Questfire Energy Corp. – Financial and Operating Highlights

	Three months ended March 31,			
		2017		2016
Financial				
Oil and natural gas sales	**$**	**9,148,268**	$	7,284,889
Funds flow from operations [1]		**1,665,646**		23,012
Per share, basic and diluted		**0.07**		-
Loss		**(623,951)**		(3,418,448)
Per share, basic and diluted		**(0.03)**		(0.20)
Capital expenditures		**89,215**		138,861
Proceeds from property dispositions		**289,173**		-
Working capital deficit *(end of period)* [2]		**39,286,282**		11,077,120
Long-term contract obligation *(end of period)* [3]		**13,652,966**		14,061,935
Long-term bank debt *(end of period)*		**-**		41,839,415
Shareholders' equity *(end of period)*	**$**	**12,150,064**	$	10,986,866
Shares outstanding *(end of period)*				
Class A		**22,822,401**		17,318,001
Class B		**-**		550,440
Options outstanding *(end of period)*		**3,083,500**		3,488,500
Weighted-average basic and diluted shares outstanding		**22,822,401**		17,318,001
Class A share trading price				
High	**$**	**0.55**	$	0.74
Low		**0.30**		0.38
Close	**$**	**0.37**	$	0.55
Operations [4]				
Production				
Natural gas *(Mcf/d)*		**19,863**		22,785
Natural gas liquids (NGL) *(bbls/d)*		**671**		744
Crude oil *(bbls/d)*		**328**		501
Total *(boe/d)*		**4,310**		5,043
Benchmark prices				
Natural gas				
AECO *(Cdn$/GJ)*	**$**	**2.55**	$	1.74
Crude oil				
WTI *(US$/bbl)*		**51.90**		33.45
Canadian Light *(Cdn$/bbl)*		**64.74**		41.22
Average realized prices [5]				
Natural gas *(per Mcf)*		**2.83**		1.97
NGL *(per bbl)*		**39.71**		25.40
Crude oil *(per bbl)*		**57.20**		32.35
Operating netback *(per boe)* [6]		**9.55**		3.67
Funds flow netback *(per boe)* [6]	**$**	**4.29**	$	0.05

(1) See "Funds flow from operations" under "Critical Accounting Judgments, Estimates and Policies".

(2) Working capital deficit includes risk management contract and convertible Class B share liabilities of $928,618 and $Nil, respectively (March 31, 2016 – risk management contract assets of $Nil and convertible Class B share liability of $5,197,655). Excluding this, the working capital deficit would be $38,357,664 (March 31, 2016 – $5,879,465).

(3) Long-term contract obligation excludes current portion of $408,969 (March 31, 2016 – $356,482), 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 2017 Corporate Highlights

- Achieved average production of 4,310 boe per day for the quarter, 77 percent natural gas.
- Generated a sharply improved first quarter operating netback of $9.55 per boe compared to $3.67 per boe in the first quarter of 2016.
- Achieved funds flow from operations of $1.7 million ($0.07 per basic share) on sales of $9.1 million during the first quarter of 2017, with both figures significantly higher than in the first quarter of 2016 as a result of higher commodity prices.
- Minimized capital spending with no new drilling, resulting in total capital expenditures of $89,215.
- Incurred total operating costs of $4.4 million in the first quarter, as compared to $4.8 million in the first quarter of 2016. On a per unit basis, operating costs were $11.38 in the first quarter, 8 percent higher than in the first quarter of 2016, largely due to lower production volumes.
- Incurred general and administrative (G&A) costs of $1.0 million for the quarter, representing a 20 percent reduction from the first quarter of 2016.

President's Message

The first quarter of 2017 saw significantly higher commodity prices than in the comparable period of 2016. During the first quarter of 2017 the average benchmark prices for natural gas and oil were 47 percent and 56 percent higher, respectively, than in the first quarter of 2016. Questfire funds flow from operations for the quarter was a significant $1.7 million and operating netbacks were $9.55 per boe compared to only $3.67 per boe in the first quarter of 2016. At the time of this report it appears that the fundamentals of supply and demand will continue to support these higher commodity prices.

During the quarter we continued to focus on reducing all costs, minimizing capital spending, maintaining production and improving the balance sheet. No wells were drilled and only $89,000 of capital expenditures were incurred. Approximately $300,000 of non-core, non-producing assets were sold, with the proceeds used to reduce bank debt.

The outlook for commodity prices continues to be positive for the remainder of 2017 and beyond. Questfire's goals for 2017 include continued reduction in overall debt and achieving an extension of banking facilities beyond May 31, 2017. With continued debt reduction and improvement in commodity prices, we expect to return to drilling and modest production growth in the second half of 2017.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
May 23, 2017

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 23, 2017 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, 2016 and 2015 and the unaudited condensed interim financial statements and accompanying notes for the three months ended March 31, 2017 and 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 “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 symbol Q.A.

Financial and Operating Results

Production

	Three months ended March 31,	
	2017	2016
Daily average volume		
Natural gas *(Mcf/d)*	**19,863**	22,785
NGL *(bbls/d)*	**671**	744
Crude oil *(bbls/d)*	**328**	501
Total sales *(boe/d)*	**4,310**	5,043
Total sales *(boe)*	**387,925**	458,885
Production weighting		
Natural gas	**77%**	75%
NGL	**15%**	15%
Crude oil	**8%**	10%
	100%	100%

Production declines from the comparative period are due to lost production from asset sales, natural production declines, shut-in production and colder weather temporarily freezing off natural gas production.

Sales

	Three months ended March 31,	
	2017	2016
	$	$
Natural gas	**5,061,690**	4,090,190
NGL	**2,397,946**	1,719,976
Crude oil	**1,688,632**	1,474,723
Total	**9,148,268**	7,284,889
Average realized prices before hedging		
Natural gas *($/Mcf)*	**2.83**	1.97
NGL *($/bbl)*	**39.71**	25.40
Crude oil *($/bbl)*	**57.20**	32.35
Combined average *($/boe)*	**23.58**	15.88

The Corporation experienced higher prices for all oil and natural gas products in the first quarter of 2017 than in the prior year's comparative period, which resulted in higher sales revenue from each commodity despite lower production volumes.

Over the short term, the Corporation anticipates continued elevated price volatility for energy commodities. A significant factor for each of the commodities is the unknown impact of renewed drilling activities for shale oil and shale gas wells in the United States. It is expected that there will be continued price volatility for at least the next several quarters as the various dynamics play out.

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 45 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,	
	2017	2016
	$	$
Royalties	**555,170**	284,441
Per boe	**1.43**	0.62
Percentage of sales	**6.1%**	3.9%

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 higher in the first quarter of 2017 than in the 2016 comparative period due to higher commodity reference pricing used by the Alberta government to calculate royalties.

The Government of Alberta's Modernized Royalty Framework (MRF) became 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 effect on the internal rate of return of any given play, compared to the current royalty framework's varying impacts. The MRF has had limited impact on Questfire's drilling plans or current operations.

Production and Operating Expense

	Three months ended March 31,	
	2017	2016
	$	$
Production and operating expense	**4,415,639**	4,846,677
Per boe	**11.38**	10.56

Production and operating expenses decreased on a total basis from the comparative period in 2016 due to lower volumes as well as continued efforts to minimize costs. Production and operating expenses increased on a per boe basis over the comparative period in 2016 as a result of fixed costs being spread over lower production volumes. Management continues to look at production and operating costs to identify additional efficiencies. The results from these current and future efforts are unknown and may not be significant due to the extent of reductions achieved to date, increased pricing pressures from suppliers, as well as the magnitude of fixed costs such as property taxes and lease rentals.

Transportation Expense

	Three months ended March 31,	
	2017	2016
	$	$
Transportation expense	**473,088**	470,814
Per boe	**1.22**	1.03

Transportation expense in the 2017 reporting period was consistent with the comparative period in 2016.

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.

If crude oil and natural gas prices decline significantly from current 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.

At March 31, 2017, Questfire had the following risk management contracts, with a total mark-to-market liability of $928,618:

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
Apr. 1/17 - May 31/17	Natural Gas	Swap	2,500 GJ/d	AECO 7A	Cdn$2.600/GJ
Feb. 1/17 - May 31/17	Crude Oil	Costless collar	100 bbls/d	WTI Nymex	US$48.00/bbl-US$54.80/bbl
Feb. 1/17 - May 31/17	Crude Oil	Purchased put (1)	100 bbls/d	WTI Nymex	US$51.75/bbl
Feb. 1/17 - May 31/17	Crude Oil	Swap	125 bbls/d	WTI Nymex	US$52.50/bbl

(1) Requires the Corporation to pay a monthly premium of US$3.00 per bbl over the term for a total premium of US$36,000.

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,	
	2017	2016
	$	$
Realized loss on risk management contracts	**(738,229)**	-
Per boe	**(1.90)**	-
Unrealized gain on risk management contracts	**2,005,565**	-
Per boe	**5.17**	-

The realized loss on risk management contracts during the three months ended March 31, 2017 was due to natural gas commodity prices being higher than the swap contract price. The unrealized gain for the same period was a result of decreased natural gas 2017 strip prices during the quarter.

General and Administrative (G&A) and Corporate Reorganization Expenses

	Three months ended March 31,	
	2017	2016
	$	$
G&A	**974,525**	1,221,511
Corporate reorganization	**113,116**	201,031
Total	**1,087,641**	1,422,542
G&A expense per boe	**2.52**	2.66
Corporate reorganization expense per boe	**0.29**	0.44
Total expense per boe	**2.81**	3.10

G&A expenses were lower than in the comparative period in 2016 predominantly due to the implementation in February 2016 of an across-the-board salary reduction of 20 percent, as well as staff reductions in March and April 2016. Salaries represent approximately 45 percent of G&A expenditures.

Reorganization expenses were incurred through services related to the ongoing review of strategic alternatives. These include fees for a financial advisor, legal consultations, and reservoir engineers.

Share-Based Compensation

	Three months ended March 31,	
	2017	2016
	$	$
Share-based compensation	**58,859**	153,970
Per boe	**0.15**	0.34

The decrease in share-based compensation from the comparative period in 2016 is largely a result of no new stock options being granted since 2015. There were 3,083,500 options outstanding at March 31, 2017 and 3,008,500 as of the date of this MD&A. The reduction in options outstanding from March 31, 2017 is due to expiries of vested options related to staffing reductions during the first four months of 2016. There were 2,405,722 options exercisable at March 31, 2017.

Exploration and Evaluation (E&E) Expenditures

	Three months ended March 31,	
	2017	2016
	$	$
Cash E&E expense	**212,855**	237,403
Non-cash mineral rights expiries	**421,840**	-
E&E expense	**634,695**	237,403
Cash E&E expense per boe	**0.55**	0.52
Non-cash mineral rights expiries per boe	**1.09**	-
Per boe	**1.64**	0.52

The decrease in cash E&E expenditures from the comparative 2015 period is due to lower employee salaries, effective February 2016.

Non-cash mineral rights expiries relate to mineral rights voluntarily relinquished by the Corporation as a result of low commodity prices.

Depletion and Depreciation (D&D)

	Three months ended March 31,	
	2017	2016
	$	$
D&D	**2,472,989**	2,959,960
Per boe	**6.37**	6.45

The Corporation's D&D per boe was largely unchanged from the comparative period in 2016. 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. The lower depletion from the comparative period is a result of lower production volumes.

Gain on Sale of Assets

	Three months ended March 31,	
	2017	2016
	$	$
Gain on sale of assets	**289,173**	-
Per boe	**0.75**	-

The gain on sale of assets during the three months ended March 31, 2017 pertains to the sale of non-core assets in the Westerose cash-generating units (CGU), for total proceeds of $300,000. Transaction costs in the amount of $10,827 were incurred. The assets disposed of were non-producing.

Finance Expense

	Three months ended March 31,	
	2017	2016
	$	$
Interest on bank debt	**782,440**	499,989
Interest on long-term contract obligation	**487,604**	499,664
Financing costs	**67,070**	-
Cash finance expense	**1,337,114**	999,653
Accretion on decommissioning provisions	**503,885**	425,313
Accretion on Class B share liability	**-**	110,798
Non-cash finance expense	**503,885**	536,111
Total finance expense	**1,840,999**	1,535,764
Per boe	**4.75**	3.34

Interest on bank debt relates to interest and fees paid to Questfire's bankers to service the bank debt and bank overdraft. Interest on bank debt increased in the first quarter of 2017 over the 2016 comparative period due to higher interest rate premiums. Interest rate premiums are based on the Corporation's trailing four-quarter EBITDA, adjusted for non-recurring items.

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 convertible debentures issued in 2013, 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, with a term of 17.5 years, after which beneficial ownership will revert to Questfire.

Financing costs relate to a combination of bank due diligence fees and legal fees associated with credit facility renewals.

Accretion on decommissioning provisions increased from the 2016 comparative period as a result of an increased credit-adjusted risk-free discount rate.

Class B share accretion was $Nil in the first quarter of 2017, compared to $110,798 in the first quarter of 2016, due to all remaining Class B shares being converted to Class A shares at the end of November 2016. As of the date of this report, there are no Class B shares outstanding.

Deferred Income Tax

Deferred income tax recovery was $210,352 in the three months ended March 31, 2017, compared to a recovery of $1,208,234 in the comparative period in 2016. The period-over-period decrease in the recovery resulted from a reduction of losses on which income tax is calculated, net of any effects from the gain on sale of assets.

Loss

The Corporation incurred a loss of $623,951 ($0.03 per share basic and diluted) for the three months ended March 31, 2017, compared to a loss of $3,418,448 ($0.20 per share basic and diluted) for the comparative period in 2016. The current quarter's decreased loss resulted primarily from higher commodity prices as well as the gain on sale of assets.

Supplemental Information

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

Funds Flow from Operations

	Three months ended March 31,	
	2017	2016
	$	$
Loss	**(623,951)**	(3,418,448)
Non-cash items:		
Unrealized gain on risk management	**(2,005,565)**	-
Share-based compensation	**58,859**	153,970
E&E	**421,840**	-
D&D	**2,472,989**	2,959,960
Deferred income tax recovery	**(210,352)**	(1,208,234)
Finance expense	**1,840,999**	1,535,764
Gain on sale of assets	**(289,173)**	-
Funds flow from operations	**1,665,646**	23,012

Netback Analysis

	Three months ended March 31,	
	2017	2016
	$/boe	$/boe
Average sales price	**23.58**	15.88
Royalties	**(1.43)**	(0.62)
Production and operating expense	**(11.38)**	(10.56)
Transportation expense	**(1.22)**	(1.03)
Operating netback	**9.55**	3.67
G&A and corporate reorganization	**(2.81)**	(3.10)
E&E [(1)]	**(0.55)**	(0.52)
Realized loss on risk management	**(1.90)**	-
Funds flow netback	**4.29**	0.05
Finance expense	**(4.75)**	(3.34)
Gain on sale of assets	**0.75**	-
D&D	**(6.37)**	(6.45)
Share-based compensation	**(0.15)**	(0.34)
Unrealized gain on risk management	**5.17**	-
E&E mineral rights expiries	**(1.09)**	-
Deferred income tax recovery	**0.54**	2.63
Loss per boe	**(1.61)**	(7.45)

(1) Excludes non-cash E&E expenditures associated with mineral rights expiries included below.

Selected Quarterly Information

Three months ended	**March 31, 2017**	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015
Financial ($000s, except per share amounts and share numbers)								
Oil and natural gas sales	**9,148**	10,446	8,162	6,287	7,285	9,406	9,854	10,603
Funds flow from operations	**1,666**	2,551	1,899	361	23	2,627	2,628	3,236
Per share, basic *($)*	**0.07**	0.13	0.11	0.02	-	0.15	0.15	0.19
Per share, diluted *($)*	**0.07**	0.11	0.08	0.02	-	0.11	0.11	0.14
Income (loss)	**(624)**	2,752	(1,636)	(5,226)	(3,418)	(1,152)	(5,330)	(1,904)
Per share, basic *($)*	**(0.03)**	0.14	(0.09)	(0.30)	(0.20)	(0.07)	(0.31)	(0.11)
Per share, diluted *($)*	**(0.03)**	0.12	(0.09)	(0.30)	(0.20)	(0.07)	(0.31)	(0.11)
Capital expenditures	**89**	231	103	178	139	83	2,310	914
Total assets *(end of quarter)*	**91,343**	94,893	94,531	98,412	111,828	115,610	119,845	125,498
Working capital deficit *(end of quarter)*	**39,286**	41,326	54,529	54,926	11,077	9,653	7,544	4,166
Long-term contract obligation *(end of quarter)* [1]	**13,653**	13,761	13,893	13,965	14,062	14,156	14,246	14,334
Non-current bank debt *(end of quarter)*	**-**	-	-	-	41,839	41,406	39,062	40,590
Shareholders' equity *(end of quarter)*	**12,150**	12,715	4,382	5,928	10,987	14,251	15,203	20,361
Weighted-average basic shares outstanding *(000s)*	**22,822**	19,233	17,318	17,318	17,318	17,318	17,318	17,318
Weighted-average diluted shares outstanding *(000s)*	**22,822**	23,473	17,318	17,318	17,318	17,318	17,318	17,318
Operations								
Production								
Natural gas *(Mcf/d)*	**19,863**	20,746	20,636	19,872	22,785	23,245	20,684	20,690
NGL *(bbls/d)*	**671**	695	691	696	744	674	627	599
Crude oil *(bbls/d)*	**328**	368	414	413	501	512	522	605
Total *(boe/d)*	**4,310**	4,521	4,544	4,421	5,043	5,060	4,596	4,652
Average realized prices *($)*								
Natural gas *(per Mcf)*	**2.83**	3.27	2.43	1.51	1.97	2.57	2.95	2.73
NGL *(per bbl)*	**39.71**	34.97	28.19	28.23	25.40	31.74	31.72	40.87
Crude oil *(per bbl)*	**57.20**	58.30	46.10	46.84	32.35	41.02	50.13	58.72
Operating netback *(per boe)*	**9.55**	11.28	7.84	3.17	3.67	6.89	8.65	9.53
Funds flow netback *(per boe)*	**4.29**	6.13	4.54	0.90	0.05	5.64	6.22	7.65

[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,	
	2017	2016
	$	$
Land	**13,466**	35,226
Geological and geophysical	**-**	8,850
Drilling and completions	**14,111**	-
Production equipment and facilities	**35,192**	57,514
Well workovers and recompletions	**26,446**	37,271
	89,215	138,861

At March 31, 2017, the Corporation had E&E assets of $383,309 (December 31, 2016 – $916,516). This included 85,146 net acres of undeveloped land.

At March 31, 2017, the Corporation had gross property and equipment of $129,577,671. 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. Funds flow from operations were primarily used to pay interest on debt, resulting in minimized capital expenditures, with only maintenance capital taking place, in order to conserve cash.

Share Capital and Option Activity

As at the date hereof, the Corporation had 22,822,401 Class A shares and 3,008,500 stock options outstanding.

Liquidity and Capital Resources

At March 31, 2017, the Corporation had a working capital deficit of $38,357,664 (December 31, 2016 – $38,368,058), excluding the risk management contract liabilities. If bank debt were excluded, the working capital deficit at March 31, 2017 would decrease to $4,543,719 (December 31, 2016 – $4,853,308). Funds flow from operations for the three months ended March 31, 2017 was $1,665,646, which was used to pay interest on debt, other financing costs, and conduct decommissioning work for active reclamation sites. Funds generated from operations during the remainder of 2017 are anticipated to be used for debt reduction as well as limited capital expenditures and decommissioning work.

The present commodity prices have caused the Corporation to defer the majority of its capital expenditure program for operated properties in order to maintain financial flexibility and attempt to remain in compliance with credit facility covenants. The Corporation will be in a position to resume its planned capital program as soon as commodity prices increase.

The Corporation's credit facility matures on May 31, 2017, requiring it to be presented as a current liability. Should the credit facility be extended, 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 continuing the cost reduction measures being undertaken since mid-2014. Should the lender decline to extend the loan or reduce the amount available, the Corporation would need to seek alternative sources of debt or equity financing, or sell assets.

The credit facility includes a number of covenants approved by the syndicate of lenders ("the Syndicate").

The operational covenant requires Questfire to maintain production volumes of at least 80 percent of those forecast by the Corporation for each monthly period, and approved by the Syndicate. This covenant has been met.

The first financial covenant requires Questfire to have, at the end of each quarter, maximum consolidated net debt of $47.5 million, which for purposes of the covenant is calculated as long-term bank debt and working capital, excluding risk management contracts. The consolidated net debt covenant, including letters of credit, at March 31, 2017 was met, with a balance of $38.6 million. The second financial covenant requires Questfire to generate minimum monthly EBITDA, as defined by the agreement, of 80 percent of that forecast by the Corporation and approved by the Syndicate. This covenant was not met for certain months in 2017. The third financial covenant requires Questfire to have a cumulative negative monthly cash flow variance of no more than $0.5 million from the amount forecast by the Corporation in August 2016 and approved by the Syndicate. This covenant was not met for certain months in 2017. The fourth financial covenant requires Questfire to have risk management contracts by January 31, 2017 for between 40 percent and 60 percent of its proved developed producing production through the end of May 2017. This covenant was met.

The Corporation is also subject to several corporate covenants. The first corporate covenant requires Questfire to dispose of several specific minor oil and natural gas properties for no less than $0.425 million before January 31, 2017. This covenant was breached as one of the properties was sold for $0.3 million; a waiver, however, was issued by the Syndicate for the property that was not sold. The second corporate covenant required Questfire to enter into a term sheet in the amount of no less than $67 million by January 31, 2017 in order to pay out the Syndicate by February 28, 2017. If either of these deadlines was not met, a minimum of $5 million must be raised by March 15, 2017, of which a minimum of $2.5 million must be used to drill a minimum of two wells and a minimum of $2.5 million must be used to repay the supplemental facility. Such funds raised must come from sources other than asset dispositions, cash flow or the credit facility. This covenant was breached, and the deadlines were extended from February 28, 2017 to March 31, 2017 and from March 15, 2017 to the earlier of April 30, 2017 and the date which is 30 days from the date the Syndicate determines that a corporate merger will not be entered into, respectively. Subsequent to the end of the quarter, this covenant was rescinded.

For the remainder of 2017, the Corporation forecasts incurring maintenance capital expenditures of $0.5 million and decommissioning costs of $0.8 million.

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 $4,543,719 at March 31, 2017 excluding the risk management contract liability and bank debt.

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 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, after subtracting cash finance expense and anticipated decommissioning costs and property and equipment expenditures, are positive for 2017 under commodity strip pricing forecasts, these levels will not furnish funds flow and EBITDA sufficient to meet Syndicate covenants. In addition, the Corporation remains close to its borrowing limits and has a working capital deficit. The determination of the borrowing base, which is to take place before May 31, 2017, remains uncertain. As such, the Corporation has included a going-concern uncertainty note in its financial statements for the three months ended March 31, 2017. 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.

Commitments

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

	2017	2018	2019	2020	2021	Thereafter
	$	$	$	$	$	$
Office lease	575,315	767,087	447,467	-	-	-

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".

Hedging

The Corporation has an active hedging program, with the objective to provide a measure of downside protection for its oil and natural gas sales and cash flow from operations, while maximizing exposure to potential commodity pricing upside. At March 31, 2017, the Corporation's hedges covered approximately 20 percent of forecast production for the remainder of 2017 in the form of a combination of swaps, costless collars and purchased puts (see "Risk Management" above).

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, 2016 annual financial statements and March 31, 2017 condensed interim 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. There were no changes to the application of these judgments, estimates and policies during the first quarter of 2017.

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, 2017 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 terms "operating netback" (oil and natural gas sales less royalties and production, operating and transportation expenses, all expressed on a per-unit-of-production basis) and "funds flow netback" (operating netback less G&A and transaction expenses, E&E expenditures and realized gain or loss on risk management, all expressed on a per-unit-of-production basis) are not defined under IFRS, which have been incorporated into Canadian GAAP, as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting, are 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. 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. Forward-looking statements necessarily involve risks including, without limitation, those associated with oil and natural gas exploration, 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 may include statements with words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “propose”, “project”, or similar words suggesting future outcomes. Readers and prospective investors in the Corporation’s securities are cautioned to 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.

Forward-looking information typically involves 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, this forward-looking information 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; 1 Mcf of natural gas is about 1.05 GJ
MMBtu	million British thermal units; 1 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

HEAD OFFICE

Suite 1100, 350 – 7th Avenue S.W.
Calgary, Alberta
T2P 3N9

Telephone: 403-263-6688
Facsimile: 403-263-6683

AUDITORS

Collins Barrow Calgary LLP
Calgary, Alberta

BANKERS

Alberta Treasury Branches
TD Canada Trust

EVALUATION ENGINEERS

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
Symbol: Q.A