expense	**(3.34)**	(3.05)
D&D	**(6.45)**	(6.68)
Share-based compensation	**(0.34)**	(0.38)
Unrealized loss on risk management	**-**	(1.97)
Deferred income tax recovery	**2.63**	1.29
Loss per boe	**(7.45)**	(4.27)

Selected Quarterly Information

Three months ended	**March 31, 2016**	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014
Financial ($000s, except per share amounts and share numbers)								
Oil and natural gas sales	**7,285**	9,406	9,854	10,603	10,854	15,918	17,614	17,131
Funds flow from operations	**23**	2,627	2,628	3,236	3,052	5,211	5,102	4,410
Per share, basic *($)*	-	0.15	0.15	0.19	0.18	0.30	0.29	0.33
Per share, diluted *($)*	-	0.11	0.11	0.14	0.13	0.24	0.24	0.19
Income (loss)	**(3,418)**	(1,152)	(5,330)	(1,904)	(2,000)	1,600	648	8,172
Per share, basic *($)*	**(0.20)**	(0.07)	(0.31)	(0.11)	(0.12)	0.09	0.04	0.61
Per share, diluted *($)*	**(0.20)**	(0.07)	(0.31)	(0.11)	(0.12)	0.08	0.03	0.36
Capital expenditures	**139**	83	2,310	914	1,649	2,864	9,927	3,240
Total assets *(end of quarter)*	**111,828**	115,610	119,845	125,498	129,884	133,863	137,201	131,663
Working capital deficit *(end of quarter)*	**11,077**	9,653	7,544	4,166	4,103	4,787	10,479	5,464
Long-term contract obligation *(end of quarter)* [1]	**14,062**	14,156	14,246	14,334	14,418	14,500	14,480	14,574
Non-current bank debt *(end of quarter)*	**41,839**	41,406	39,062	40,590	40,774	39,000	37,000	37,000
Shareholders' equity *(end of quarter)*	**10,987**	14,251	15,203	20,361	22,089	23,914	22,141	21,309
Weighted-average basic shares outstanding *(000s)*	**17,318**	17,318	17,318	17,318	17,318	17,318	17,298	13,418
Weighted-average diluted shares outstanding *(000s)*	**17,318**	17,318	17,318	17,318	17,318	21,550	18,838	23,062
Operations								
Production								
Natural gas *(Mcf/d)*	**22,785**	23,245	20,684	20,690	22,341	24,868	23,936	22,123
NGL *(bbls/d)*	**744**	674	627	599	689	712	712	601
Crude oil *(bbls/d)*	**501**	512	522	605	790	644	507	434
Total *(boe/d)*	**5,043**	5,060	4,596	4,652	5,203	5,501	5,208	4,722
Average realized prices *($)*								
Natural gas *(per Mcf)*	**1.97**	2.57	2.95	2.73	2.87	3.74	4.16	4.83
NGL *(per bbl)*	**25.40**	31.74	31.72	40.87	33.25	51.38	63.87	66.24
Crude oil *(per bbl)*	**32.35**	41.02	50.13	58.72	42.51	67.23	91.40	95.62
Operating netback *(per boe)*	**3.67**	6.89	8.65	9.53	8.96	13.78	15.74	16.74
Funds flow netback *(per boe)*	**0.05**	5.64	6.22	7.65	6.52	10.30	10.65	10.26

(1) Long-term contract obligation excludes current portion, which is included in working capital deficit.

Inherent to the nature of the oil and gas industry, fluctuations in Questfire's quarterly oil and natural gas sales, funds flow from or used in operations, and income or loss are primarily caused by variations in production volumes, realized commodity prices and the related impact on royalties, realized and unrealized gains/losses on financial instruments, changes in per-unit expenses, and deferred income taxes. Please refer to the Financial and Operating Results section above for an explanation of changes.

Capital Expenditures

	Three months ended March 31, 2016	2015
	$	$
Land	**35,226**	9,461
Geological and geophysical	**8,850**	2,275
Drilling and completions	**-**	347,505
Production equipment and facilities	**57,514**	929,209
Well workovers and recompletions	**37,271**	360,118
	138,861	1,648,568

At March 31, 2016, the Corporation had E&E assets of $1,375,118 (December 31, 2015 – $1,340,456). This included 101,232 net acres of undeveloped land.

At March 31, 2016, the Corporation had gross property and equipment of $146,390,925. This included developed land and costs associated with the wells the Corporation has drilled and acquired to date. As well, it included $252,670 incurred since inception to purchase computer hardware and software, associated office furniture and office improvements for use by Questfire employees and consultants to evaluate oil and natural gas leads.

During the first quarter, no drilling activities were undertaken. Capital expenditures were kept to a minimum, in order to conserve cash, as a result of negligible funds flow from operations.

Share Capital and Option Activity

As at the date hereof, the Corporation had 17,318,001 Class A shares, 550,440 Class B shares, and 3,433,500 stock options outstanding. Each Class B share is convertible (at Questfire's option) into Class A shares at 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.

Liquidity and Capital Resources

At March 31, 2016, the Corporation had a working capital deficit of $5,879,465, excluding the non-cash-settled convertible class B shares. Funds flow from operations for the three months ended March 31, 2016 were $23,012. Funds generated from operations during 2016 are anticipated to be used for debt reduction as well as limited capital expenditures.

The significant decline in commodity prices has caused the Corporation to defer the majority of its capital expenditure program for operated properties in order to maintain financial flexibility and remain in compliance with credit facility covenants. The Corporation is in a position to resume its planned capital program as soon as commodity prices improve.

The Corporation's $45 million credit facility is a committed facility which operates as a revolving facility for a 364-day term, extendible annually for a further 364-day revolving period, subject to a one-year term-out period should the lender not agree to an annual extension. The current conversion or extension date is May 30, 2016. The Corporation expects that it will have sufficient cash on hand to meet immediate obligations by actively monitoring its credit facilities through co-ordinating payment and revenue cycles each month and through the ongoing cost reduction measures that management has been undertaking since mid-2014. The Corporation's management expects that the lender will extend the credit facility; there is no assurance, however, that it will do so. Should the lender decline to extend the loan or reduce the amount available under the facility, the Corporation would need to seek alternative sources of debt or equity financing, or sell assets. Subsequent to quarter end, the Corporation sold non-core assets in the Brazeau River and East Central CGU for approximately $1.95 million in cash, which was applied against amounts drawn on the credit facility.

The credit facility had $41.8 million drawn and $3.0 million undrawn at March 31, 2016. The facility bears interest at a range of prime plus 1 percent to prime plus 4 percent per annum, depending on the Corporation's adjusted senior debt (which excludes amounts under the long-term contract obligation) to EBITDA ratio as defined by the agreement. The facility is secured by all of the Corporation's assets and requires the Corporation to maintain, at the end of each quarter, a maximum consolidated net debt of $47.5 million (for purposes of the covenant, this is calculated as long-term bank debt and working capital, excluding convertible Class B shares and risk management contracts), and to maintain a debt to EBITDA ratio, as defined by the agreement, of less than 5.00:1 at June 30, 2016; 4.50:1 at September 30, 2016; 3.50:1 at December 31, 2016; and 3.0:1 thereafter. The lenders waived these covenants for the quarter ended March 31, 2016, but not for the subsequent quarters. The Corporation's net debt at March 31, 2016 was $47.9 million and its debt to EBITDA ratio was 5.88:1.

The Corporation's long-term contract obligation relates to the facilities joint venture agreement with a third party, to which the Corporation pays an annual facility fee of $2,326,300 for 17.5 years. 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 size of the Corporation's capital expenditures will be affected by the total funding available through varying combinations of the funds generated from operations, additional debt or equity as market conditions may allow, and potential asset sales if the Corporation so chooses. Management believes that if a farm-out or asset sale were to be conducted, funds received would be sufficient to eliminate the current working capital deficit, which was $5,879,465, excluding the non-cash-settled convertible class B shares.

The Corporation generally relies on operating cash flows, equity issuances and its credit facility to fund its capital requirements and provide liquidity. From time to time, the Corporation may access capital markets to meet additional financing needs and to maintain flexibility in funding its capital programs. Future liquidity depends primarily on funds generated from operations, drawing on existing credit facilities and accessing debt and equity markets.

Going Concern

Although the Corporation's 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 under commodity strip pricing forecasts, the current internal forecasts indicate the Corporation may breach its debt to EBITDA ratio financial covenant in 2016. These factors contribute to the uncertainty regarding the determination of the borrowing base, which is to take place before the end of May 2016. As such, the Corporation has included a note on going-concern uncertainty in its interim financial statements for the first quarter. Management's attention remains focused on managing the Corporation's resources through this difficult commodity price environment.

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.

Environmental Initiatives Affecting Questfire

In the fourth quarter of 2015, the Government of Alberta released its Climate Leadership Plan which will affect all consumers and businesses that contribute to carbon emissions in Alberta. This plan includes imposing carbon pricing that is applied across all sectors, starting at $20 per tonne on January 1, 2017 and moving to $30 per tonne on January 1, 2018; the phase-out of coal-fired power generation by 2030; a cap on total oil sands emissions of 100 megatonnes; and a 45 percent reduction in the oil and gas sector's methane emissions by 2025. Questfire expects the Climate Leadership Plan to increase the cost of operating its properties located in Alberta and is evaluating the expected impact of this plan on its operations.

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 base rent	602,440	803,254	803,254	468,565	-	-

Questfire's commitments related to its risk management program are disclosed in "Risk Management" and its commitments related to its long-term contract obligation are disclosed in "Liquidity and Capital Resources".

Related-Party Transactions

The Corporation retains a law firm to provide legal services in which one of the Corporation's directors, Roger MacLeod, was a partner until his retirement on December 31, 2015. Legal fees of $10,000 were incurred by Questfire to the law firm in the three months ended March 31, 2016 (three months ended March 31, 2015 – $25,712), all of which was related to general and administrative expenses. At March 31, 2016, $10,500 (December 31, 2015 – $12,988) of these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

Hedging

At March 31, 2016, the Corporation had no hedges relating to future periods (see "Risk Management" above). Subsequent to the end of the quarter, the Corporation entered into new risk management contracts as follows:

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
May 1/16 - Oct. 31/16	Oil	Costless collar	100 bbls/d	WTI Nymex	Cdn$55.00/bbl-Cdn$60.70/bbl

Critical Accounting Judgments, Estimates and Policies

The Corporation's critical accounting judgements, estimates and policies are described in notes 2 and 3 to the December 31, 2015 annual financial statements and March 31, 2016 interim condensed financial statements. Certain accounting policies are identified as critical because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain, and because the estimates are of material magnitude to revenue, expenses, funds flow from operations, income or loss and/or other important financial results. These accounting policies could result in materially different results should the underlying conditions change or the assumptions prove incorrect.

Critical accounting estimates are those requiring management to make particularly subjective or complex judgments about inherently uncertain matters. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the same period.

Management's assumptions are based on factors that, in management's opinion, are relevant and appropriate, and may change over time as operating conditions change.

New accounting standards

There were no new or amended accounting standards or interpretations adopted during the three months ended March 31, 2016 that had a material effect on Questfire.

Funds flow from operations

Questfire uses "funds flow from operations" (cash from operating activities before changes in non-cash working capital and decommissioning costs incurred), a measure that is not defined under IFRS. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash from operating activities, income (loss) or other measures determined in accordance with IFRS as an indicator of the Corporation's performance. Management uses funds flow from operations to analyze operating performance and leverage and believes it is a useful supplemental measure as it provides an indication of the funds generated by Questfire's principal business activities prior to consideration of changes in working capital and remediation expenditures.

Non-GAAP measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry. The term “operating netback” (oil and natural gas sales less royalties, production and operating, and transportation expenses) and “funds flow netback” (operating netback less G&A and transaction expenses, E&E expenditures and realized gain or loss on risk management) are not defined under IFRS, which have been incorporated into Canadian general accepted accounting principles (GAAP), as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting, and is not separately defined under GAAP, and may not be comparable with similar measures presented by other companies. Operating netback is a per-unit-of-production measure that may be used to assess the Corporation’s performance and efficiency.

Basis of Barrel of Oil Equivalent

Petroleum and natural gas reserves and production volumes are stated as a “barrel of oil equivalent” (boe), derived by converting natural gas to oil equivalency in the ratio of 6,000 cubic feet of gas to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6,000 cubic feet of gas to one barrel of oil is based on energy equivalency, which is primarily applicable at the burner tip, and does not represent a value equivalency at the wellhead, which under current commodity price conditions is approximately 20 to 35 Mcf to 1 bbl. Readers are cautioned that boe figures may be misleading, particularly if used in isolation.

Forward-Looking Statements

This document contains certain 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 them to differ materially from those stated, anticipated or implied. Such forward-looking statements necessarily involve risks including, without limitation, those 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, production declines, health, safety and environmental risks, competition from other producers and the ability to access sufficient capital from internal and external sources. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “propose”, “project”, or similar words suggesting future outcomes. The Corporation cautions readers and prospective investors in the Corporation’s securities not to place undue reliance on forward-looking information as, by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Corporation. Readers are further 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.

Forward-looking information may involve substantial known and unknown risks and uncertainties, certain of which are beyond the Corporation’s control. Such risks and uncertainties include, without limitation: financial risk of marketing reserves at an acceptable price given market conditions; volatility in market prices for oil and natural gas; delays in business operations; pipeline restrictions; blowouts; the risk of carrying out operations with minimal environmental impact; industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; uncertainties associated with estimating oil and natural gas reserves; risks and uncertainties related to oil and gas interests and operations on aboriginal lands; economic risk of finding and producing reserves at a reasonable cost; uncertainties associated with partner plans and approvals; operational matters related to non-operated properties; increased competition for, among other things, capital, acquisitions of reserves and undeveloped lands; competition for and availability of qualified personnel or management; incorrect assessments of the value of acquisitions and exploration and development programs; unexpected geological, technical, drilling, construction, processing and transportation problems; availability of insurance; fluctuations in foreign exchange and interest rates; stock market volatility; general economic, market and business conditions; uncertainties associated with regulatory approvals; uncertainty of government policy changes; uncertainties associated with credit facilities and counterparty credit risk; changes in income tax laws, Crown royalty rates and incentive programs relating to the oil and gas industry; and other factors, many of which are outside the Corporation's control. The Corporation's actual results, performance or achievements could, therefore, differ materially from those expressed in, or implied by, these forward-looking estimates and whether or not any such actual results, performance or achievements transpire or occur, there can be no certainty as to what benefits or detriments the Corporation will derive therefrom.

The forward-looking information included herein is expressly qualified in its entirety by this cautionary statement. It is made as of the date hereof and the Corporation assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

Abbreviations

The following summarizes the abbreviations used in this document:

Crude Oil and Natural Gas Liquids

bbl	barrel
Mbbl	thousand barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
Mboe	thousand barrels of oil equivalent
boe/d	barrel of oil equivalent per day
NGL	natural gas liquids

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
GJ	Gigajoule. One Mcf of natural gas is about 1.05 GJ
MMBtu	million British thermal units. One GJ is about 0.95 MMBtu.

Other

AECO	the AECO Hub, a natural gas storage facility located in Suffield and Countess, Alberta
$000s	thousands of dollars
IFRS	International Financial Reporting Standards
IAS	International Accounting Standard

Corporate Information

BOARD OF DIRECTORS

RICHARD DAHL (1)(2)(3)
President & CEO
Questfire Energy Corp.
Calgary, Alberta

NEIL DELL (1)(3)(4)
Independent Businessman
Calgary, Alberta

ROGER MACLEOD (1)(2)(4)
Independent Businessman
Calgary, Alberta

JOHN RAMESCU (3)(4)
Vice President, Land
Questfire Energy Corp.
Calgary, Alberta

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

OFFICERS

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

GRAHAM NORRIS
Corporate Secretary

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TD Canada Trust

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GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL
DLA Piper (Canada) LLP
Calgary, Alberta

TRANSFER AGENT
Computershare Limited
Calgary, Alberta

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