Questfire Energy Corp. – Financial and Operating Highlights

	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Financial				
Oil and natural gas sales	**$ 8,162,248**	$ 9,854,087	**$ 21,734,487**	$ 31,311,111
Funds flow from operations (1)	**1,898,589**	2,628,266	**2,282,301**	8,916,000
Per share, basic	**0.11**	0.15	**0.13**	0.51
Per share, diluted	**0.08**	0.11	**0.10**	0.39
Loss	**(1,635,634)**	(5,330,460)	**(10,280,445)**	(9,234,620)
Per share, basic and diluted	**(0.09)**	(0.31)	**(0.59)**	(0.53)
Capital expenditures	**103,235**	2,309,671	**419,631**	4,872,305
Proceeds from property dispositions	**$ 307,387**	$ -	**2,257,387**	-
Working capital deficit *(end of period)* (2)			**54,528,815**	7,544,177
Long-term contract obligation *(end of period)* (3)			**13,893,316**	14,246,294
Long-term bank debt *(end of period)*			**-**	39,062,046
Shareholders' equity *(end of period)*			**$ 4,381,696**	$ 15,203,140
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	**$ 0.57**	$ 1.60	**$ 0.74**	$ 1.95
Low	**0.33**	1.00	**0.33**	1.00
Close	**$ 0.44**	$ 1.00	**$ 0.44**	$ 1.00
Operations (4)				
Production				
Natural gas *(Mcf/d)*	**20,636**	20,684	**21,096**	21,233
Natural gas liquids (NGL) *(bbls/d)*	**691**	627	**710**	638
Crude oil *(bbls/d)*	**414**	522	**443**	638
Total *(boe/d)*	**4,544**	4,596	**4,669**	4,815
Benchmark prices				
Natural gas				
AECO *(Cdn$/GJ)*	**$ 2.19**	$ 2.76	**$ 1.75**	$ 2.62
Crude oil				
WTI *(US$/bbl)*	**44.94**	46.43	**41.33**	51.00
Canadian Light *(Cdn$/bbl)*	**54.19**	55.10	**50.14**	59.09
Average realized prices (5)				
Natural gas *(per Mcf)*	**2.43**	2.95	**1.98**	2.85
NGL *(per bbl)*	**28.19**	31.72	**27.24**	35.13
Crude oil *(per bbl)*	**46.10**	50.13	**41.12**	49.73
Operating netback *(per boe)* (6)	**7.84**	8.65	**4.88**	9.04
Funds flow netback *(per boe)* (6)	**$ 4.54**	$ 6.22	**$ 1.78**	$ 6.78

(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 $2,095,998 and $5,426,544, respectively (September 30, 2015 – risk management contract assets of $418,474 and convertible Class B share liability of $Nil). Excluding this, the working capital deficit would be $47,006,273 (September 30, 2015 – $7,962,651).

(3) Long-term contract obligation excludes current portion of $381,824 (September 30, 2015 – $332,821), 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".

Third Quarter 2016 Corporate Highlights

- Achieved average production of 4,544 boe per day for the quarter, 76 percent natural gas. The average production of 4,669 boe per day for the first nine months of 2016 is within 3 percent of the 4,815 boe per day produced in the same period of 2015, underscoring the benefits of having a low-decline production base.
- Achieved funds flow from operations of $1.9 million ($0.11 per basic share) on sales of $8.2 million, a substantial improvement from the less than $400,000 in funds flow from operations in the first six months of 2016.
- Minimized capital spending, with total capital expenditures of $103,235.
- Incurred operating costs of $9.70 per boe in the quarter and $10.29 per boe in the first nine months. Operating costs have declined by 14 percent from the first nine months of 2015.
- Incurred general and administration (G&A) costs of $1.0 million for the quarter, representing an 18 percent reduction from the third quarter of 2015.
- Revised the maturity date of the Corporation's bank facility to November 30, 2016 and amended the terms to include a revised $30 million operating and syndicated facility plus a $14.5 million supplemental facility.

President's Message

The third quarter of 2016 appears to have marked a turning point in natural gas prices. Questfire's realized average gas price in the quarter was $2.43 per Mcf, a 61 percent increase over the $1.51 per Mcf realized in the second quarter of 2016. The higher pricing, along with our continued cost reductions, had a very favourable impact on our funds flow from operations, which totalled nearly $1.9 million in the third quarter. Although this was down somewhat year-over-year, it was up by over 425 percent from $360,000 in the second quarter and was vastly higher than the immaterial funds flow generated in the first quarter. The fundamentals of supply and demand in North America are looking positive for continued improvement in natural gas prices. As well, world oil demand continues to increase and there are signs of cooperation on the part of OPEC and some non-OPEC producers to manage supply. This bodes well for continued improvement in world oil prices.

While commodity prices are largely out of our control, Questfire continues to actively pursue cost reductions and practises spending discipline in all areas while minimizing production declines. Operating costs on a per-boe basis for the first nine months of 2016 were down by 14 percent year-over-year and G&A spending for third quarter was down by 18 percent from the third quarter of 2015. The Corporation has not drilled any wells so far in 2016, and capital spending in the quarter was a very low $103,235. Questfire's production base continues to show a very low base decline rate, which we estimate to be in the range of 10 percent per year. Production averaged 4,669 boe per day in the first nine months, which is within 3 percent of the 4,815 boe per day produced during the same period of 2015, despite there being no drilling in 2016 and only one well drilled in the third quarter of 2015. This low decline rate is a significant advantage for Questfire in the current low commodity price environment, allowing the Corporation to minimize capital spending and focus on cost reduction.

In the third quarter the Corporation announced new banking arrangements with its senior lenders, which require Questfire to reduce bank debt by approximately $15 million by November 30, 2016. We continue to work with our lenders towards this goal. Subsequent to the end of the quarter Questfire disposed of one non-core property, with 23 boe per day of net production, for $1.4 million and is expecting to close the sale of additional assets for $7.55 million prior to the end of November. The proceeds of these sales are earmarked to reduce senior bank debt. The Corporation is actively pursuing further asset sales and investigating a number of options to continue reducing its senior bank debt.

With a large inventory of drilling prospects, a low cost structure, declining debt and improving commodity prices, the Questfire management team is looking forward to a return to drilling in 2017, a return to growth and a return to the execution of our long-term business plan of growing production beyond 10,000 boe per day.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
November 23, 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 November 23, 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 nine months ended September 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 September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Daily average volume				
Natural gas *(Mcf/d)*	**20,636**	20,684	**21,096**	21,233
NGL *(bbls/d)*	**691**	627	**710**	638
Crude oil *(bbls/d)*	**414**	522	**443**	638
Total sales *(boe/d)*	**4,544**	4,596	**4,669**	4,815
Total sales *(boe)*	**418,024**	422,832	**1,279,188**	1,314,399
Production weighting				
Natural gas	**76%**	75%	**75%**	74%
NGL	**15%**	14%	**15%**	13%
Crude oil	**9%**	11%	**10%**	13%
	100%	100%	**100%**	100%

Production was virtually unchanged from the comparative periods thanks to the low-decline, long-life nature of Questfire's production base, with production from wells tied-in or recompleted over the past year making up most of the declines, and the slight overall decline being 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 September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Natural gas	**4,614,632**	5,618,154	**11,443,978**	16,532,077
NGL	**1,791,832**	1,829,261	**5,299,593**	6,117,519
Crude oil	**1,755,784**	2,406,672	**4,990,916**	8,661,515
Total	**8,162,248**	9,854,087	**21,734,487**	31,311,111
Average realized prices before hedging				
Natural gas *($/Mcf)*	**2.43**	2.95	**1.98**	2.85
NGL *($/bbl)*	**28.19**	31.71	**27.24**	35.12
Crude oil *($/bbl)*	**46.10**	50.11	**41.12**	49.73
Combined average *($/boe)*	**19.53**	23.30	**16.99**	23.82

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 third quarter and first nine 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 the approximately 5,000 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 or later.

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 47 percent of condensate, the highest-priced NGL. All of this is favourable to the Corporation's average realized prices.

Royalties

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Royalties	**404,365**	745,260	**1,008,162**	2,464,395
Per boe	**0.97**	1.76	**0.79**	1.88
Percentage of sales	**5.0%**	7.6%	**4.6%**	7.9%

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 lower than in the comparative periods due to 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 evaluating the impact to drilling plans as well as that for reserves.

Production and Operating Expense

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Production and operating expense	**4,053,215**	5,070,386	**13,167,391**	15,748,462
Per boe	**9.70**	11.99	**10.29**	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, new wells at Morningside coming on production during the fourth quarter of 2015 with lower per-boe operating costs, as well as prior-period cost recoveries resulting from a working-interest partner audit settlement. 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 magnitude of fixed costs such as property taxes and lease rentals.

Transportation Expense

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Transportation expense	**425,477**	381,775	**1,320,493**	1,209,947
Per boe	**1.02**	0.90	**1.03**	0.92

Transportation expense in the three-and nine-month periods of 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 has continued to date in 2016. Crude oil and natural gas prices trended lower in the nine months ended September 30, 2016 from the prior year. Subsequent to the end of the third quarter, prices for intra-Alberta natural gas as well as crude oil increased slightly. 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 September 30, 2016, Questfire had the following risk management contracts, with a total mark-to-market liability of $2,465,736:

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 September 30,		**Nine months ended September 30,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Realized gain (loss) on risk management contracts	**(137,303)**	575,333	**339,050**	1,793,258
Per boe	**(0.33)**	1.36	**0.26**	1.36
Unrealized gain (loss) on risk management contracts	**879,367**	(878,710)	**(2,465,736)**	(2,713,842)
Per boe	**2.10**	(2.08)	**(1.93)**	(2.06)

The realized loss on risk management contracts during the three months ended September 30, 2016 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 a flattening in natural gas commodity forward strip prices during the quarter.

The realized gains on risk management contracts during the nine months ended September 30, 2016 were due to average natural gas commodity prices being lower than the swap contract price. The unrealized loss for the same period was a result of increases in natural gas commodity forward strip prices between the dates the swaps were entered into and September 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 five months that the natural gas swaps were in place, Questfire realized cumulative gains on risk management contracts amounting to $0.22 per Mcf, providing a meaningful bump to natural gas revenues during a period of historically depressed prices.

The Corporation is currently prohibited from entering into risk management contracts under its banking credit facility agreement. Accordingly, no risk management contracts were entered into during the third quarter of 2016.

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

	Three months ended September 30, **2016**	2015	Nine months ended September 30, **2016**	2015
	$	$	**$**	$
G&A	**993,265**	1,209,856	**3,311,180**	3,986,007
Corporate reorganization	**91,767**	-	**393,371**	-
Total	**1,085,032**	1,209,856	**3,704,551**	3,986,007
G&A expense per boe	**2.37**	2.86	**2.59**	3.03
Corporate reorganization expense per boe	**0.22**	-	**0.31**	-
Total expense per boe	**2.59**	2.86	**2.90**	3.03

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 September 30, **2016**	2015	Nine months ended September 30, **2016**	2015
	$	$	**$**	$
Share-based compensation	**88,870**	172,877	**410,797**	524,249
Per boe	**0.21**	0.41	**0.32**	0.40

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 nine 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 options 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 nine months ended September 30, 2016. There were 3,133,500 options outstanding at September 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 surrenders during 2016. There were 2,252,944 options exercisable at September 30, 2016.

Exploration and Evaluation (E&E) Expenditures

	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
	$	$	**$**	$
Cash E&E expense	**158,267**	193,877	**590,639**	579,558
Non-cash mineral rights expiries	**458,602**	-	**458,602**	-
E&E expense	**616,869**	193,877	**1,049,241**	579,558
Cash E&E expense per boe	**0.38**	0.46	**0.46**	0.44
Non-cash mineral rights expiries per boe	**1.10**	-	**0.36**	-
Per boe	**1.48**	0.46	**0.82**	0.44

The increase in cash E&E expenditures recognized in the nine months ended September 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 September 30, 2016 from the comparative 2015 period is due to lower employee salaries.

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 September 30, 2016	2015	Nine months ended September 30, 2016	2015
	$	$	**$**	$
D&D	**2,515,569**	2,808,838	**7,854,090**	8,674,310
Per boe	**6.02**	6.64	**6.14**	6.60

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 a 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 September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Gain on sale of assets	**303,960**	-	**433,839**	-
Per boe	**0.73**	-	**0.34**	-

The gain on sale of assets during the three months ended September 30, 2016 pertains to the sale of non-core assets in the Westerose and Brazeau River CGUs, for proceeds of $307,387. During the second quarter of 2016 the Corporation also sold 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 September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Interest on bank debt	**923,381**	422,127	**1,994,479**	1,202,549
Interest on long-term contract obligation	**493,841**	505,101	**1,490,308**	1,522,960
Financing costs	**342,020**	20,000	**422,020**	75,000
Cash finance expense	**1,759,242**	947,228	**3,906,807**	2,800,509
Accretion on decommissioning provisions	**396,881**	452,029	**1,259,302**	1,324,297
Accretion on Class B share liability	**115,677**	106,125	**339,687**	311,636
Non-cash finance expense	**512,558**	558,154	**1,598,989**	1,635,933
Total finance expense	**2,271,800**	1,505,382	**5,505,796**	4,436,442
Per boe	**5.43**	3.56	**4.30**	3.38

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 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.

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

Class B share accretion has been 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 $617,291 and $3,698,436, respectively, in the three and nine months ended September 30, 2016, compared to recoveries of $1,907,081 and $2,698,223 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 $1,635,634 ($0.09 per share basic and diluted) and $10,280,445 ($0.59 per share basic and diluted), respectively, for the three and nine months ended September 30, 2016, compared to losses of $5,330,460 ($0.31 per share basic and diluted) and $9,234,620 ($0.53 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 September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Loss	**(1,635,634)**	(5,330,460)	**(10,280,445)**	(9,234,620)
Non-cash items:				
Unrealized loss (gain) on risk management	**(879,367)**	878,710	**2,465,736**	2,713,842
Share-based compensation	**88,870**	172,877	**410,797**	524,249
E&E	**458,602**	-	**458,602**	-
D&D	**2,515,569**	2,808,838	**7,854,090**	8,674,310
Impairment of property and equipment	**-**	4,500,000	**-**	4,500,000
Deferred income tax recovery	**(617,291)**	(1,907,081)	**(3,698,436)**	(2,698,223)
Finance expense	**2,271,800**	1,505,382	**5,505,796**	4,436,442
Gain on sale of assets	**(303,960)**	-	**(433,839)**	-
Funds flow from operations	**1,898,589**	2,628,266	**2,282,301**	8,916,000

Netback Analysis

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**19.53**	23.30	**16.99**	23.82
Royalties	**(0.97)**	(1.76)	**(0.79)**	(1.88)
Production and operating expense	**(9.70)**	(11.99)	**(10.29)**	(11.98)
Transportation expense	**(1.02)**	(0.90)	**(1.03)**	(0.92)
Operating netback	**7.84**	8.65	**4.88**	9.04
G&A and corporate reorganization	**(2.59)**	(2.86)	**(2.90)**	(3.03)
E&E [(1)]	**(0.38)**	(0.46)	**(0.46)**	(0.44)
Realized gain (loss) on risk management	**(0.33)**	1.36	**0.26**	1.36
Bad debt expense	**-**	(0.47)	**-**	(0.15)
Funds flow netback	**4.54**	6.22	**1.78**	6.78
Finance expense	**(5.43)**	(3.56)	**(4.30)**	(3.38)
Gain on sale of assets	**0.73**	-	**0.34**	-
D&D	**(6.02)**	(6.64)	**(6.14)**	(6.60)
Share-based compensation	**(0.21)**	(0.41)	**(0.32)**	(0.40)
Unrealized gain (loss) on risk management	**2.10**	(2.08)	**(1.93)**	(2.06)
Impairment of property and equipment	**-**	(10.65)	**-**	(3.42)
E&E mineral rights expiries	**(1.10)**	-	**(0.36)**	-
Deferred income tax recovery	**1.48**	4.51	**2.89**	2.05
Loss per boe	**(3.91)**	(12.61)	**(8.04)**	(7.03)

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

Selected Quarterly Information

Three months ended	**Sept. 30, 2016**	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014
Financial ($000s, except per share amounts and share numbers)								
Oil and natural gas sales	**8,162**	6,287	7,285	9,406	9,854	10,603	10,854	15,918
Funds flow from operations	**1,899**	361	23	2,627	2,628	3,236	3,052	5,211
Per share, basic *($)*	**0.11**	0.02	-	0.15	0.15	0.19	0.18	0.30
Per share, diluted *($)*	**0.08**	0.02	-	0.11	0.11	0.14	0.13	0.24
Income (loss)	**(1,636)**	(5,226)	(3,418)	(1,152)	(5,330)	(1,904)	(2,000)	1,600
Per share, basic *($)*	**(0.09)**	(0.30)	(0.20)	(0.07)	(0.31)	(0.11)	(0.12)	0.09
Per share, diluted *($)*	**(0.09)**	(0.30)	(0.20)	(0.07)	(0.31)	(0.11)	(0.12)	0.08
Capital expenditures	**103**	178	139	83	2,310	914	1,649	2,864
Total assets *(end of quarter)*	**94,531**	98,412	111,828	115,610	119,845	125,498	129,884	133,863
Working capital deficit *(end of quarter)*	**54,529**	54,926	11,077	9,653	7,544	4,166	4,103	4,787
Long-term contract obligation *(end of quarter)* (1)	**13,893**	13,965	14,062	14,156	14,246	14,334	14,418	14,500
Non-current bank debt *(end of quarter)*	**-**	-	41,839	41,406	39,062	40,590	40,774	39,000
Shareholders' equity *(end of quarter)*	**4,382**	5,928	10,987	14,251	15,203	20,361	22,089	23,914
Weighted-average basic shares outstanding *(000s)*	**17,318**	17,318	17,318	17,318	17,318	17,318	17,318	17,318
Weighted-average diluted shares outstanding *(000s)*	**17,318**	17,318	17,318	17,318	17,318	17,318	17,318	21,550
Operations								
Production								
Natural gas *(Mcf/d)*	**20,636**	19,872	22,785	23,245	20,684	20,690	22,341	24,868
NGL *(bbls/d)*	**691**	696	744	674	627	599	689	712
Crude oil *(bbls/d)*	**414**	413	501	512	522	605	790	644
Total *(boe/d)*	**4,544**	4,421	5,043	5,060	4,596	4,652	5,203	5,501
Average realized prices *($)*								
Natural gas *(per Mcf)*	**2.43**	1.51	1.97	2.57	2.95	2.73	2.87	3.74
NGL *(per bbl)*	**28.19**	28.23	25.40	31.74	31.72	40.87	33.25	51.38
Crude oil *(per bbl)*	**46.10**	46.84	32.35	41.02	50.13	58.72	42.51	67.23
Operating netback *(per boe)*	**7.84**	3.17	3.67	6.89	8.65	9.53	8.96	13.78
Funds flow netback *(per boe)*	**4.54**	0.90	0.05	5.64	6.22	7.65	6.52	10.30

(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 September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Land	**9,402**	13,964	**76,856**	55,180
Geological and geophysical	**-**	20,167	**12,150**	22,802
Drilling and completions	**26,397**	2,153,362	**28,663**	2,818,609
Production equipment and facilities	**35,469**	83,143	**200,533**	1,518,733
Well workovers and recompletions	**31,967**	36,718	**101,429**	454,664
Office equipment	**-**	2,317	**-**	2,317
	103,235	2,309,671	**419,631**	4,872,305

At September 30, 2016, the Corporation had E&E assets of $916,516 (December 31, 2015 – $1,340,456). This included 95,606 net acres of undeveloped land.

At September 30, 2016, the Corporation had gross property and equipment of $131,680,480. 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 three quarters of 2016, no drilling activities were undertaken. As a result of marginal funds flow from operations, capital expenditures were minimized in order to conserve cash.

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 September 30, 2016, the Corporation had a working capital deficit of $47,006,273 (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 September 30, 2016. If bank debt were also excluded, the working capital deficit at September 30, 2016 would decrease to $4,013,614. Funds flow from operations for the three and nine months ended September 30, 2016 were $1,898,589 and $2,282,301, respectively, which were used to pay interest on debt and other financing costs. Funds generated from operations during the remainder of 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 $44.5 million credit facility matures on November 30, 2016, requiring it to be presented as a current liability. The Corporation is currently in discussions with the lenders to extend the loan. Should this occur, 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. 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 had $43.0 million drawn and $1.5 million undrawn at September 30, 2016. It bears interest at a range of prime plus 2 percent to prime plus 6 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.

The Corporation is subject to certain reporting, operational and financial covenants under its credit facility. The reporting covenant requires Questfire to maintain a liability management rating (LMR) as reported by the Alberta Energy Regulator (AER) of at least 1.10:1 at all times. This covenant was met.

The operational covenant requires Questfire to maintain production volumes of at least 80 percent of that forecast by the Corporation and approved by its syndicate of lenders. This covenant was 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 convertible Class B shares, and risk management contracts. The consolidated net debt, including letters of credit, at September 30, 2016 was $47.2 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 its syndicate of lenders. This covenant was met. The third financial covenant requires Questfire to have a cumulative negative monthly cash flow variance of no more than $0.5 million compared to the amount forecast by the Corporation in August 2016 and approved by its syndicate of lenders. This covenant was met.

The credit facility's next borrowing base renewal is scheduled for November 30, 2016.

The Corporation's long-term contract obligation relates to the facilities joint venture agreement with a third party, to which the Corporation has agreed to pay 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 $4,013,614 at September 30, 2016 excluding the non-cash-settled convertible class B shares, 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 Corporation remains close to its borrowing limits and is in a negative working capital position. There is also uncertainty regarding the determination of the borrowing base, which is to take place before November 30, 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 October 2016, the Government of Canada announced a national carbon pricing regime in response to the Paris Agreement ratified by Canada earlier that month. Under the Carbon Strategy, a benchmark carbon pricing program will be applied, pricing carbon emissions at a minimum of $10 per tonne in 2018, rising by $10 per tonne each year to $50 per tonne by 2022. The Carbon Strategy also proposes a federal backstop in the event that jurisdictions fail to meet the benchmark. The Government of Alberta established a carbon pricing system referenced in the federal announcement; therefore, in the short-term, the national price on carbon will likely have little additional impact to Questfire beyond that imposed by the Government of Alberta.

Additional details of the national carbon pricing regime are expected to be finalized in the coming months, and further legislation and regulation are expected. At this time, Questfire is unable to predict the impact of the Paris Agreement, and the national carbon pricing regime on its operations. It is possible that mandatory emissions reduction requirements may have a material adverse effect on Questfire's financial condition, results of operations and cash flow.

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	191,772	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 $41,461 and $105,348 were incurred by Questfire to the law firm in the respective three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015 – $6,000 and $35,990, respectively), of which $28,017 and $59,581, respectively (three and nine months ended September 30, 2015 – $6,000 and $35,990, respectively), was related to general and administrative expenses, $12,859 and $14,039, respectively (three and nine months ended September 30, 2015 – $Nil for both periods), was related to finance expense and $585 and $31,728, respectively (three and nine months ended September 30, 2015 – $Nil for both periods), was related to corporate reorganization. At September 30, 2016, $26,804 (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 has historically practiced 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 September 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). The Corporation is currently forbidden under its banking agreements from entering into additional hedges.

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 September 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 nine months ended September 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 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. 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 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, 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