Questfire Energy Corp. – Financial and Operating Highlights

	Three months ended March 31, 2014	2013
Financial		
Oil and natural gas sales	**$ 20,955,819**	$ 64,121
Funds flow from (used in) operations [(1)]	**8,389,817**	(951,247)
Per share, basic	**0.65**	(0.07)
Per share, diluted	**0.18**	(0.07)
Income (loss)	**14,375,280**	(1,102,943)
Per share, basic	**1.11**	(0.09)
Per share, diluted	**0.32**	(0.09)
Capital expenditures	**3,176,003**	210,515
Working capital deficit *(end of period)* [(2)]	**44,616,550**	2,838,335
Long-term contract obligation *(end of period)*	**14,665,231**	-
Non-current debentures *(end of period)*	**-**	1,379,009
Shareholders' equity (deficiency) *(end of period)*	**10,413,501**	(3,164,588)
Shares outstanding *(end of period)*		
Class A	**12,963,001**	12,813,001
Class B	**2,055,840**	555,840
Options outstanding *(end of period)*	**2,056,000**	1,281,000
Warrants outstanding *(end of period)*	**1,510,000**	1,510,000
Weighted-average basic shares outstanding	**12,963,001**	12,813,001
Weighted-average diluted shares outstanding	**48,343,594**	12,813,001
Class A share trading price		
High	**1.85**	0.70
Low	**1.45**	0.50
Close	**1.70**	0.50
Operations [(3)]		
Production		
Natural gas *(Mcf/d)*	**23,392**	79
NGL *(bbls/d)*	**669**	1
Crude oil *(bbls/d)*	**406**	5
Total *(boe/d)*	**4,974**	19
Benchmark prices		
Natural gas		
AECO *(Cdn$/GJ)*	**5.45**	3.03
Crude oil		
WTI *(US$/bbl)*	**98.68**	94.35
Edmonton par *(Cdn$/bbl)*	**100.18**	88.60
Average realized prices [(4)]		
Natural gas *(per Mcf)*	**5.97**	3.48
Natural gas liquids *(per bbl)*	**82.05**	63.26
Crude oil *(per bbl)*	**94.48**	84.01
Operating netback *(per boe)*	**24.87**	16.41
Funds flow netback *(per boe)*	**18.74**	(568.25)

(1) See "Additional GAAP measure".

(2) 2014 Working capital deficit includes risk management contracts of $3,325,181 and convertible debentures of $1,408,802. The convertible debentures mature on June 30, 2014 and are convertible at $0.50 per Class A share. Excluding these two items, the working capital deficit would be $39,882,567.

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

(4) Before hedging.

First Quarter 2014 Corporate Highlights

- Achieved average production of 4,974 boe per day, 78 percent natural gas.
- Achieved record quarterly sales of $21.0 million and record funds flow from operations of $8.4 million ($0.65 per basic share).
- Made capital expenditures of $3.2 million, focused on drilling, well workovers, recompletions and facility maintenance and optimization.
- Repurchased $32.6 million of the 2013 Debentures, for a purchase price of $13.6 million.
- Subsequent to quarter-end, on May 5, 2014, Questfire repurchased 1,505,400 million Class B shares at $2.60 per share.

President's Message

First Quarter 2014 Developments

Strong Realized Natural Gas Prices

The first quarter of 2014 showcased Questfire's leverage to increasing natural gas prices. With approximately 70 percent of our gas production having no ceiling price, the average realized natural gas price for the quarter was $5.97 per mcf. This helped achieve record quarterly sales of $21 million, record quarterly funds flow of $8.4 million and a record average operating netback of $24.87 per boe. Due to the cold winter weather experienced in much of North America, natural gas storage inventories at the end of the first quarter reached lows not seen since 2003, which is helping to support forward natural gas prices for the remainder of 2014 and beyond.

Significant Corporate Deals

Three highly significant corporate deals occurred in the first quarter, all of which have been press released. The first was the repurchase of the $32.6 million of 2013 Debentures for $13.6 million, which closed on March 26. The second was an Issuer Bid for Questfire's Class B shares at $2.60 per share. It was mailed out on March 31 and, subsequent to the first quarter, on May 5 was closed with 1.5054 million Class B Shares tendered to the bid. The third deal was a long-term joint venture financing arrangement with Stream Asset Financial Questfire LP, raising $15 million which Questfire used to finance the other two transactions. The result of these deals is a significant reduction in our overall debt, simplification of our share structure, with a 73 percent reduction in Class B shares outstanding, and a reduction of dilution risk to the Class A shareholders.

Oil Focused Operations

Operational activities during the first quarter incurred $3.2 million of capital spending, of which approximately $2.28 million was spent on drilling, completion and workovers. While the spending level was modest, our results have been very encouraging and are expected to lead to significant drilling activity and incremental oil production over the remainder of the year.

Our emerging heavy oil plays in East–Central Alberta experienced a number of successes in the first quarter. A 100 percent working interest stratigraphic test well, drilled in February in the Mannville field, encountered 14 metres of oil-bearing sands which include 7 metres of 14 API oil pay in the Sparky Formation. The Sparky has been the target of significant horizontal drilling activity adjacent to Questfire's land and in the broader area. Questfire has acquired a surface pad-site and is making preparations for drilling up to 16, 100 percent working interest, conventional heavy oil horizontal wells. The first of these is expected to be drilled in late May or early June.

In January a 33.33 percent working interest Lloydminster horizontal oil well in the Auburndale field was completed, equipped and placed on production at a gross oil rate of approximately 125 bbls per day. Current gross production is still over 110 bbls per day, exceeding our expectations. Up to 15 gross additional horizontal wells may be drilled on this play, with Questfire holding a 33.33 percent working interest. In the Wildmere field, Questfire operated the shooting of a 10.4 square kilometre 3D seismic program targeting the Sparky Formation. The results are highly encouraging and may lead to the drilling of up to 13 horizontal oil wells, with a 25 percent Questfire working interest.

In the Open Lake field in West Central Alberta, the 100 percent working interest vertical 13-27 Ostracod light oil well, drilled in late 2013, was completed and placed on production in January 2014 as a flowing oil well with very low drawdown and production of approximately 40 boe per day (50 percent light oil). Installation of artificial lift following spring break-up is expected to double production. During the quarter Questfire continued preparations to drill three additional vertical locations, which will commence after spring break-up. A further nine, 100 percent working interest light oil drilling locations have been identified in the Open Lake field.

2014 Outlook

The remainder of Questfire's $20 million 2014 capital budget will be focused mainly on light oil drilling at our Open Lake field and on our heavy oil plays in the Mannville, Auburndale and Wildmere fields in East Central Alberta, as well as on lower-cost well and facility optimization projects in our gas properties. Our previous guidance remains unchanged, with target average annual production of 5,200–5,300 boe per day, and a year-end target rate of 5,500 boe per day with a 28 percent oil and NGL weighting. Funds flow from operations is forecast to be $25-$28 million for the year. We expect to exit the year with bank debt of approximately $36 million.

With three significant corporate deals completed so far this year, stronger than expected natural gas prices and a growing inventory of drill-ready oil prospects, 2014 is shaping up to be a very exciting year for Questfire.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
May 21, 2014

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Questfire Energy Corp. ("Questfire" or the "Corporation") is dated May 21, 2014 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, 2013 and 2012. Unless otherwise noted, all financial information was prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, 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 at the Corporation's website at www.questfire.ca.

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

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

Description of Business

The Corporation is engaged in the acquisition, exploration, development and production of oil and natural gas reserves in Canada. The Corporation's focus is to generate and develop its own prospects, acquire oil and natural gas properties directly and/or through farm-in, and participate with joint venturers and other industry partners in oil and natural gas exploration and development in Alberta. Questfire is traded on the TSX Venture Exchange under the symbols Q.A and Q.B.

Financial and Operating Results

Production

	Three months ended March 31, 2014	2013
Volume		
Natural gas *(Mcf)*	**2,105,275**	7,092
NGL *(bbl)*	**60,236**	92
Crude oil *(bbl)*	**36,510**	400
Total *(boe)*	**447,625**	1,674
Daily average volume		
Natural gas *(Mcf/d)*	**23,392**	79
NGL *(bbls/d)*	**669**	1
Crude oil *(bbls/d)*	**406**	5
Total sales *(boe/d)*	**4,974**	19
Production weighting		
Natural gas	**78%**	71%
NGL	**14%**	5%
Crude oil	**8%**	24%
	100%	100%
Production by cash-generating unit (CGU) ***(boe/d)***		
Red Deer	**1,073**	-
South	**985**	-
Medicine Hat	**591**	-
Open Lake	**565**	-
East Central	**490**	2
Westerose	**391**	15
Northwest	**329**	2
Brazeau River	**323**	-
Crossfield	**221**	-
Edmonton	**6**	-
Total	**4,974**	19

Production declined by 6 percent from the fourth quarter of 2013 due to natural production declines, cooler weather, and two third-party pipeline disruptions that shut-in a portion of two CGUs for approximately one month for each incident.

The production added through the Advantage Oil & Gas Ltd. (Advantage) acquisition, which closed on April 30, 2013, accounted for 4,968 boe per day during the three months ended March 31, 2014.

Sales

	Three months ended March 31,	
	2014	2013
	$	$
Natural gas	**12,564,132**	33,604
NGL	**4,942,292**	5,820
Crude oil	**3,449,395**	24,697
Total	**20,955,819**	64,121
Average realized prices before hedging		
Natural gas *($/Mcf)*	**5.97**	3.48
NGL *($/bbl)*	**82.05**	63.26
Crude oil *($/bbl)*	**94.48**	84.01
Combined average *($/boe)*	**46.82**	38.30

The Corporation, like much of the oil and natural gas upstream sector in Western Canada, experienced higher prices for each of natural gas, NGL and crude oil in the first quarter of 2014 than in the fourth quarter of 2013. The higher prices more than offset production declines that Questfire experienced. Natural gas, which comprises the majority of production volumes, saw the largest increase in pricing, with realized prices increasing by 63 percent, or $2.31 per Mcf, from the fourth quarter due to a prolonged winter heating season across nearly all of North America, which drew down inventory levels to decade low levels. NGL and crude oil sales also increased from the fourth quarter of 2013 due to higher prices.

Realized commodity prices changed in step with the applicable underlying price benchmark. Questfire's natural gas production has an average heating value of approximately 39 megajoules per cubic metre, realizing a price premium to the standard heating content. Questfire's NGL is comprised approximately 45 percent of condensate, the highest-priced NGL, and the grade of crude oil produced approximates that of Edmonton light. All of this is favourable to the Corporation's average realized prices. The Corporation hedges a significant proportion of its production, which reduces price volatility (see "Risk Management" below).

Royalties

	Three months ended March 31,	
	2014	2013
	$	$
Royalties	**3,171,539**	3,467
Per boe	**7.09**	2.07
Percentage of sales	**15.1%**	5.4%

Questfire's royalty burdens include Crown, Indian, gross over-riding and freehold royalties applicable on the Corporation's revenue. The increase in royalty expense from the first quarter of 2013 is due to the April 30, 2013 acquisition.

The royalty rate as a percentage of sales in the first quarter of 2014 is consistent with that of the fourth quarter of 2013.

Production and Operating Expense

	Three months ended March 31, 2014 $	2013 $
Production and operating expense	**6,197,474**	31,925
Per boe	**13.85**	19.07

Production and operating expenses decreased on a per-boe basis from the comparative period due to the Corporation's previously immaterial production base, which could not be managed efficiently. Questfire's management is of the view, however, that the Corporation's operating costs per unit of production remain higher than necessary. This is due to having a larger proportion of non-operated and lower-working-interest production in the assets acquired on April 30, 2013, as well as to a number of the acquired assets having had little to no capital investment for a number of years, leading to under-utilized field facilities and general inefficiencies. The Corporation's management regards this as an opportunity to increase efficiencies.

Production and operating expenses during the first quarter of 2014 are consistent with those experienced during the fourth quarter of 2013.

The Corporation has implemented a program of field-wide production optimization at a number of its properties to reduce per-boe operating costs in future periods. This project will continue throughout 2014. It is anticipated that the first indication of lower operating costs per unit of production will be in the third quarter of 2014.

Transportation Expense

	Three months ended March 31, 2014 $	2013 $
Transportation expense	**452,914**	1,264
Per boe	**1.01**	0.75

The assets acquired on April 30, 2013 comprised substantially all of the 2014 transportation expense and remained consistent with the expense incurred in the fourth quarter of 2013.

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 demand, supply and other factors, all of which are beyond Questfire's control. World prices for oil and natural gas have fluctuated widely in recent years. Material price declines could result in a reduction of the Corporation's net production revenue. Certain wells or other projects may become uneconomic because of a decline in oil and natural gas prices. All of these factors could result in a material decrease in Questfire's future net production revenue, causing a reduction in its oil and natural gas acquisition and development activities. A sustained material decline in prices from historical averages could limit Questfire's borrowing base, thereby reducing the bank credit available to Questfire, and could require that a portion of any bank debt be repaid.

Management of cash flow variability is an integral component of the Corporation's business strategy. Changing 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 risk exposure inherent in movements in the price of crude oil and natural gas is proactively managed by Questfire through the use of derivatives with investment-grade counterparties. The Corporation considers these derivative contracts to be an effective means to manage cash flow and commodity price risk.

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

At March 31, 2014, Questfire had the following crude oil and natural gas risk management contracts, with a total mark-to-market liability of $3,325,181:

Period	Commodity	Type of contract	Notional quantity	Pricing point	Contract price
Apr. 1/14 - Dec. 31/14	Natural gas	Fixed price	8,000 GJ/d	AECO 7A	Cdn$3.3575/GJ
Apr. 1/14 - Dec. 31/14	Natural gas	Purchased put (1)	5,000 GJ/d	AECO 7A	Cdn$3.00/GJ
Apr. 1/14 - Dec. 31/14	Natural gas	Purchased put (2)	10,000 GJ/d	AECO 7A	Cdn$3.00/GJ
Apr. 1/14 - Dec. 31/14	Crude oil	Fixed price	200 bbls/d	WTI NYMEX	Cdn$94.80/bbl

(1) The put contract requires the Corporation to pay a monthly premium of approximately $28,000 over the term for a total premium of $332,150, of which $250,250 remains to be paid.

(2) The put contracts required the Corporation to pay a total of $424,313 at inception.

These 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 income (loss) and comprehensive income (loss).

	Three months ended March 31, 2014 $	**Three months ended March 31,** 2013 $
Realized loss on risk management contracts	**1,087,983**	-
Per boe	**$2.43**	-
Unrealized loss on risk management contracts	**1,800,824**	-
Per boe	**$4.02**	-

Incurring both realized and unrealized losses on risk management contracts is generally to be avoided. During the first quarter of 2014 these losses were taken by the Corporation with a sense of contentment, as risk management losses are associated with increasing commodity prices. The increased revenues as a result of the higher prices significantly outweighed any realized and unrealized risk management losses. Having said that, Questfire's management has taken steps since the April 30, 2013 acquisition to reduce the likelihood of incurring significant realized risk management losses. The risk management contracts that were acquired in conjunction with the assets acquired from Advantage were mostly fixed-price contracts, also known as "swaps". All risk management contracts entered into since then have been purchased puts.

These provide downside price protection while allowing Questfire to realize all pricing upside in return for payment of the put option premium. This can be viewed as being similar to an insurance contract, with a premium paid in return for protection against negative events. Fixed-price contracts, although free of direct costs such as contract premiums, impose opportunity costs in the form of the pricing upside. Fixed-price contacts erase all exposure to pricing upside, while so-called costless collars limit the producer's pricing upside to the higher figure (the purchaser's call option).

The first quarter of 2014 saw Questfire realizing the rewards of its purchased puts. Approximately two-thirds of the Corporation's production received current commodity prices, accompanied by minimal risk management losses (premiums paid plus some unrealized losses associated with the market value of the puts). Substantially all of the Corporation's risk management losses, both realized and unrealized, arose from the two fixed-price contracts. It is Questfire's intention to continue purchasing put options. The Corporation does not anticipate further commodity pricing results such as those that occurred in the first quarter of 2014, results that were far from a consensus forecast.

General and Administrative (G&A) and Transaction Expense

	Three months ended March 31,	
	2014	2013
	$	$
G&A	**1,613,135**	291,747
Transaction expense	**-**	624,465
Total	**1,613,135**	916,212
G&A cash expense per boe	**3.45**	174.28
Transaction expense per boe	**-**	373.04
Total cash expense per boe	**3.45**	547.32
Non-cash G&A (office lease amortization) per boe	**0.15**	-
Total expense per boe	**3.60**	547.32

G&A increases over 2013 are mainly due to increased office activity required to operate and manage the acquired assets. G&A expense per unit of production declined sharply period-over-period due to the Corporation's much higher production base resulting from the acquisition. Questfire expects G&A expense on a per-boe basis of production to decline in future periods as it conducts field activities to add production volumes.

Share-Based Compensation

	Three months ended March 31, 2014 $	2013 $
Share-based compensation	**61,623**	12,281
Per boe	**0.14**	7.34

The increase in the three months ended March 31, 2014 from the comparative period in 2013 is a result of stock options issued in 2013. These options were issued in association with the Corporation increasing staffing as a result of the asset acquisition closing during the second quarter of 2013.

The Corporation granted 160,000 options in the three months ended March 31, 2014 at a Class A share exercise price of $0.95 per option. There were 2,056,000 options outstanding at March 31, 2014 and 2,671,000 outstanding as of the date of this report. There were 854,000 options exercisable at March 31, 2014.

Exploration and Evaluation (E&E) Expenditures

	Three months ended March 31, 2014 $	2013 $
E&E expense	**112,500**	62,500
Per boe	**0.25**	37.34

The increase in E&E expenditures recognized during the three months ended March 31, 2014 over the comparative 2013 period is due to higher salaries for E&E personnel. The decrease in E&E expense per unit of production is due to the Corporation's much higher production base following the closing of the asset acquisition.

Depletion and Depreciation (D&D)

	Three months ended March 31, 2014 $	2013 $
D&D	**3,007,132**	26,687
Per boe	**6.72**	15.94

The current period's increase in D&D from the comparative period is a result of the Corporation's higher production in 2014 as a result of the April 2013 asset acquisition. On a per-boe basis, D&D decreased significantly as a result of the anticipated long reserve life of the assets acquired. 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 upon acquisition of the assets in April 2013.

Investing Income

	Three months ended March 31, 2014 $	2013 $
Gain on sale of assets	**431,262**	-
Per boe	**0.96**	-
Gain on repurchase of convertible debentures	**17,722,983**	-
Per boe	**39.59**	-

The gain on sale of assets pertains to the disposition of assets acquired in April 2013 that had a $Nil book value assigned to them in the purchase price allocation. The gain is the entire proceeds received on disposition of various pieces of spare equipment located throughout the province. There may be additional spare inventory that is disposed of in future periods, but this is anticipated to be significantly smaller than the first-quarter 2014 sales.

The gain on repurchase of convertible debentures relates to the $32.6 million face value ($31.3 million book value) of the 2013 Debentures that were issued in consideration of the April 2013 acquisition. On March 26, 2014 an agreement was reached to repurchase all of the 2013 Debentures for consideration of $13.6 million, resulting in a gain of $17.7 million. Also agreed upon was the repurchase of a minimum of 1,500,000 Class B shares, by way of an Issuer Bid, which closed on May 5, 2014 (see "Impact of 2013 Debentures and Class B Share Repurchases" below).

Finance Expense

	Three months ended March 31, 2014 $	2013 $
Interest on convertible debentures	**(498,348)**	(45,450)
Interest on bank debt	**(446,367)**	-
Interest on long-term contract obligation	**(32,445)**	-
Financing costs	**(186,649)**	-
Accretion on decommissioning provision	**(509,190)**	(2,537)
Accretion on Class B share liability	**(395,925)**	(86,392)
Accretion on convertible debentures	**(346,673)**	(26,198)
Total finance expense	**(2,415,597)**	(160,577)
Per boe	**(5.40)**	(95.92)

Convertible debenture accretion and interest on the convertible debentures increased due to the 2013 Debenture issuance on April 30, 2013. On March 26, 2014, the Corporation repurchased all 2013 Debentures. As this was shortly before the end of the quarter, the accretion and interest impact is minimal.

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

Questfire. The current period's interest on the long-term contract obligation reflects the six days of interest for which the Partner's funds were employed by the Corporation.

Accretion on Class B shares and interest on the demand loan increased from the comparative period due to the Class B shares issued and debt incurred to complete the April 30, 2013 asset acquisition. On March 26, 2014, the Corporation announced an Issuer Bid to repurchase all 2,055,840 issued and outstanding Class B shares at a purchase price of $2.60 per share. The Issuer Bid was open for acceptance until May 5, 2014. As a result of the Issuer Bid, subsequent to the quarter, the Corporation repurchased 1,505,400 Class B shares, for $3.9 million. This will result in a gain being recognized during the second quarter of 2014 of approximately $7.3 million. As of the date of this report, there were 550,440 Class B shares outstanding.

Decommissioning accretion increased due to the significant increase in the number of wells requiring future decommissioning as a result of the April 30, 2013 asset acquisition.

Deferred Income Tax

Deferred income tax expense was $4,814,063 in the three months ended March 31, 2014, compared to a recovery of $47,849 in the comparative period in 2013. The current period's expense is due to the Corporation's income before tax, primarily resulting from the gain on repurchase of the 2013 Debentures.

Income (Loss)

The Corporation realized income of $14,375,280 ($1.11 per share basic and $0.32 per share diluted) for the three months ended March 31, 2014, compared to a loss of $1,102,943 ($0.09 per share basic and diluted) for the comparative period in 2013.

Impact of 2013 Debentures and Class B Share Repurchases

On March 26, 2014, the Corporation repurchased all 2013 Debentures for $13.6 million, which resulted in a gain of approximately $17.7 million as a result of decreased future principal repayments.

Individually, the 2013 Debenture repurchase and Class B share repurchase were significant transactions for shareholders as they reduced potential share dilution. Together, management considers them to be significant for the Corporation, as they reduce Questfire's debt as well as potential share dilution and the surrounding uncertainty for existing and prospective shareholders. In management's view, this makes Questfire a more attractive investment opportunity by reducing the said risks.

Given the size of these transactions, the Corporation wishes to explain their impact on the first quarter of 2014 on a pro forma basis. This will enable shareholders to evaluate Questfire's results for the three months ended March 31, 2014 by normalizing the impact of the 2013 Debentures, reduction in Class B shares, and the non-recurring gain on sale of assets. This includes cash interest and non-cash accretion finance expense for the 2013 Debentures, non-cash accretion finance expense for the 1,505,400 Class B shares repurchased, as well as the resultant gains from repurchase. The long-term contract obligation's impact from repurchasing the 2013 Debentures will be included, as this will be a go-forward cash finance expense.

	Amounts recognized on financial statements	Pro forma adjustments	Pro forma results
	$	$	$
Operating income	3,450,695	-	3,450,695
Non-recurring gains (1)	18,154,245	(18,154,245)	-
Finance expense (2)	(2,415,597)	795,516	(1,620,081)
Deferred income tax expense	(4,814,063)	4,339,683	(474,380)
Income for the period	14,375,280	(13,019,046)	1,356,234
Computation of per share amounts:			
Numerator			
Income attributed to Class A shares	14,375,280	(13,019,046)	1,356,234
Dilutive effect of convertible debentures, net of tax	633,766	(581,830)	51,936
Dilutive effect of Class B shares, net of tax	296,943	(227,003)	69,940
Numerator for diluted income per share amounts	15,305,989	(13,827,879)	1,478,110
	#	#	#
Denominator			
Weighted-average number of shares outstanding for basic per share calculation	12,963,001	-	12,963,001
Stock options	1,127,968	-	1,127,968
Warrants	735,362	-	735,362
Convertible debentures	21,424,086	(18,554,086)	2,870,000
Class B shares	12,093,177	(8,855,295)	3,237,882
Denominator for diluted income per share amounts	48,343,594	(27,409,381)	20,934,213
Per basic share	1.11	(1.01)	0.10
Per diluted share	0.32	(0.25)	0.07

	Amounts recognized on financial statements	Pro forma adjustments	Pro forma results
	$	$	$
Funds flow from operations	8,389,817	-	8,389,817
Per basic share	0.65	-	0.65
Per diluted share	0.18	0.22	0.40
Cash flow from operations	8,704,505	-	8,704,505
Per basic share	0.67	-	0.67
Per diluted share	0.18	0.24	0.42

(1) Includes both the gain on repurchase of the 2013 Debentures and the gain on sale of assets. The gain on sale of assets impact will be removed, as the results of asset sales are dependent on the nature and quality of assets sold, and are unlikely to be repeatable.

(2) Removes accretion and interest expense attributed to the 2013 Debentures; removes the accretion expense attributed to the Class B shares tendered through the Issuer Bid; removes the financing expense attributed to the repurchase of the 2013 Debentures and Class B shares; and adds the interest expense expected to be incurred on the long-term contract obligation.

Supplemental Quarterly Information

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

Funds Flow from Operations

	Three months ended March 31,	
	2014	2013
	$	$
Income (loss)	**14,375,280**	(1,102,943)
Non-cash items:		
Unrealized loss on risk management	**1,800,824**	-
Share-based compensation	**61,623**	12,281
D&D	**3,007,132**	26,687
Acquired office lease amortization	**69,543**	-
Deferred income tax expense (recovery)	**4,814,063**	(47,849)
Repurchase of convertible debentures	**(17,722,983)**	-
Gain on sale of assets	**(431,262)**	-
Finance expense	**2,415,597**	160,577
Funds flow from (used in) operations	**8,389,817**	(951,247)

Netback Analysis

	Three months ended March 31, 2014 $/boe	2013 $/boe
Average sales price	**46.82**	38.30
Royalties	**(7.09)**	(2.07)
Production and operating expenses	**(13.85)**	(19.07)
Transportation expense	**(1.01)**	(0.75)
Operating netback	**24.87**	16.41
G&A and transaction expense [1]	**(3.45)**	(547.32)
E&E expenditures	**(0.25)**	(37.34)
Realized loss on risk management	**(2.43)**	-
Funds flow netback	**18.74**	(568.25)
Finance expenses	**(5.40)**	(95.92)
Gain on sale of assets	**0.96**	-
Gain on repurchase of convertible debentures	**39.59**	-
Office lease amortization	**(0.15)**	-
D&D	**(6.72)**	(15.94)
Share-based compensation	**(0.14)**	(7.34)
Unrealized loss on risk management	**(4.02)**	-
Deferred income tax (expense) recovery	**(10.75)**	28.58
Netback (loss) per boe	**32.11**	(658.87)

(1) Excludes the office lease amortization included below.

Selected Quarterly Information

Three months ended	**March 31, 2014**	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012
Financial (000s, except per share amounts)								
Oil and natural gas sales	**20,956**	15,901	14,040	10,533	64	213	138	100
Funds flow from (used in) operations	**8,390**	4,782	5,212	2,877	(951)	(2,097)	(283)	(294)
Per share, basic	**0.65**	0.37	0.40	0.22	(0.07)	(0.16)	(0.02)	(0.02)
Per share, diluted	**0.18**	0.08	0.07	0.08	(0.07)	(0.16)	(0.02)	(0.02)
Net income (loss)	**14,375**	(1,930)	(527)	1,381	(1,103)	(1,390)	(568)	(385)
Per share, basic	**1.11**	(0.15)	(0.04)	0.11	(0.09)	(0.11)	(0.04)	(0.03)
Per share, diluted	**0.32**	(0.15)	(0.04)	0.04	(0.09)	(0.11)	(0.04)	(0.03)
Capital expenditures	**3,176**	4,302	4,371	84,098	211	77	777	600
Total assets *(end of quarter)*	**140,599**	133,177	132,676	130,318	5,552	5,613	6,328	6,870
Working capital (deficit) *(end of quarter)*	**(44,617)**	(47,554)	(44,374)	(43,136)	(2,838)	(1,531)	698	1,810
Shareholders' equity (deficiency) *(end of quarter)*	**10,414**	(4,023)	(2,156)	(1,680)	(3,165)	(2,074)	(711)	(171)
Weighted-average basic shares outstanding	**12,963**	12,963	12,963	12,902	12,813	12,813	12,813	12,813
Weighted-average diluted shares outstanding	**48,344**	12,963	12,963	47,825	12,813	12,813	12,813	12,813
Operations								
Production								
Natural gas *(Mcf/d)*	**23,392**	24,630	25,443	17,479	79	411	397	385
NGL *(bbls/d)*	**669**	718	621	415	1	11	5	2
Crude oil *(bbls/d)*	**406**	467	447	342	5	2	3	3
Total *(boe/d)*	**4,974**	5,290	5,308	3,670	19	82	74	69
Average realized prices								
Natural gas *(per Mcf)*	**5.97**	3.66	2.58	3.60	3.48	3.70	2.47	1.97
NGL *(per bbl)*	**82.05**	63.71	66.21	55.64	63.26	58.76	64.97	67.78
Crude oil *(per bbl)*	**94.48**	78.97	102.61	87.16	84.01	73.24	83.52	75.92
Operating netback *(per boe)*	**24.87**	12.98	12.32	14.76	16.41	19.25	11.04	4.83
Funds flow netback *(per boe)*	**18.74**	9.83	10.67	8.61	(568.25)	(279.56)	(41.84)	(46.94)

Capital Expenditures

	Three months ended March 31, 2014 $	2013 $
Land	**22,586**	7,002
Geological and geophysical	**172,473**	-
Drilling and completions	**1,710,118**	-
Production equipment and facilities	**693,757**	-
Well workovers and recompletions	**573,512**	-
Office equipment	**3,557**	3,513
Deposit for property acquisition	**-**	200,000
	3,176,003	210,515

At March 31, 2014 and December 31, 2013, the Corporation had E&E assets of $1,564,044. This included 126,642 net acres of undeveloped land.

At March 31, 2014, the Corporation had gross property and equipment of $134,559,595. This included developed land and costs associated with the wells the Corporation has drilled and acquired to date. As well, it included $149,906 incurred since inception to purchase computer hardware and software, and associated office furniture for use by Questfire employees and consultants to evaluate oil and natural gas leads.

Share Capital and Option Activity

As at the date hereof, the Corporation had 13,013,001 Class A shares, 550,440 Class B shares, 2,671,000 stock options, and 1,460,000 warrants outstanding. Each Class B share is convertible (at Questfire'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 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.

The Corporation also has a convertible debenture issuance. As at the date hereof, there are $1,435,000 of 2012 convertible debentures outstanding, which are convertible into Class A shares at the holder's option at any time before July 1, 2014 at a conversion price of $0.50 per Class A share. As of the date hereof, there are $Nil 2013 Debentures outstanding, as a result of the redemption on March 26, 2014.

Liquidity and Capital Resources

At March 31, 2014, the Corporation had a working capital deficit of $44,616,550. Funds flow from operations for the three months ended March 31, 2014 was $8,389,817. The funds generated from operations, when combined with the available bank financing, are well in excess of the current working capital deficit excluding the bank debt, as it is considered unlikely to be called. Funds generated from operations are anticipated to be used for capital expenditures.

The Corporation's credit facility is a demand loan and, as such, the bank could demand repayment at any time. Management has not observed any indications that the bank would demand prepayment within the next 12 months. Indicators considered include the absence by the Corporation of any breach or default of bank covenants, and the recent completion of a credit facility. The Corporation further 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 an active hedging program to mitigate commodity price risk and secure cash flows.

The bank line of credit had $42,000,000 drawn and $13,000,000 undrawn at March 31, 2014. The facility bears interest at a range of prime plus 1 percent to prime plus 3 percent per annum, depending on the Corporation's net debt to cash flow ratio, requires the Corporation to maintain an adjusted working capital ratio of at least 1:1 and is secured by all of the Corporation's assets.

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.

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 flow generated from operations, drawing on existing credit facilities and accessing debt and equity markets. Bank debt is classified as a short-term liability as it is a demand loan and could require repayment within one year. The Corporation generated funds flow from operations for the three months ended March 31, 2014.

The Corporation believes that the 2012 convertible debentures, which mature on June 30, 2014, will be converted into Class A shares, but has adequate operating cash flow to repay the amounts if required. Subsequent to quarter-end, on May 5, 2014, 1,505,400 of the Class B shares were redeemed for cash consideration of $3,914,040, as a result of the Issuer Bid (see note 19, Subsequent Events, to the Corporation's condensed interim financial statements for the three months ended March 31, 2014).

Off-Balance-Sheet Arrangements

The Corporation does not have any special-purpose entities nor is it a party to any arrangements that would be excluded from the balance sheet.

Commitments

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

	2014	2015	2016	2017	2018	Thereafter
	$	$	$	$	$	$
Office leases	311,577	401,616	401,616	401,616	401,616	234,276

Questfire's commitments related to its risk management program are disclosed in "Risk Management".

Subsequent Events

Subsequent to the end of the quarter, the Corporation granted a total of 615,000 stock options to employees, officers, directors and consultants, of which 320,000 were granted to directors and officers, at an exercise price of $2.05 per Class A share, based on the closing market price on the day of the grant. The options will vest as to one-third on each of the first, second, and third anniversaries of granting and expire ten years from granting.

See "Liquidity and Capital Resources" for discussion regarding the closing of the Issuer Bid on May 5, 2014.

Related-Party Transactions

The Corporation retains a law firm to provide legal services, in which one of the Corporation's directors, Roger MacLeod, is a partner. Legal fees in the amount of $147,193 were incurred by Questfire to the law firm in the three months ended March 31, 2014 (three months ended March 31, 2013 – $150,000), of which $19,816 (three months ended March 31, 2013 – $Nil) was charged to general and administrative expenses, $Nil (three months ended March 31, 2013 – $150,000) to transaction costs and $127,377 (three months ended March 31, 2013 – $Nil) to financing expense. At March 31, 2014, $143,642 (December 31, 2013 – $21,230) related to these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

Hedging

The Corporation initiated an active hedging program during 2013, with the objective to provide a measure of downside protection for its greater revenue and cash flow from operations associated with the asset acquisition that closed on April 30, 2013, while maximizing exposure to potential commodity pricing upside. At March 31, 2014, the Corporation's hedges covered approximately 75 percent of forecast production for the second quarter of 2014 and approximately 73 percent of forecast production for the remainder of 2014 (see "Risk Management" above).

Critical Accounting Judgments, Estimates and Policies

The Corporation's critical accounting judgements, estimates and policies are described in notes 2 and 3 to the December 31, 2013 annual financial statements, and March 31, 2014 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, net income 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

Questfire adopted the following new and revised standards, along with any amendments, effective January 1, 2014, with no material impact on the Corporation's interim or annual financial statements or MD&A:

- i) IAS 32, *Financial Instruments: Presentation*
- ii) IFRS 2, *Share-based Payment*
- iii) IFRS 3, *Business Combinations*
- iv) IAS 24, *Related Party Disclosures*
- v) IFRIC Interpretation 21, *Levies*

Additional GAAP measures

Questfire uses "funds flow from operations" (cash generated from operating activities before changes in non-cash working capital and decommissioning provision costs incurred), a Canadian GAAP measure that is not defined under IFRS. Funds flow from operations should not, however, be considered an alternative to, or more meaningful than, cash generated from operating activities, net 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 and production, operating, and transportation expenses) does not have any standardized meaning under IFRS, which have been incorporated into GAAP, as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting, and may not be comparable with similar measures presented by other companies.

Basis of Barrel of Oil Equivalent

Petroleum and natural gas volumes are converted to an equivalent measurement basis referred to as a “barrel of oil equivalent” (boe) on the basis of 6 thousand cubic feet (Mcf) of natural gas equalling 1 barrel (bbl) or oil. This is based on an energy equivalency conversion method applicable at the burner tip and does not represent a value equivalency at the wellhead, which under current commodity price conditions is in the range of 15-20 Mcf to 1 bbl. Readers are cautioned that boe figures may be misleading, particularly if used in isolation.

Forward-Looking Statements

This document contains 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 actual results or events to differ materially from those stated, anticipated or implied. Such forward-looking statements necessarily involve risks including but not limited to 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.

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	refers to 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)
Partner
Davis LLP
Calgary, Alberta

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

STEPHEN BALOG
President
West Butte Management Inc.
Calgary, Alberta

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

OFFICERS AND KEY PERSONNEL

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

RODNEY KELLER
Project Manager

GRAHAM NORRIS
Corporate Secretary

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Alberta Treasury Branches

EVALUATION ENGINEERS
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL
Davis LLP
Calgary, Alberta

TRANSFER AGENT
Olympia Trust Company
Calgary, Alberta

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