Questfire Energy Corp. – Financial and Operating Highlights

	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Financial				
Oil and natural gas sales	**$ 6,287,350**	$ 10,602,982	**$ 13,572,239**	$ 21,457,024
Funds flow from operations (1)	**360,700**	3,236,195	**383,712**	6,287,734
Per share, basic	**0.02**	0.19	**0.02**	0.36
Per share, diluted	**0.02**	0.14	**0.02**	0.28
Loss	**(5,226,363)**	(1,904,095)	**(8,644,811)**	(3,904,160)
Per share, basic and diluted	**(0.30)**	(0.11)	**(0.50)**	(0.23)
Capital expenditures	**177,535**	914,066	**316,396**	2,562,634
Proceeds from property disposition	**$ 1,950,000**	$ -	**1,950,000**	-
Working capital deficit *(end of period)* (2)			**54,925,921**	4,165,519
Long-term contract obligation *(end of period)* (3)			**13,964,898**	14,333,833
Long-term bank debt *(end of period)*			**-**	40,589,595
Shareholders' equity *(end of period)*			**$ 5,928,460**	$ 20,360,723
Shares outstanding *(end of period)*				
Class A			**17,318,001**	17,318,001
Class B			**550,440**	550,440
Options outstanding *(end of period)*			**3,133,500**	3,291,000
Weighted-average basic and diluted shares outstanding	**17,318,001**	17,318,001	**17,318,001**	17,318,001
Class A share trading price				
High	**$ 0.69**	$ 1.95	**$ 0.74**	$ 1.95
Low	**0.33**	1.15	**0.33**	1.15
Close	**$ 0.33**	$ 1.59	**$ 0.33**	$ 1.59
Operations (4)				
Production				
Natural gas *(Mcf/d)*	**19,872**	20,690	**21,329**	21,511
Natural gas liquids (NGL) *(bbls/d)*	**696**	599	**720**	644
Crude oil *(bbls/d)*	**413**	605	**457**	697
Total *(boe/d)*	**4,421**	4,652	**4,732**	4,926
Benchmark prices				
Natural gas				
AECO *(Cdn$/GJ)*	**$ 1.33**	$ 2.51	**$ 1.53**	$ 2.56
Crude oil				
WTI *(US$/bbl)*	**45.59**	57.94	**39.52**	53.29
Canadian Light *(Cdn$/bbl)*	**55.01**	68.88	**48.11**	61.08
Average realized prices (5)				
Natural gas *(per Mcf)*	**1.51**	2.73	**1.76**	2.80
NGL *(per bbl)*	**28.23**	40.87	**26.77**	36.81
Crude oil *(per bbl)*	**46.84**	58.72	**38.90**	49.58
Operating netback *(per boe)* (6)	**3.17**	9.53	**3.44**	9.23
Funds flow netback *(per boe)* (6)	**$ 0.90**	$ 7.65	**$ 0.45**	$ 7.05

(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 $2,636,821 and $5,310,867, respectively (June 30, 2015 – risk management contract assets of $1,039,009 and convertible Class B share liability of $Nil). Excluding this, the working capital deficit would be $46,978,233 (June 30, 2015 – $5,204,528).

(3) Long-term contract obligation excludes current portion of $368,935 (June 30, 2015 – $321,586), 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".

Second Quarter 2016 Corporate Highlights

- Achieved average production of 4,421 boe per day for the quarter, 75 percent natural gas.
- Achieved sales of $6.3 million and funds flow from operations of $360,700 ($0.02 per basic share).
- Minimized capital spending with total capital expenditures of $177,535.
- Incurred operating costs of $10.61 per boe, achieving a 15 percent reduction from second quarter 2015 operating costs of $12.42 per boe.
- Incurred general and administration (G&A) costs of $1.2 million for the quarter, representing a 14 percent reduction from the second quarter of 2015.
- Sold two non-core properties with approximately 60 boe per day of gas-weighted production, generating cash proceeds of $1.95 million.

President's Message

The second quarter of 2016 continued to be very challenging with some recovery in oil prices but a continued deterioration in natural gas prices. The average benchmark price of oil for the quarter was US$45.59 per barrel WTI, up a significant 36 percent from the average price of US$33.45 per barrel WTI in the first quarter. The AECO natural gas spot price, on the other hand, averaged only $1.33 per GJ for the quarter, a drop of 24 percent from the first-quarter average price of $1.74 per GJ. These are natural gas prices not seen in almost 20 years. Thankfully, at the time of this release the outlook and fundamentals look positive for improvement in both natural gas and oil prices going forward.

The oil and gas industry, while currently experiencing decade-low commodity prices and significantly reduced cash flow, continues to wrestle with the challenges of a cost structure and debt levels left over from the most recent period of high commodity prices. Not surprisingly, the entire industry is focusing intently on reducing all costs and reducing debt. Questfire is no exception and I'm pleased to report that we continue to deliver success on the cost side. Our operating and G&A costs are down approximately 15 percent year-over-year thanks to the focused efforts of all our office and field staff, and are expected to continue to decline. On the debt side, Questfire initiated a Strategic Review process in March and has, so far, sold $1.95 million of non-core assets. We expect to continue to sell non-core assets over the remainder of the year and are exploring all additional options to reduce our bank debt. Questfire will also continue to minimize capital spending and focus on maintaining production while minimizing operating costs.

Our production base continues to show a low base decline rate of 10 to 12 percent per year, which is a big advantage in the current low-price environment. In the second quarter, due to low natural gas prices, Questfire shut-in approximately 300 boe per day of higher cost gas-weighted production. In addition, ongoing gas transportation restrictions on the TCPL pipeline system are unpredictable and challenging, and resulted in approximately 250 boe per day of production being restricted over the quarter. With continued improvement in natural gas pricing and removal of TCPL restrictions we expect the majority of this production to be back on in September.

We are currently working through our mid-year bank review, which we expect to have finalized by late August. Our borrowing base may be somewhat reduced due to low commodity prices. We are actively pursuing options to reduce our debt levels, which I believe will be materially lower by year-end and continue to decline through 2017. Questfire has a skilled and committed management team with a history of creating value. We are supported by experienced and motivated office and field staff. Along with our low-decline, low-cost and opportunity-rich asset base, I am optimistic that this will allow us to overcome the challenges of the current commodity price weakness and ultimately add significant value for the shareholders of Questfire.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
August 16, 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 August 16, 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 and six months ended June 30, 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 June 30, 2016	2015	Six months ended June 30, 2016	2015
Daily average volume				
Natural gas *(Mcf/d)*	**19,872**	20,690	**21,329**	21,511
NGL *(bbls/d)*	**696**	599	**720**	644
Crude oil *(bbls/d)*	**413**	605	**457**	697
Total sales *(boe/d)*	**4,421**	4,652	**4,732**	4,926
Total sales *(boe)*	**402,279**	423,297	**861,163**	891,565
Production weighting				
Natural gas	**75%**	74%	**75%**	73%
NGL	**16%**	13%	**15%**	13%
Crude oil	**9%**	13%	**10%**	14%
	100%	100%	**100%**	100%

Production decreased from the comparative periods due to a combination of natural production declines, shut-in production and TCPL restrictions. NGL production increased from the comparative periods as a result of higher liquid recoveries in Westerose.

Sales

	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
	$	$	**$**	$
Natural gas	**2,739,156**	5,145,711	**6,829,346**	10,913,923
NGL	**1,787,785**	2,225,708	**3,507,761**	4,288,258
Crude oil	**1,760,409**	3,231,563	**3,235,132**	6,254,843
Total	**6,287,350**	10,602,982	**13,572,239**	21,457,024
Average realized prices before hedging				
Natural gas *($/Mcf)*	**1.51**	2.73	**1.76**	2.80
NGL *($/bbl)*	**28.23**	40.87	**26.77**	36.81
Crude oil *($/bbl)*	**46.84**	58.72	**38.90**	49.58
Combined average *($/boe)*	**15.63**	25.05	**15.76**	24.07

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 six months of 2016 than in the prior year's comparative periods.

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 in the United States, as well as global inventory levels. 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. 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.

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 June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Royalties	**319,356**	915,691	**603,797**	1,719,135
Per boe	**0.80**	2.17	**0.70**	1.93
Percentage of sales	**5.1%**	8.6%	**4.4%**	8.0%

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 than the comparative periods 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 impact on internal rates of return for any given play compared to the current royalty framework's varying impacts. On April 21, 2016, the Government of Alberta provided further details on the MRF. The Corporation is in process of evaluating the overall impact to Questfire.

Production and Operating Expense

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Production and operating expense	**4,267,499**	5,258,954	**9,114,176**	10,678,076
Per boe	**10.61**	12.42	**10.58**	11.98

Production and operating expenses decreased on a total and per-boe basis from the comparative periods in 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	June 30,	Six months ended	June 30,
	2016	2015	**2016**	2015
	$	$	**$**	$
Transportation expense	**424,202**	393,714	**895,016**	828,172
Per boe	**1.05**	0.93	**1.04**	0.93

Transportation expense in 2016 was higher than in the comparative periods in 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 commodity pricing that began during the fourth quarter of 2014 continued in the first quarter of 2016 before modest recoveries for crude oil prices in the second quarter, combined with even lower Alberta natural gas prices due to unusually low demand within the province. Subsequent to the end of the quarter, crude oil prices resumed softening while intra-Alberta natural gas pricing recovered somewhat. 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 June 30, 2016, Questfire had the following risk management contracts, with a total mark-to-market liability of $3,345,103:

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

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 June 30,		**Six months ended June 30,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Realized gain on risk management contracts	**476,353**	787,365	**476,353**	1,217,925
Per boe	**1.18**	1.86	**0.55**	1.37
Unrealized loss on risk management contracts	**(3,345,103)**	(911,878)	**(3,345,103)**	(1,835,132)
Per boe	**(8.32)**	(2.15)	**(3.89)**	(2.06)

The realized gains on risk management contracts during the three and six months ended June 30, 2016 were due to natural gas commodity prices being lower than the swap contract price. The unrealized losses were a result of increases in natural gas commodity forward strip prices between the dates the swaps were entered into and June 30, 2016.

The risk management contracts entered into during the second quarter of 2016 were done to limit downside pricing risk. The contract terms brought forward higher future curve pricing during a period in which natural gas pricing was at multi-decade lows and when netbacks are tight. For the two months that the natural gas swaps were in place, Questfire realized cumulative gains on risk management contracts amounting to $0.78 per Mcf, providing a significant bump to natural gas revenues during the quarter.

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

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

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	$	$	**$**	$
G&A	**1,096,404**	1,387,199	**2,317,915**	2,776,151
Corporate reorganization	**100,573**	-	**301,604**	-
Total	**1,196,977**	1,387,199	**2,619,519**	2,776,151
G&A expense per boe	**2.72**	3.27	**2.69**	3.12
Corporate reorganization expense per boe	**0.25**	-	**0.35**	-
Total expense per boe	**2.97**	3.27	**3.04**	3.12

G&A expenses were lower than in the comparative periods in 2015 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, as well as reservoir engineers.

Share-Based Compensation

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	$	$	**$**	$
Share-based compensation	**167,957**	176,190	**321,927**	351,372
Per boe	**0.42**	0.42	**0.37**	0.39

The decrease in share-based compensation from the comparative periods in 2015 is largely a result of no new stock options being granted during the first six months of 2016. Share-based compensation reversals for unvested stock option forfeitures associated with staffing reductions were largely offset by an acceleration of expensing for stock options voluntarily surrendered for no consideration. The individuals who voluntarily surrendered the 300,000 stock options were the same who received 200,000 stock options in November 2015, when other option holders had their out-of-the-money option exercise prices repriced to $1.00 per Class A share. Under IFRS, stock option cancellations initiated by an option holder are considered to have had the full option benefits provided to the option holder. This non-cash event is considered by management to provide benefits to shareholders, as it frees up room for the Corporation to issue additional options to employees without depleting available financial resources or increasing potential share dilution for existing and prospective shareholders.

The Corporation did not grant any stock options to purchase Class A shares during the three and six months ended June 30, 2016. There were 3,133,500 options outstanding at June 30, 2016 and 3,133,500 as of the date of this MD&A. The reduction in options outstanding is due to staffing reductions and voluntary stock option surrender during 2016. There were 2,146,278 options exercisable at June 30, 2016.

Exploration and Evaluation (E&E) Expenditures

	Three months ended	June 30,	Six months ended	June 30,
	2016	2015	**2016**	2015
	$	$	**$**	$
E&E expense	**194,969**	198,594	**432,372**	385,681
Per boe	**0.48**	0.47	**0.50**	0.43

The increase in E&E expenditures recognized in the six months ended June 30, 2016 over the comparative 2015 period is due to an allocation of the portion of G&A expenses attributable to supporting E&E activities. The decrease in E&E expenditures recognized in the three months ended June 30, 2016 from the comparative 2015 period is due to lower employee salaries, partially offset by an allocation of the portion of G&A expenses attributable to supporting E&E activities.

Depletion and Depreciation (D&D)

	Three months ended	June 30,	Six months ended	June 30,
	2016	2015	**2016**	2015
	$	$	**$**	$
D&D	**2,378,561**	2,735,690	**5,338,521**	5,865,472
Per boe	**5.91**	6.46	**6.20**	6.58

The Corporation's D&D decreased from the comparative periods 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), slight changes in the mix of individual CGUs' production rates, as each CGU has a separate depletion rate, and the most recent quarter's reduction in decommissioning provisions. 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.

Gain on sale of assets

	Three months ended	June 30,	Six months ended	June 30,
	2016	2015	**2016**	2015
	$	$	**$**	$
Gain on sale of assets	**129,879**	-	**129,879**	-
Per boe	**0.32**	-	**0.15**	-

The gain on sale of assets pertains to the sale of non-core assets in Wildmere part of the East Central CGU, and in the Brazeau River CGU, for proceeds of $1,950,000.

Finance Expense

	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
	$	$	**$**	$
Interest on bank debt	**571,109**	397,868	**1,071,098**	780,422
Interest on long-term contract obligation	**496,803**	507,682	**996,467**	1,017,859
Financing costs	**80,000**	55,000	**80,000**	55,000
Cash finance expense	**1,147,912**	960,550	**2,147,565**	1,853,281
Accretion on decommissioning provisions	**437,108**	436,578	**862,421**	872,268
Accretion on Class B share liability	**113,212**	103,863	**224,010**	205,511
Non-cash finance expense	**550,320**	540,441	**1,086,431**	1,077,779
Total finance expense	**1,698,232**	1,500,991	**3,233,996**	2,931,060
Per boe	**4.22**	3.55	**3.76**	3.29

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 2016 over the 2015 comparative periods 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 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.

Class B share accretion is higher in 2016 than in the comparative 2015 periods 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 $1,872,911 and $3,081,145, respectively, in the three and six months ended June 30, 2016, compared to recoveries of $184,459 and $791,142 in the respective comparative periods in 2015. The increases in the recovery are a result of increased losses on which income tax is calculated.

Loss

The Corporation incurred losses of $5,226,363 ($0.30 per share basic and diluted) and $8,644,811 ($0.50 per share basic and diluted), respectively, for the three and six months ended June 30, 2016, compared to losses of $1,904,095 ($0.11 per share basic and diluted) and $3,904,160 ($0.23 per share basic and diluted) for the respective comparative periods in 2015. The current periods' 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 June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Loss	**(5,226,363)**	(1,904,095)	**(8,644,811)**	(3,904,160)
Non-cash items:				
Unrealized loss on risk management	**3,345,103**	911,878	**3,345,103**	1,835,132
Share-based compensation	**167,957**	176,190	**321,927**	351,372
D&D	**2,378,561**	2,735,690	**5,338,521**	5,865,472
Deferred income tax recovery	**(1,872,911)**	(184,459)	**(3,081,145)**	(791,142)
Finance expense	**1,698,232**	1,500,991	**3,233,996**	2,931,060
Gain on sale of assets	**(129,879)**	-	**(129,879)**	-
Funds flow from operations	**360,700**	3,236,195	**383,712**	6,287,734

Netback Analysis

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**15.63**	25.05	**15.76**	24.07
Royalties	**(0.80)**	(2.17)	**(0.70)**	(1.93)
Production and operating expense	**(10.61)**	(12.42)	**(10.58)**	(11.98)
Transportation expense	**(1.05)**	(0.93)	**(1.04)**	(0.93)
Operating netback	**3.17**	9.53	**3.44**	9.23
G&A and corporate reorganization	**(2.97)**	(3.27)	**(3.04)**	(3.12)
E&E	**(0.48)**	(0.47)	**(0.50)**	(0.43)
Realized gain on risk management	**1.18**	1.86	**0.55**	1.37
Funds flow netback	**0.90**	7.65	**0.45**	7.05
Finance expense	**(4.22)**	(3.55)	**(3.76)**	(3.29)
Gain on sale of assets	**0.32**	-	**0.15**	-
D&D	**(5.91)**	(6.46)	**(6.20)**	(6.58)
Share-based compensation	**(0.42)**	(0.42)	**(0.37)**	(0.39)
Unrealized loss on risk management	**(8.32)**	(2.15)	**(3.89)**	(2.06)
Deferred income tax recovery	**4.66**	0.43	**3.58**	0.89
Loss per boe	**(12.99)**	(4.50)	**(10.04)**	(4.38)

Selected Quarterly Information

Three months ended	**June 30, 2016**	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014
Financial ($000s, except per share amounts and share numbers)								
Oil and natural gas sales	**6,287**	7,285	9,406	9,854	10,603	10,854	15,918	17,614
Funds flow from operations	**361**	23	2,627	2,628	3,236	3,052	5,211	5,102
Per share, basic *($)*	**0.02**	-	0.15	0.15	0.19	0.18	0.30	0.29
Per share, diluted *($)*	**0.02**	-	0.11	0.11	0.14	0.13	0.24	0.24
Income (loss)	**(5,226)**	(3,418)	(1,152)	(5,330)	(1,904)	(2,000)	1,600	648
Per share, basic *($)*	**(0.30)**	(0.20)	(0.07)	(0.31)	(0.11)	(0.12)	0.09	0.04
Per share, diluted *($)*	**(0.30)**	(0.20)	(0.07)	(0.31)	(0.11)	(0.12)	0.08	0.03
Capital expenditures	**178**	139	83	2,310	914	1,649	2,864	9,927
Total assets *(end of quarter)*	**98,412**	111,828	115,610	119,845	125,498	129,884	133,863	137,201
Working capital deficit *(end of quarter)*	**54,926**	11,077	9,653	7,544	4,166	4,103	4,787	10,479
Long-term contract obligation *(end of quarter)* [1]	**13,965**	14,062	14,156	14,246	14,334	14,418	14,500	14,480
Non-current bank debt *(end of quarter)*	**-**	41,839	41,406	39,062	40,590	40,774	39,000	37,000
Shareholders' equity *(end of quarter)*	**5,928**	10,987	14,251	15,203	20,361	22,089	23,914	22,141
Weighted-average basic shares outstanding *(000s)*	**17,318**	17,318	17,318	17,318	17,318	17,318	17,318	17,298
Weighted-average diluted shares outstanding *(000s)*	**17,318**	17,318	17,318	17,318	17,318	17,318	21,550	18,838
Operations								
Production								
Natural gas *(Mcf/d)*	**19,872**	22,785	23,245	20,684	20,690	22,341	24,868	23,936
NGL *(bbls/d)*	**696**	744	674	627	599	689	712	712
Crude oil *(bbls/d)*	**413**	501	512	522	605	790	644	507
Total *(boe/d)*	**4,421**	5,043	5,060	4,596	4,652	5,203	5,501	5,208
Average realized prices *($)*								
Natural gas *(per Mcf)*	**1.51**	1.97	2.57	2.95	2.73	2.87	3.74	4.16
NGL *(per bbl)*	**28.23**	25.40	31.74	31.72	40.87	33.25	51.38	63.87
Crude oil *(per bbl)*	**46.84**	32.35	41.02	50.13	58.72	42.51	67.23	91.40
Operating netback *(per boe)*	**3.17**	3.67	6.89	8.65	9.53	8.96	13.78	15.74
Funds flow netback *(per boe)*	**0.90**	0.05	5.64	6.22	7.65	6.52	10.30	10.65

(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 June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	$	$	**$**	$
Land	**32,228**	31,755	**67,454**	41,216
Geological and geophysical	**3,300**	360	**12,150**	2,635
Drilling and completions	**2,266**	317,742	**2,266**	665,247
Production equipment and facilities	**107,550**	506,381	**165,064**	1,435,590
Well workovers and recompletions	**32,191**	57,828	**69,462**	417,946
	177,535	914,066	**316,396**	2,562,634

At June 30, 2016, the Corporation had E&E assets of $1,375,118 (December 31, 2015 – $1,340,456). This included 99,894 net acres of undeveloped land.

At June 30, 2016, the Corporation had gross property and equipment of $133,697,321. 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 half of 2016, no drilling activities were undertaken. Capital expenditures were kept to a minimum, in order to conserve cash, as a result of marginal 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 3,133,500 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 June 30, 2016, the Corporation had a working capital deficit of $46,978,233 (December 31, 2015 – $4,566,543), excluding the non-cash-settled convertible Class B shares and risk management contract liabilities. The increase from December 31, 2015 is largely due to the bank debt being included in the working capital deficit as at June 30, 2016. If bank debt is also excluded, the working capital deficit at June 30, 2016 decreased to $4,235,853. Funds flow from operations for the three and six months ended June 30, 2016 were $360,700 and $383,712, respectively. Funds generated from operations during 2016 are anticipated to be used for debt reduction as well as limited capital expenditures and decommissioning work.

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 August 31, 2016. The maturity date remains at May 30, 2017, resulting in the credit facility being presented as a current liability. 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 borrowing base may be reduced due to low commodity prices. 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.

The credit facility had $42.7 million drawn and $2.3 million undrawn at June 30, 2016. It bears interest at a range of prime plus 3 percent to prime plus 7 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 Corporation's net debt at June 30, 2016 was $47.2 million and its debt to EBITDA ratio was 8.10:1, which is a violation of the 5.00:1 ratio required at June 30, 2016 and results in the bank debt being due on demand by the lenders.

The credit facility's semi-annual borrowing base renewal was deferred to August 31, 2016.

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 a term of 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 $4,235,853 at June 30, 2016 excluding the non-cash-settled convertible class B shares, as well as 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 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 will continue to 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 August 31, 2016. As such, the Corporation has included a note on going-concern uncertainty in its interim financial statements. 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	383,543	767,087	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".

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 $53,887 and $63,887 were incurred by Questfire to the law firm in the respective three and six months ended June 30, 2016 (three and six months ended June 30, 2015 – $4,278 and $29,990, respectively), of which $21,565 and $31,565, respectively (three and six months ended June 30, 2015 – $4,278 and $29,990, respectively), was related to general and administrative expenses, $1,180 for both periods (three and six months ended June 30, 2015 – $Nil for both periods), was related to finance expense and $31,142 for both periods (three and six months ended June 30, 2015 – $Nil for both periods), was related to corporate reorganization. At

June 30, 2016, $63,092 (December 31, 2015 – $12,988) of these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

Hedging

The Corporation practices 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 June 30, 2016, the Corporation's hedges covered approximately 43 percent of forecast production for the remainder of 2016, with 1 percent in the form of a costless collar and 42 percent in the form of swaps (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, 2015 annual financial statements and June 30, 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 six months ended June 30, 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 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. 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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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