Questfire Energy Corp.

Condensed Interim Financial Statements

For the three months ended March 31, 2013

(amounts in Canadian dollars) (unaudited)

Questfire Energy Corp.
Condensed Interim Balance Sheets
(amounts in Canadian dollars) (unaudited)

	Note	March 31, 2013	December 31, 2012 (restated – note 2(b))
Assets			
Current assets			
Cash and cash equivalents	17	$ 137,641	$ 395,288
Accounts receivable	4(c)	70,131	200,482
Deposits and prepaid expenses		79,998	36,948
Total current assets		287,770	632,718
Non-current assets			
Property and equipment	6	3,046,379	3,069,632
Exploration and evaluation assets	7	1,917,775	1,910,773
Deposit	21	200,000	-
Deferred financing	21	100,000	-
Total non-current assets		5,264,154	4,980,405
Total assets		$ 5,551,924	$ 5,613,123
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4(d)	$ 1,285,288	$ 323,024
Flow-through share commitments	19	1,840,817	1,840,817
Total current liabilities		3,126,105	2,163,841
Non-current liabilities			
Decommissioning provisions	9	158,656	156,198
Convertible Class B Shares	10	4,052,742	3,966,350
Convertible debentures	11	1,379,009	1,352,811
Deferred tax liabilities		-	47,849
Total liabilities		8,716,512	7,687,049
Shareholders' Equity			
Share capital	13(b)	4,193,633	4,193,633
Equity component of convertible Class B Shares	10	(2,081,352)	(2,081,352)
Equity component of convertible debentures	11	79,767	79,767
Warrants	11	28,295	28,295
Contributed surplus		147,051	134,770
Deficit		(5,531,982)	(4,429,039)
Total equity attributable to equity holders of the Corporation		(3,164,588)	(2,073,926)
Total liabilities and shareholders' equity		$ 5,551,924	$ 5,613,123

Commitments (note 20)
Subsequent events (note 21)

See accompanying notes to the condensed interim financial statements.

(Signed) "Richard Dahl", Director

(Signed) "Roger MacLeod", Director

Questfire Energy Corp.

Statements of Loss and Comprehensive Loss

(amounts in Canadian dollars) (unaudited)

	Note	Three months ended March 31, 2013	Three months ended March 31, 2012
Revenue			
Oil and natural gas sales		$ 64,121	$ 58,026
Royalties		(3,467)	(9,139)
		60,654	48,887
Expenses			
Production and operating		31,925	22,604
Transportation		1,264	2,787
General and administrative		916,212	299,505
Stock-based compensation	14(b)	12,281	27,361
Exploration and evaluation		62,500	1,061,809
Depletion and depreciation	6	26,687	40,059
		1,050,869	1,454,125
		(990,215)	(1,405,238)
Finance income	15	-	6,956
Finance expense	15	(160,577)	(87,699)
Net finance expense		(160,577)	(80,743)
Loss before income taxes		(1,150,792)	(1,485,981)
Deferred income tax recovery	12	47,849	304,235
Loss and comprehensive loss for the period		$ (1,102,943)	$ (1,181,746)
Loss per share			
Basic and diluted	13(c)	$ (0.09)	$ (0.09)

See accompanying notes to the condensed interim financial statements.

Questfire Energy Corp.

Statements of Changes in Equity

(amounts in Canadian dollars) (unaudited)

	Note	Share capital	Equity component of convertible Class B Shares	Equity component of convertible debentures	Warrants	Contributed surplus	Deficit	Total equity
Balance at December 31, 2011		$ 4,193,633	$ (2,081,352)	$ -	$ -	$ 25,327	$ (904,417)	$ 1,233,191
Stock-based compensation related to stock options	14(b)	-	-	-	-	27,361	-	27,361
Loss for the period		-	-	-	-	-	(1,181,746)	(1,181,746)
Balance at March 31, 2012		4,193,633	(2,081,352)	-	-	52,688	(2,086,163)	78,806
Issuance of convertible debenture units, net of issuance costs and income taxes	11	-	-	79,767	28,295	-	-	108,062
Stock-based compensation related to stock options		-	-	-	-	82,082	-	82,082
Loss for the period		-	-	-	-	-	(2,342,876)	(2,342,876)
Balance at December 31, 2012		4,193,633	(2,081,352)	79,767	28,295	134,770	(4,429,039)	(2,073,926)
Stock-based compensation related to stock options	14(b)	-	-	-	-	12,281	-	12,281
Loss for the period		-	-	-	-	-	(1,102,943)	(1,102,943)
Balance at March 31, 2013		$ 4,193,633	$ (2,081,352)	$ 79,767	$ 28,295	$ 147,051	$ (5,531,982)	$ (3,164,588)

See accompanying notes to the condensed interim financial statements.

Questfire Energy Corp.

Statements of Cash Flows

(amounts in Canadian dollars) (unaudited)

	Note	Three months ended March 31, 2013	Three months ended March 31, 2012
Cash and cash equivalents provided by (used in):			
Cash flows from (used in) operating activities			
Loss for the period		$ (1,102,943)	$ (1,181,746)
Adjustments for:			
Depletion and depreciation	6	26,687	40,059
Deferred income tax recovery	12	(47,849)	(304,235)
Exploration and evaluation impairment	7	-	999,309
Net finance expense	15	160,577	80,743
Stock-based compensation	14(b)	12,281	27,361
Change in non-cash working capital	5	1,065,717	(102,766)
Net cash from (used in) operating activities		114,470	(441,275)
Cash flows from (used in) investing activities			
Additions to exploration and evaluation assets	7	(7,002)	(953,933)
Additions to property and equipment	6	(3,513)	(161,826)
Deposit	21	(200,000)	-
Interest received	15	-	6,956
Change in non-cash working capital	5	(16,152)	(1,651,216)
Net cash used in investing activities		(226,667)	(2,760,019)
Cash flows from (used in) financing activities			
Deferred financing costs	21	(100,000)	-
Interest paid	15	(45,450)	(7,686)
Change in non-cash working capital	5	-	(14,693)
Net cash used in financing activities		(145,450)	(22,379)
Change in cash and cash equivalents		(257,647)	(3,223,673)
Cash and cash equivalents, beginning of period		395,288	4,473,765
Cash and cash equivalents, end of period		$ 137,641	$ 1,250,092

See accompanying notes to the condensed interim financial statements.

1. General business description

Questfire Energy Corp. ("Questfire" or the "Corporation") was incorporated under the laws of Alberta on January 15, 2010. The Corporation is engaged in the exploration for and development and production of oil and natural gas and may conduct its activities jointly with others; these financial statements reflect only the Corporation's proportionate interest in such activities. The Corporation's Class A Shares and Class B Shares are listed on the TSX Venture Exchange (TSX-V). The address and principal place of business of the Corporation is Suite 400, 703 – 6th Ave S.W., Calgary, Alberta, T2P 0T9.

The condensed interim financial statements were authorized for issuance by the Board of Directors on May 22, 2013.

2. Basis of preparation

(a) Statement of compliance

These condensed interim financial statements were prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2012, except as defined below. They were prepared according to International Accounting Standard (IAS) 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. Accordingly, certain financial information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) were omitted or condensed. The disclosure provided herein is incremental to the disclosure in the annual financial statements. The condensed interim financial statements should be read in conjunction with Questfire's annual audited financial statements for the year ended December 31, 2012.

(b) Significant accounting policies

These condensed interim financial statements have been prepared following the same accounting policies and methods of computation as the Corporation's 2012 annual financial statements except as noted below:

Under the Corporation's previous accounting policy for decommissioning provisions, the estimate of the expenditure required to settle the present obligation at the balance sheet date was recorded on a discounted basis using the pre-tax risk-free interest rate and the future cash flow estimates were adjusted to reflect the risks specific to the liability. As at January 1, 2013, the Corporation has voluntarily changed its accounting policy to use a credit adjusted risk-free interest rate and future cash flow estimates will not be adjusted to reflect the risks specific to the liability. The Corporation believes the change in discount rates used provides reliable and more relevant information to the users of the financial statements as the discount rate is more consistent with the Corporation's cost of capital. The change in policy is required to be applied retrospectively and has resulted in property and equipment at December 31, 2012 decreasing by $71,000 with a corresponding decrease to decommissioning provisions of $71,000. Deferred tax, depletion and accretion amounts related to prior periods have not been adjusted as any changes would be trivial to the users of the financial statements.

The Corporation has also adopted the following new and amended standards, along with any consequential amendments, effective January 1, 2013:

IFRS 7, "Financial Instruments" provides additional information about offsetting of financial assets and liabilities. Additional disclosures are required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

The adoption of IFRS 7 had no impact on the Corporation's financial statements;

IFRS 10, "Consolidated Financial Statements" provides a single model to be applied in control analysis for all investees including special-purpose entities.

The adoption of IFRS 10 had no impact on the Corporation's financial statements;

IFRS 11, "Joint Arrangements" redefines joint arrangements into two types: joint operations and joint ventures, each with their own accounting model. All joint operations need to be proportionately consolidated and joint ventures to be equity accounted.

The adoption of IFRS 11 had no impact on the Corporation's financial statements;

IFRS 12, "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.

The adoption of IFRS 12 had no impact on the Corporation's financial statements;

IFRS 13, "Fair Value Measurement" defines the fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments at January 1, 2013. The Corporation has complied with the new disclosure requirements of IFRS 13 in note 4(b);

IAS 1, "Presentation of Financial Statements", amended to require presentation of an additional opening balance sheet when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification and to clarify the disclosure requirements.

The adoption of IAS 1 had no impact on the Corporation's financial statements; and

IAS 32, "Financial Instruments: Presentation", amended to clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of offset in respect of its financial instruments, and clarifying the treatment of income taxes related to distributions and transaction costs.

The adoption of IAS 32 had no impact on the Corporation's financial statements.

3. Future accounting pronouncements

The Corporation continues to assess the impact of adopting the future pronouncements from the IASB as described in the Corporations 2012 annual financial statements.

The Corporation has not yet completed its assessment and evaluation of the effect of adopting the new standard and the impact it may have on its financial statements.

4. Financial instruments and risk management

(a) Risk management overview

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosure is included throughout this document. The Corporation employs risk management strategies and polices to ensure that risk exposure complies with its business objectives and risk tolerance. While the Board of Directors has overall responsibility for the Corporation's risk management framework, Questfire's management monitors the risks and administers the risk management measures.

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and flow-through share commitments approximate their carrying value due to the short-term maturity of those instruments. The fair value of the convertible debentures is approximated by their carrying value given interest rates the Corporation believes it would currently have to pay on an instrument with similar terms.

The fair value of convertible Class B Shares at March 31, 2013 was determined to be $778,176 based on the market price of $1.40 per Class B Share on that date.

The fair value of financial derivatives, including commodity contracts, if any, is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate adjusted for the Corporation's non-performance risk and the non-performance risk of the counterparty.

(amounts in Canadian dollars) (unaudited)

The significance of inputs used in making fair-value measurements is examined and classified according to a fair-value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on their Level 1 designation. Derivative financial instruments, including commodity contracts, if any, are measured at fair value based on a Level 2 designation.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk with respect to accounts receivable and cash and cash equivalents.

Substantially all of the Corporation's accounts receivable are due from purchasers of Questfire's oil and natural gas production, joint venture partners and government agencies and are subject to normal industry credit risk. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation mitigates the credit risk associated with the marketing of its petroleum and natural gas production by establishing the marketing relationships with large, credit-worthy purchasers.

Significant changes in industry conditions and risks that weaken partners' ability to generate cash flow will increase collection risk. Questfire's management believes the risk is mitigated by the size and reputation of the companies to which the Corporation extends credit and believes all receivables will be collected.

As at March 31, 2013 and December 31, 2012, the Corporation's accounts receivable were comprised of the following:

	March 31, 2013	December 31, 2012
Oil and natural gas sales	$ 28,707	$ 53,264
GST and other	41,424	147,218
	$ 70,131	$ 200,482

(amounts in Canadian dollars) (unaudited)

The Corporation considers all amounts greater than 90 days past due. As at March 31, 2013 and December 31, 2012 $nil is past due. The Corporation manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Corporation's liquidity is affected by various external events and conditions, including commodity price fluctuations and global economic instability.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational, capital and other obligations through future operating cash flow, as well as future equity and debt financings (see note 21).

The Corporation's accounts payable and accrued liabilities as at March 31, 2013 and December 31, 2012 are aged as follows:

	March 31, 2013	December 31, 2012
0 to 30 days	$ 1,029,778	$ 300,212
31 to 60 days	121,486	20,358
61 to 90 days	114,587	2,454
Greater than 90 days	19,437	-
Total accounts payable and accrued liabilities	$ 1,285,288	$ 323,024

The Corporation expects to satisfy its obligations under accounts payable and accrued liabilities plus its flow-through share commitments of $1,840,817 within the next year.

The Corporation is also subject to future commitments as disclosed in notes 20 and 21.

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates, will reduce the Corporation's net earnings or the value of financial instruments. These risks are largely outside the Corporation's control. The Corporation's objective is to manage and mitigate market risk exposure within acceptable limits, while maximizing returns. Market risks are as follows:

Foreign currency risk

Crude oil prices are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Corporation are influenced by U.S. and Canadian supply and demand and, to a much lesser degree, by imports of liquefied natural gas. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease the revenues received from the sale of oil and natural gas. The impact of such exchange rate fluctuations cannot be predicted. As at March 31, 2013 and December 31, 2012, the Corporation had no forward exchange rate contracts nor any working capital denominated in foreign currencies.

Interest rate risk

Interest rate risk is the risk that future cash flows will fall as a result of changes in market interest rates. The Corporation is currently not exposed to interest rate cash flow risk as its borrowings bear interest at fixed rates. The Corporation had no interest rate swaps or financial contracts in place as at or during the three months ended March 31, 2013 or the year ended December 31, 2012.

Commodity price risk

The Corporation's operations expose it to fluctuations in commodity prices. Commodity prices for oil and natural gas are affected by global economic events that influence supply and demand. Questfire's management continuously monitors commodity prices and may consider risk-management instruments when it deems appropriate.

The Corporation's production is usually sold using "spot" or near-term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Corporation may, however, consider the appropriateness of entering into long-term, fixed-price marketing contracts. Its policy is to enter into commodity price contracts when considered appropriate to a maximum of 50 percent of forecast production volume. The Corporation may enter into derivative financial instruments, being collars, to achieve this objective. Collars ensure that the commodity prices realized will fall into a contracted range for a contracted sale volume based on the monthly index price. Monthly gains and losses are determined based on the differential between the daily settlement price and the monthly index price when the monthly index price falls between the floor and the ceiling.

(f) Capital management

The Corporation's capital management policy is to maintain a strong capital base that optimizes the Corporation's ability to grow, maintains investor and creditor confidence, and provides a platform to create value for its shareholders. The Corporation maintains a flexible capital structure to maximize its ability to pursue oil and natural gas exploration and asset acquisition opportunities and to sustain future development of the business. The Corporation monitors risks for each capital project to balance the proportion of debt and equity in its capital structure. The Corporation's officers are responsible for managing its capital and do so through quarterly meetings and regular reviews of financial information, including budgets and forecasts. The Corporation's Board of Directors is responsible for overseeing this process. The Corporation considers its capital structure to include shareholders' equity (deficiency), convertible Class B Shares liability, convertible debentures and bank debt, if any.

The Corporation monitors capital based on its current working capital, projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Corporation prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by management and approved by the Board of Directors. The budget results are regularly reviewed and updated as required.

In order to maintain or adjust the capital structure, the Corporation may issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Corporation's ability to raise additional debt or equity financing is affected by external conditions, including future commodity prices, particularly of natural gas, and by global economic conditions. The Corporation continually monitors business conditions, including: changes in economic conditions, the risk encountered in its drilling programs, forecast commodity prices, and potential corporate or asset acquisitions.

The Corporation has no externally imposed capital requirements and has not paid or declared any dividends since the date of incorporation. There were no changes to the Corporation's approach to capital management during the three months ended March 31, 2013 (also see note 21).

(amounts in Canadian dollars) (unaudited)

5. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three months ended March 31, 2013	Three months ended March 31, 2012
Source (use) of cash:		
Accounts receivable	$ 130,351	$ (6,602)
Deposits and prepaid expenses	(43,050)	(33,684)
Accounts payable and accrued liabilities	962,264	(1,728,389)
	$ 1,049,565	$ (1,768,675)
Related to operating activities	$ 1,065,717	$ (102,766)
Related to investing activities	(16,152)	(1,651,216)
Related to financing activities	-	(14,693)
Changes in non-cash working capital	$ 1,049,565	$ (1,768,675)

(amounts in Canadian dollars) (unaudited)

6. Property and equipment (P&E)

	Oil and natural gas interests (restated – note 2(b))	**Corporate and other**	**Total**
Cost			
Balance at December 31, 2011	$ 551,866	$ 36,882	$ 588,748
Transfer from exploration and evaluation (E&E) assets (note 7)	2,883,651	-	2,883,651
Additions	196,542	-	196,542
Decommissioning provision	26,500	-	26,500
Balance at December 31, 2012	3,658,559	36,882	3,695,441
Additions	-	3,513	3,513
Decommissioning provision	(79)	-	(79)
Balance at March 31, 2013	$ 3,658,480	$ 40,395	$ 3,698,875
Depletion, depreciation and impairment losses			
Balance at December 31, 2011	$ -	$ 13,100	$ 13,100
Impairment loss	313,500	-	313,500
Depletion and depreciation for the period	292,109	7,100	299,209
Balance at December 31, 2012	605,609	20,200	625,809
Depletion and depreciation for the period	25,387	1,300	26,687
Balance at March 31, 2013	$ 630,996	$ 21,500	$ 652,496

	Oil and natural gas interests (restated – note 2(b))	**Corporate and other**	**Total**
Net book value:			
At December 31, 2011	$ 551,866	$ 23,782	$ 575,648
At December 31, 2012	$ 3,052,950	$ 16,682	$ 3,069,632
At March 31, 2013	$ 3,027,484	$ 18,895	$ 3,046,379

(amounts in Canadian dollars) (unaudited)

(a) Contingencies

Although the Corporation believes that it has title to its oil and natural gas interests, it cannot control or completely protect itself against the risk of title disputes or challenges.

(b) Capitalized general and administrative and financing costs

To March 31, 2013, the Corporation has not capitalized any general and administrative expenses to P&E. No interest has been capitalized.

7. Exploration and evaluation (E&E) assets

	E&E assets
Balance at December 31, 2011	$ 3,390,131
Additions	2,373,779
Impairment	(999,309)
Transfers to P&E (note 6)	(2,883,651)
Decommissioning provision	29,823
Balance at December 31, 2012	1,910,773
Additions	7,002
Impairment	-
Transfers to P&E (note 6)	-
Decommissioning provision	-
Balance at March 31, 2013	$ 1,917,775

E&E assets consist of the Corporation's exploration projects which are pending the determination of proved and/or probable reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the period.

During the three months ended March 31, 2012, the Corporation recorded an impairment of its E&E assets of $999,309, upon the transfer of assets in the Niton cash-generating unit (CGU) to P&E, which was recorded as E&E expense on the statement of loss and comprehensive loss. The impairment was a result of management's assessment of expected future recoverable proved and probable reserves of the related asset. The impairment loss was based on the fair value less cost to sell of the transferred assets based on a pre-tax 10 percent discounted cash flow model.

(amounts in Canadian dollars) (unaudited)

8. Impairment

Oil and natural CGUs

At March 31, 2013, the Corporation tested its CGUs for impairment.

The recoverable amount of the CGU was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a pre-tax discount rate of 10 percent for properties with oil or high-energy content natural gas and natural gas liquids as their principal reserves, and a discount rate of 15 percent for properties with natural gas as their principal reserves, and forecast cash flows, with escalating prices and future development costs, as obtained from externally prepared reserve estimates. The forecast prices used to estimate the fair value less costs to sell are those used by independent industry reserve engineers. No CGU's were considered impaired at March 31, 2013.

9. Decommissioning provisions

The Corporation's decommissioning provisions result from its ownership interest in oil and natural gas assets, including well sites and gathering systems. The total decommissioning provision is estimated based on the Corporation's net ownership interest in all wells, estimated costs to reclaim and abandon these wells, and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provisions, before considering salvage, are approximately $261,840 at March 31, 2013, which was discounted using a credit-adjusted risk-free rate of 6.5 percent at March 31, 2013. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 18 years into the future and will be funded from general corporate resources at the time of abandonment.

The following table summarizes changes in the decommissioning provisions for the three months ended March 31, 2013:

	March 31, 2013	December 31, 2012 (restated – note 2(b))
Decommissioning provisions, beginning of period	$ 156,198	$ 96,297
Accretion	2,537	3,578
Liabilities incurred	-	29,114
Change in estimates	(79)	27,209
Decommissioning provisions, end of period	$ 158,656	$ 156,198

10. Convertible Class B Shares

On October 18, 2011, the Corporation completed its initial public offering which included the issuance of 555,840 Class B Shares with a face value of $5,558,400 ($10.00 per Class B Share).

(amounts in Canadian dollars) (unaudited)

The Class B Shares are convertible (at the Corporation's option) into Class A Shares at any time after September 30, 2014 and on or 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 then-current 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 option of the shareholder) 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. The Class B Shares are listed and posted for trading on the TSX-V under the symbol "Q.B".

The Class B Shares were determined to be compound financial instruments. As the Class B Shares are convertible into Class A Shares, based on the conversion formula above, the number of Class A Shares is unknown and, therefore, is presented as a liability. The Class B Share liability, estimated at issuance to be $3,576,932 based on the present value of discounted cash flows using a discount rate of 9 percent, is accreted using the effective interest rate method over the term of the Class B Shares, such that the carrying amount of the financial liability will be equal to the principal of $5,558,400 at maturity.

The following table is a continuity of the convertible Class B Shares liability:

	Three months ended March 31, 2013	Year ended December 31, 2012
Balance, beginning of period	$ 3,966,350	$ 3,638,810
Accretion of convertible Class B Shares liability (note 15)	86,392	327,540
Balance, end of period	$ 4,052,742	$ 3,966,350

Upon issuance of the Class B Shares, the Corporation recognized the equity component of the convertible Class B Shares as a conversion option of $1,585,985, and $495,367 related to the deferred income tax effect of the Class B Shares, for a total of $2,081,352.

11. Convertible debentures

On June 28, 2012, the Corporation completed the issuance of unsecured senior convertible debentures for gross proceeds of $1,510,000 ($1,444,497 net), of which $750,000 was raised from officers and directors of the Corporation. The Corporation issued 302 units at a price of $5,000 per unit, with each unit being comprised of one $5,000 debenture and 5,000 Class A Share purchase warrants. The debentures bear interest at a rate of 12 percent per annum, which is payable quarterly in arrears commencing on September 30, 2012, mature on June 30, 2014 and can be converted into common shares of Questfire at any time at the option of the holders at a conversion price of $0.50 per Class A Share. In aggregate the Corporation issued 1,510,000 share purchase warrants and each warrant entitles the holder to acquire one Class A Share at a price of $0.75 until June 30, 2014.

(amounts in Canadian dollars) (unaudited)

The debentures have been classified as debt, net of issuance costs and net of the fair value of the conversion feature and the warrants (the "Conversion Features") at the date of issuance, which have been classified in shareholders' equity. The issuance costs will be amortized over the term of the debentures and the debt portion will accrete up to the original face value at maturity. The accretion, amortization of issuance costs and interest paid are expensed on the statement of loss and comprehensive loss. The fair value of the Conversion Features was determined at the time of issuance as the difference between the face value of the debentures and the discounted cash flows assuming an 18 percent effective interest rate, which was the estimated rate for debt with similar terms but without any Conversion Features. If the debentures or the warrants are converted to Class A Shares, a portion of the value of the Conversion Features under shareholders' equity will be reclassified to share capital along with the conversion price paid.

The following table sets forth a reconciliation of the convertible debentures for the period ended March 31, 2013:

	Liability component	Warrants	Equity conversion feature	Total
Balance, January 1, 2012	$ -	$ -	$ -	$ -
Gross cash proceeds	1,360,946	39,028	110,026	1,510,000
Accretion on discount	52,396	-	-	52,396
Issuance costs	(60,531)	(1,302)	(3,670)	(65,503)
Deferred tax liability	-	(9,431)	(26,589)	(36,020)
Balance, December 31, 2012	1,352,811	28,295	79,767	1,460,873
Accretion on discount (note 15)	26,198	-	-	26,198
Balance, March 31, 2013	$ 1,379,009	$ 28,295	$ 79,767	$ 1,487,071

(amounts in Canadian dollars) (unaudited)

12. Income tax expense

Reconciliation of effective tax rate:

	Three months ended March 31, 2013	Three months ended March 31, 2012
Loss before income tax	$ (1,150,792)	$ (1,485,981)
Statutory federal-provincial corporate income tax rate	25.0%	25.0%
Expected income tax recovery	(287,698)	(371,495)
Non-deductible expenses	190	626
Statutory rate changes and other	-	(2,428)
Non-deductible stock-based compensation	3,070	6,840
Reversal of flow-through share premium	-	(152,724)
Flow-through expenditures incurred	-	214,946
Tax assets not recognized	236,589	-
Total income tax recovery	$ (47,849)	$ (304,235)

13. Share capital

(a) Authorization

At March 31, 2013, the Corporation was authorized to issue the following:

Unlimited number of voting Class A Shares

Unlimited number of voting Class B Shares (note 10)

Unlimited number of preferred shares, issuable in series

(b) Issued

Class A Shares	Number of shares	Amount
Balance, December 31, 2011, December 31, 2012 and March 31, 2013	12,813,001	$ 4,193,633

(c) Basic and diluted loss per share was calculated based on the weighted average common shares outstanding of 12,813,001 for the three months ended March 31, 2013, and for the three months ended March 31, 2012. The potential dilutive effect of stock options, warrants, convertible Class B Shares and convertible debentures was not included in the calculation as the effect would be anti-dilutive.

(amounts in Canadian dollars) (unaudited)

(d) Shares in escrow

At December 31, 2011, 7,375,500 Class A Shares were held in escrow pursuant to TSX-V requirements. On April 25, 2012 and October 25, 2012, 1,229,250 and 1,229,250 Class A Shares, respectively, were released from escrow and a total of 4,917,000 Class A Shares remained in escrow at March 31, 2013. The remaining shares will be released from escrow in equal installments at six-month intervals, commencing April 25, 2013 with the last release on October 25, 2014. The above escrow release schedule is subject to acceleration in accordance with National Policy 46-201 - *Escrow for Initial Public Offerings* and the policies of the TSX-V in the event that the Corporation subsequently meets certain listing requirements.

14. Stock-based compensation

(a) Stock options

On August 30, 2011, the Corporation adopted a stock option plan under which it is authorized to issue stock options to employees, officers, directors and consultants for up to 10 percent of the total issued and outstanding number of Class A and Class B Shares. Options under the stock option plan cannot have an exercise price less than the closing market price on the day immediately preceding the date of grant and will expire a maximum of ten years from the date of grant. It is the Corporation's intention that options granted will generally vest as to one-third on each of the first, second and third anniversaries of the date of grant and expire ten years from the date of grant.

The following options have been awarded under the stock option plan:

	Three months ended March 31, 2013		Year ended December 31, 2012	
	Number	**Exercise Price**	**Number**	**Exercise Price**
Outstanding, beginning of period	1,281,000	$ 0.20	1,281,000	$ 0.20
Granted	-	-	-	-
Forfeited	-	-	-	-
Outstanding at March 31	1,281,000	$ 0.20	1,281,000	$ 0.20
Exercisable at March 31	427,000	$ 0.20	427,000	$ 0.20

(amounts in Canadian dollars) (unaudited)

The following table summarizes the expiry terms and exercise prices of the Corporation's outstanding stock options as at March 31, 2013:

Date of grant	Exercise price	Outstanding options	Weighted-average remaining contractual life (years)	Number of stock options exercisable
October 18, 2011	$ 0.20	1,281,000	8.6	427,000
	$ 0.20	1,281,000	8.6	427,000

(b) Stock-based compensation expense

Compensation costs of $12,281 for the three months ended March 31, 2013 (three months ended March 31, 2012 - $27,361) have been expensed, with a corresponding increase in contributed surplus.

15. Finance income and expense

	Three months ended March 31, 2013	Three months ended March 31, 2012
Finance income		
Interest income on cash and cash equivalents	$ -	$ 6,956
Finance expense		
Part XII.6 tax on flow-through share expenditures	-	(7,686)
Interest on convertible debentures	(45,450)	-
Accretion on decommissioning provisions (note 9)	(2,537)	(755)
Accretion on convertible Class B Shares liability (note 10)	(86,392)	(79,258)
Accretion on convertible debentures (note 11)	(26,198)	-
	(160,577)	(87,699)
Net finance expense recognized in profit or loss	$ (160,577)	$ (80,743)

16. Personnel expenses

The aggregate payroll expense of employees, officers and directors was $187,500 for the three months ended March 31, 2013 (three months ended March 31, 2012 - $187,500).

(amounts in Canadian dollars) (unaudited)

Key management personnel include executive officers and non-executive directors. Executive officers were paid a salary commencing in July 2011 and participate in the Corporation's stock option program. The executive officers are the Chief Executive Officer, Chief Financial Officer, Vice President, Land, Vice President, Engineering & Operations, Vice President, Exploration and Vice President, Exploitation. Non-executive directors also participate in the Corporation's stock option program. At March 31, 2013 the Corporation has no employees not considered key management personnel.

Compensation of key management personnel is as follows:

	Three months ended March 31, 2013	Three months ended March 31, 2012
Salaries and short-term benefits (*of which $125,000 (2012 - $125,000) is included in general and administrative expense and $62,500 (2012 - $62,500) is included in E&E expenditures for the three months ended March 31, 2013*)	$ 187,500	$ 187,500
Amortization of share-based payments	12,281	27,361
	$ 199,781	$ 214,861

17. Cash and cash equivalents

	March 31, 2013	December 31, 2012
Bank balances	$ 137,641	$ 395,288
Cash and cash equivalents in the statements of cash flows	$ 137,641	$ 395,288

18. Related-party transactions

A director of Questfire is a partner of a law firm that provided legal services to Questfire. For the three months ended March 31, 2013, Questfire incurred a total of $150,000 (three months ended March 31, 2012 – $7,497) to this firm for legal fees and disbursements, all of which was charged to general and administrative expenses in both periods. As at March 31, 2013, $181,622 (March 31, 2012 - $5,000) of the total incurred during 2013 and 2012 was included in accounts payable and accrued liabilities.

19. Flow-through share commitments

(a) 2010 flow-through shares

During the period ended December 31, 2010, the Corporation completed an offering of flow-through shares, for total proceeds of $1,895,000. Pursuant to the offering, the Corporation was committed to renouncing the tax deductions to subscribers effective December 31, 2010 and was required to incur $1,895,000 of qualifying expenditures no later than December 31, 2011. The tax filings to effect the renunciations were filed in early 2011 in accordance with the applicable legislation and were effective December 31, 2010.

As at December 31, 2011, the Corporation had incurred $1,895,000 of qualifying flow-through expenditures related to this offering. As at March 31, 2013 and December 31, 2012, however, the Corporation amended its calculation to allocate additional expenditures to the 2011 flow-through shares (see 19(b) below) resulting in qualifying expenditures being incurred totaling $267,318, resulting in a shortfall of $1,627,682. Pursuant to the flow-through share agreements, the Corporation had agreed to indemnify subscribers for the tax benefits lost in the event the qualifying expenditures renounced to subscribers were reduced. Accordingly, at March 31, 2013 and December 31, 2012, the Corporation had recorded a provision of $832,564 related to flow-through share indemnification amount and penalties.

In 2012, the Corporation recorded a commitment of $634,796 related to the flow-through shares, representing the estimated amount payable to indemnify the subscribers for the reduced renunciations. The Corporation also made a provision of $197,768 in additional penalties relating to the December 31, 2011 shortfall of $1,627,682. The liability for flow-through share commitments at December 31, 2012 included the $634,796 flow-through share indemnification plus penalties of $197,768. The additional Part XII.6 taxes are recorded in accounts payable and accrued liabilities.

(b) 2011 flow-through shares

During the year ended December 31, 2011, the Corporation completed its initial public offering, for total proceeds of $6,176,000 issued on a flow-through basis. Pursuant to the offering, the Corporation was committed to renouncing the tax deductions to subscribers effective December 31, 2011 and was required to incur $6,176,000 of qualifying expenditures no later than December 31, 2012. The tax filings to effect the renunciations were filed in early 2012 in accordance with the applicable legislation and were effective December 31, 2011.

As at December 31, 2012, the Corporation had incurred $4,148,953 of qualifying flow-through expenditures related to this offering, resulting in a shortfall of $2,027,047. Pursuant to the flow-through share agreements, the Corporation had agreed to indemnify subscribers for the tax benefits lost in the event the qualifying expenditures renounced to subscribers were reduced. Accordingly, at March 31, 2013 and December 31, 2012, the Corporation recorded a provision of $1,008,253 related to flow-through share indemnification amount and penalties.

In 2012, the Corporation recorded a commitment of $790,548 related to the flow-through shares, representing the estimated amount payable to indemnify the subscribers for the reduced renunciations. The Corporation also made a provision of $217,705 for additional penalties relating to the December 31, 2012 shortfall of $2,027,047. The liability for flow-through share commitments at March 31, 2013 and December 31, 2012 included the $790,548 flow-through share indemnification plus penalties of $217,705. Part XII.6 taxes are recorded in accounts payable and accrued liabilities.

In aggregate, the liability for the flow-through share commitments at March 31, 2013 and December 31, 2012 related to the unexpended portion of the 2010 flow-through shares and the 2011 flow-through shares amounted to $1,840,817.

20. Commitments

Office lease

The Corporation is committed under a lease on its office premises expiring August 31, 2013 for future minimum rental payments, excluding estimated operating costs, of $28,425 for 2013.

21. Subsequent events

(a) Acquisition

The Corporation closed an asset purchase and sale agreement on April 30, 2013, to acquire certain producing oil and natural gas assets as well as certain derivative forward swap contracts from Advantage Oil & Gas Ltd. ("Advantage") for total consideration consisting of $40.2 million of cash, $32.6 million in Convertible Senior Secured Debentures (the "Debentures") and 1.5 million Class B Shares of the Corporation. The Corporation had made a cash deposit of $200,000 related to the acquisition prior to March 31, 2013. $4.1 million of the cash is currently held in escrow pending the resolution of certain Rights of First Refusal ("ROFR's") related to the acquired properties.

The Corporation funded the cash portion of the purchase price by entering into an agreement for credit facilities with National Bank of Canada ("National Bank"), providing a revolving operating demand loan of $60 million (capped at $56.9 million until completion of the ROFR process). The facility will bear interest at a range of prime plus 1 percent to prime plus 3 percent per annum, depending on the Corporation's senior net debt to cash flow ratio, will require the Corporation to maintain an adjusted working capital ratio of at least 1:1 and will be secured by all assets of the Corporation. In addition to other customary banking fees (of which $100,000 was paid prior to March 31, 2013), Questfire paid National Bank Financial Inc. a success fee on closing of the asset purchase and the credit facilities.

The Debentures have a three-year term, are secured and are subordinate to the National Bank facility. Interest will be payable quarterly in arrears at the following per annum rates commencing June 30, 2013:

- 6 percent for the period from closing to April 30, 2014;
- 7 percent for the period from May 1, 2014 to April 30, 2015; and
- 9 percent for the period from May 1, 2015 to maturity.

The Corporation may elect, from time to time, subject to applicable regulatory approval, to satisfy its obligation to pay interest on the Debentures (i) in cash; (ii) by delivering freely tradable Class A Shares to the debenture trustee, for sale, to satisfy the interest obligations, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable, from the proceeds of the sale of such Class A Shares; or (iii) any combination of (i) and (ii) above.

The Debentures will be convertible into Class A Shares at the 20 day volume-weighted average trading price at the option of the holder for a period of 30 days following any of the events listed below:

(i) If the Corporation chooses to pay interest by delivering shares to the debenture trustee as described above;
(ii) Any event of default;
(iii) Any conversion by the Corporation of Class B Shares into Class A Shares;
(iv) The date 30 months from closing;
(v) The date one month before maturity; or
(vi) Upon a change of control; or upon an equity financing by the Corporation whereby the holder of a Debenture has the option of conversion (at the financing price), up to a maximum of 50 percent of the total shares issued in the financing, unless mutually agreed to otherwise.

As part of the acquisition Questfire committed to lease additional office space from Advantage expiring July 30, 2014. The Corporation is committed under this lease for future minimum rental payments, excluding estimated operating costs, of $234,386 for 2013 and $252,415 for 2014. Advantage is given the option to appoint up to two board members to the Board of Directors of Questfire. The appointees are to be mutually agreed to by Questfire and Advantage.

(b) Stock Options

On May 1, 2013 the Corporation granted a total of 185,000 options at a price of $1.25 per option. The options will vest as to one third on each of the first, second and third anniversaries of granting and will expire on May 1, 2023.

(c) Issuance of Shares

On May 7, 2013 the Corporation issued 150,000 Class A Shares at $0.50 per share upon receiving conversion notices to convert $75,000 of the existing convertible debentures.