

Questfire Energy Corp. – Financial and Operating Highlights

	Three months ended March 31,	
	2015	2014
Financial		
Oil and natural gas sales	\$ 10,854,042	\$ 20,955,819
Funds flow from operations ⁽¹⁾	3,051,539	8,389,817
Per share, basic	0.18	0.65
Per share, diluted	0.13	0.18
Income (loss)	(2,000,065)	14,375,280
Per share, basic	(0.12)	1.11
Per share, diluted	(0.12)	0.32
Capital expenditures	1,648,568	3,176,003
Working capital deficit <i>(end of period)</i> ⁽²⁾	4,102,872	44,616,550
Long-term contract obligation <i>(end of period)</i> ⁽³⁾	14,418,416	14,665,231
Long-term bank debt <i>(end of period)</i>	40,774,076	-
Shareholders' equity <i>(end of period)</i>	\$ 22,088,628	\$ 10,413,501
Shares outstanding <i>(end of period)</i>		
Class A	17,318,001	12,963,001
Class B	550,440	2,055,840
Options outstanding <i>(end of period)</i>	2,751,000	2,056,000
Warrants outstanding <i>(end of period)</i>	-	1,510,000
Weighted-average basic shares outstanding	17,318,001	12,963,001
Weighted-average diluted shares outstanding	17,318,001	48,343,594
Class A share trading price		
High	\$ 1.76	\$ 1.85
Low	1.18	1.45
Close	\$ 1.39	\$ 1.70
Operations ⁽⁴⁾		
Production		
Natural gas <i>(Mcf/d)</i>	22,341	23,392
Natural gas liquids (NGL) <i>(bbls/d)</i>	689	669
Crude oil <i>(bbls/d)</i>	790	406
Total <i>(boe/d)</i>	5,203	4,974
Benchmark prices		
Natural gas		
AECO <i>(Cdn\$/GJ)</i>	\$ 2.60	\$ 5.45
Crude oil		
WTI <i>(US\$/bbl)</i>	48.63	98.68
Canadian Light <i>(Cdn\$/bbl)</i>	53.23	100.18
Average realized prices ⁽⁵⁾		
Natural gas <i>(per Mcf)</i>	2.87	5.97
NGL <i>(per bbl)</i>	33.25	82.05
Crude oil <i>(per bbl)</i>	42.51	94.48
Operating netback <i>(per boe)</i> ⁽⁶⁾	8.96	24.87
Funds flow netback <i>(per boe)</i> ⁽⁶⁾	\$ 6.52	\$ 18.74

⁽¹⁾ See "Additional GAAP measures".

⁽²⁾ Working capital deficit includes risk management contract assets of \$1,695,519 (December 31, 2014 – \$2,366,210). Excluding this, the working capital deficit would be \$5,798,391 (December 31, 2014 – \$7,153,681).

⁽³⁾ Long-term contract obligation excludes current portion of \$310,731, which is included in working capital deficit.

⁽⁴⁾ For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".

⁽⁵⁾ Before hedging.

⁽⁶⁾ See "Non-GAAP measures".

First Quarter 2015 Corporate Highlights

- Achieved average production of 5,203 boe per day for the quarter, 72 percent natural gas, an increase in overall production of 5 percent from the first quarter of 2014.
- Had crude oil production of 790 bbls per day for the quarter, an increase of 95 percent from the first quarter of 2014, due to success in the Corporation's drilling and optimization programme.
- Achieved quarterly sales of \$10.9 million and funds flow from operations of \$3.1 million (\$0.18 per basic share).
- Achieved per boe operating costs of \$11.57 for the quarter, a decrease of 16 percent from the first quarter of 2014. Overall operating costs of \$5.4 million for the quarter were 13 percent lower than in the first quarter of 2014.
- Minimized capital expenditures for the quarter with \$1.6 million spent on pipeline upgrades at Lookout Butte, on completing and equipping one oil well and on facility maintenance and optimization.

President's Message

The first quarter of 2015 was a challenging quarter for the oil and gas industry, with all commodity prices at multi-year lows. Questfire's realized commodity prices in the quarter were lower by 52 percent for natural gas, 59 percent for natural gas liquids and 55 percent for oil than in the first quarter of 2014.

Given this rapid and significant reduction in commodity prices, Questfire's strategy since late 2014 has been to minimize capital spending and continue to focus on cost reductions. I'm pleased to report that Questfire's field operating costs and overall cost structure have seen significant reductions. Operating costs of \$11.57 per boe for the quarter were 16 percent lower than first quarter 2014 operating costs. The bidding out of services by field staff, facility consolidation and optimization projects at Viking-Kinsella and Oberlin, reduction in electrical power consumption, reduction in labor costs and a general reduction in operating costs related to compliance and maintenance issues helped achieve these savings.

Other significant costs also have declined in the quarter versus a year ago, including transportation (\$0.93 per boe), down 8 percent; G&A costs (\$3.36 per boe including E&E expense), down 13 percent; and total finance expenses (\$3.05 per boe), down 44 percent. A low cost structure is desirable at any time and is essential in the current low commodity price environment. Our positive funds flow from operations of \$3.1 million in the first quarter resulted in large part from these costs reductions.

Questfire is also exercising capital spending discipline. Our goal is to keep capital spending below our cash flow in order not to increase our debt. The \$1.6 million of capital spending in the first quarter included approximately \$1.0 million for mandatory spending related to the sales line upgrades at our Lookout Butte field and for facility maintenance and optimization projects. The remainder was spent completing and equipping an oil well which had been drilled late in the fourth quarter of 2014. Questfire did not expend any capital for new drilling in the first quarter and expects to remain quiet on the drilling front until at least midsummer.

In the first quarter of 2015 Questfire's Board of Directors approved a cash flow capital budget of \$7 million to \$10 million, which may include the drilling of up to three horizontal wells targeting liquids-rich natural gas at Morningside in central Alberta and heavy oil at Viking-Kinsella in east central Alberta. In spite of a large drilling and recompletion inventory of over 160 net locations, Questfire's management team believes it is prudent to maintain a go-slow approach to drilling until commodity prices improve and volatility is reduced. Our overall goal is to add value per share and, consequently, the capital budget and the drilling plans are subject to revision as commodity prices change over the year.

Our low-decline production base continues to perform well, with a current productive capability in the 5,400-5,500 boe per day range. Our base production decline is in the 15 percent range, which allows us to maintain or modestly grow production while spending within cash flow, a significant advantage in any price environment. Our \$7 million to \$10 million capital budget for 2015 includes forecast average production of 5,340 boe per day for the year, a year-over-year increase of 5 percent. First quarter average production of 5,203 boe per day reflected the effects of approximately 300 boe per day of lost production due to downtime at our Lookout Butte field for sales line upgrades and due to restrictions on the Nova gas transmission system in March as well as third-party facility maintenance. We expect outages on the Nova system in Alberta to continue through the second and third quarters of 2015. These outages are unpredictable, may be significant and are a result of inspection and maintenance work being performed by Nova on its gas transmission system as mandated by the National Energy Board in early 2014.

Going forward, the Questfire team will remain focused on further cost reduction measures, exercising capital spending discipline and on identifying and pursuing value creation opportunities.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
May 19, 2015

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 19, 2015 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, 2014 and 2013 and the unaudited condensed interim financial statements and accompanying notes for the three months ended March 31, 2015. Unless otherwise noted, all financial information is presented in Canadian dollars, and is in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (ISAB), interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and with Canadian generally accepted accounting principles (GAAP) as applicable to interim financial statements, including International Accounting Standard (IAS) 34, *Interim Financial Reporting*. These documents, along with other statutory filings, including the Corporation's Annual Information Form, are available on SEDAR at www.sedar.com and on the Corporation's website at www.questfire.ca.

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

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

Description of Business

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

Financial and Operating Results

Production

	Three months ended March 31,	
	2015	2014
Daily average volume		
Natural gas (Mcf/d)	22,341	23,392
NGL (bbls/d)	689	669
Crude oil (bbls/d)	790	406
Total sales (boe/d)	5,203	4,974
Total sales (boe)	468,269	447,625
Production weighting		
Natural gas	72%	78%
NGL	13%	14%
Crude oil	15%	8%
	100%	100%

Production increased during the first quarter of 2015 over the first quarter of 2014 largely due to drilling activity during the second half of 2014. The production increases were partially offset by natural production declines and the sale of the Turner Valley assets in the second quarter of 2014.

Sales

	Three months ended March 31,	
	2015	2014
	\$	\$
Natural gas	5,768,213	12,564,132
NGL	2,062,549	4,942,292
Crude oil	3,023,280	3,449,395
Total	10,854,042	20,955,819
Average realized prices before hedging		
Natural gas (\$/Mcf)	2.87	5.97
NGL (\$/bbl)	33.25	82.05
Crude oil (\$/bbl)	42.51	94.48
Combined average (\$/boe)	23.18	46.82

Natural gas prices realized were lower than those of the first quarter of 2014 due to an abnormally cold winter in 2013-2014, leading to large draws of natural gas from storage and higher pricing in that period. The first quarter of 2015 had reasonably cold winter weather in the northeastern United States and portions of Canada, although not as cold as that of 2014, and increased coal-to-gas switching for electricity generation, which was more than offset by record year-over-year natural gas production growth in the United States, depressing prices during the first quarter of 2015.

The Corporation, like much of the upstream oil and natural gas sector in Western Canada, experienced lower prices for NGL products in the first quarter of 2015. The continuation of declines in pricing for NGL during the first quarter of 2015 was the result of a supply-demand imbalance, most notably in propane, as inventories remained high due to milder late-autumn temperatures across North America, limiting demand. Only partially offset by the Corporation's slight production increase over the first quarter of 2014, this resulted in a decrease in NGL sales.

Crude oil pricing during the first quarter of 2015 remained depressed as a result of a supply-demand imbalance, as the Organization of Petroleum Exporting Countries (OPEC) maintained its production levels, while overall production continued to grow in non-OPEC countries, most notably in North America. The OPEC decision signals a desire to protect market share as opposed to supporting prices. Lower prices have resulted in a significant reduction in announced 2015 budgeted capital spending in the energy industry with clear signs of reduced activity, including a steep decline in the active drilling rig count in the United States, which has fallen below 1,000 oil and gas rigs, and very low utilization rates in Canada plus forecasts of much lower well drilling in 2015.

This should result in lower production levels, while low prices will continue to stimulate demand growth, both of which are needed to re-balance the crude oil market. The timing of the rebalancing is unknown. Uncertainty also remains concerning continued price volatility, particularly as to the impact of uncompleted shale oil wells, which are estimated to be in excess of 4,000 wells in Canada and the United States. The price levels required to encourage companies to complete these wells is unknown, as it how significantly the new production from these completions will offset declining overall production. It is expected that there will be continued price volatility for the next several quarters as this plays out, which may not provide substantially higher realized prices for Questfire until the later part of the year or 2016. During the most recent quarter, the impact of continued declining crude oil prices, which are benchmarked in U.S. dollars, was partially offset by a strengthening of the U.S. dollar relative to the Canadian dollar, which increases the Canadian price received on Questfire's crude oil.

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 over gas with the standard heating content. Questfire's NGL is comprised approximately 45 percent of condensate, the highest-priced NGL, and a large proportion of Questfire's 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 natural gas production, which reduces price volatility.

Royalties

	Three months ended	
	March 31,	
	2015	2014
	\$	\$
Royalties	803,444	3,171,539
Per boe	1.72	7.09
Percentage of sales	7.4%	15.1%

Questfire's royalty burden includes Crown, Indian, gross over-riding and freehold royalties applicable on the Corporation's production sales.

The royalty rate as a percentage of sales in the first quarter of 2015 was lower than for the first quarter of 2014 as a result of lower commodity reference pricing used by the Alberta government to calculate royalties, as well as lower royalty rates for new production.

Production and Operating Expense

	Three months ended March 31,	
	2015	2014
	\$	\$
Production and operating expense	5,419,122	6,197,474
Per boe	11.57	13.85

Production and operating expenses decreased on a total and per-boe basis during the first quarter of 2015 from the comparative period of 2014 due to concentrated field efforts at a number of the Corporation's properties to reduce per-boe operating costs, as well as due to new wells that came on production during the second half of 2014 with lower per-boe operating costs.

Transportation Expense

	Three months ended March 31,	
	2015	2014
	\$	\$
Transportation expense	434,458	452,914
Per boe	0.93	1.01

Transportation expense per unit of production was largely consistent on a month-to-month in the first quarter as well as quarter-to-quarter with the comparative period, as indicated by the minor changes in per-boe transportation expenses from period to period.

Risk Management

Questfire's cash flow is highly variable, in large part because oil and natural gas are commodities whose prices are determined by worldwide and/or regional supply and demand, transportation constraints, weather conditions, availability of alternative energy sources and other factors, all of which are beyond Questfire's control. World prices for oil and natural gas have fluctuated widely in recent years.

The substantial downward shift in the commodity price environment that began during the fourth quarter of 2014 continued during the first quarter of 2015. The Corporation anticipates that prices will remain relatively low in 2015. If crude oil and natural gas prices decline significantly from present levels and remain there for an extended period of time, the carrying value of Questfire's assets may be subject to impairment charges, future capital spending could be reduced, causing projects to be delayed or cancelled, and production could be curtailed, among other effects. As a result of the substantial slowdown across the entire energy sector, Questfire expects to see reductions in demand for and, in turn, the costs of labour, services and materials. This may create additional opportunities to improve the Corporation's cost structure.

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 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, 2015, Questfire had the following natural gas risk management contracts, with a total mark-to-market asset of \$1,695,519:

Period	Commodity	Type of contract	Notional quantity	Pricing point	Contract price
Jan. 1/15 - Dec. 31/15	Natural gas	Purchased put ⁽¹⁾	15,000 GJ/d	AECO 7A	Cdn\$3.00/GJ
Jan. 1/15 - Dec. 31/15	Natural gas	Costless collar	5,000 GJ/d	AECO 7A	Cdn\$2.85-\$4.00/GJ

⁽¹⁾ The put contracts require the Corporation to pay a monthly premium of approximately \$85,400 over the term for a total premium of \$1,024,281, of which \$771,718 remains to be paid.

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,	
	2015	2014
	\$	\$
Realized gain (loss) on risk management contracts	430,560	(1,087,983)
Per boe	0.92	(2.43)
Unrealized loss on risk management contracts	(923,254)	(1,800,824)
Per boe	(1.97)	(4.02)

During the three months ended March 31, 2015 the realized gains on risk management contracts associated with natural gas commodity prices being lower than the put contract price were more than offset by the unrealized losses which were incurred even though spot prices at March 31, 2015 were lower than at December 31, 2014 as a result of risk management premiums as well as the reduction of the number of months remaining in the risk management contracts.

The risk management contracts acquired with the Corporation's significant acquisition of producing assets in April 2013 (the "2013 Acquisition") were fixed-price contracts, also known as "swaps". Most 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 foregone pricing upside. Fixed-price contracts 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 Corporation has not entered into any risk management contract to date in 2015 due to the current low price environment.

It is Questfire's intention to continue purchasing put options and costless collars.

General and Administrative (G&A) Expense

	Three months ended March 31,	
	2015	2014
	\$	\$
G&A	1,388,952	1,613,135
G&A cash expense per boe	2.96	3.45
Non-cash G&A (office lease amortization) per boe	-	0.15
Total expense per boe	2.96	3.60

G&A expenses for the three months ended March 31, 2015 were lower than in the three months ended March 31, 2014 predominantly due to the elimination of bonus accruals in 2015, as well as the conclusion of office lease amortization associated with the 2013 Acquisition ending in June 2014.

Share-Based Compensation

	Three months ended March 31,	
	2015	2014
	\$	\$
Share-based compensation	175,182	61,623
Per boe	0.38	0.14

The increase in share-based compensation in the three months ended March 31, 2015 from the comparative period in 2014 is a result of stock options issued in 2014. These options were issued in association with the Corporation increasing staffing as a result of the 2013 Acquisition, as well as the issuance of additional options for employees and directors.

The Corporation granted 75,000 options in the three months ended March 31, 2015 at Class A share exercise prices between \$1.40 and \$1.68 per option. There were 2,751,000 options outstanding at March 31, 2015 and 3,291,000 outstanding as of the date of this MD&A. There were 1,514,333 options exercisable at March 31, 2015.

Exploration and Evaluation (E&E) Expenditures

	Three months ended March 31,	
	2015	2014
	\$	\$
E&E expense	187,087	112,500
Per boe	0.40	0.25

The increase in E&E expenditures recognized during the three months ended March 31, 2015 over the comparative 2014 period is due to an allocation of the portion of G&A expenses attributable to supporting E&E activities.

Depletion and Depreciation (D&D)

	Three months ended	
	March 31,	
	2015	2014
	\$	\$
D&D	3,129,782	3,007,132
Per boe	6.68	6.72

The Corporation experienced slightly increased D&D in the three months ended March 31, 2015 over the comparative period in 2014, resulting from the Corporation's higher production in 2015. On a per-boe basis, D&D decreased marginally as a result of reserve increases in several cash-generating units. 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, and continued by the Corporation's low finding and development costs per boe in 2014.

Other Income

	Three months ended	
	March 31,	
	2015	2014
	\$	\$
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 in the three months ended March 31, 2014 is the entire proceeds received on disposition of various pieces of spare equipment located throughout the province that were acquired in the 2013 Acquisition that had \$Nil book value in the purchase price allocation. There may be additional spare inventory that is disposed of in future periods, but this is anticipated to be significantly smaller than the 2014 sales.

The gain on repurchase of convertible debentures during the first quarter of 2014 related to debentures issued in 2013, with a \$32.6 million face value (\$31.3 million book value), which were issued in consideration of the 2013 Acquisition. On March 26, 2014 an agreement was reached to repurchase all of these debentures for consideration of \$13.6 million, resulting in a gain of \$17.7 million.

Finance Expense

	Three months ended	
	2015	March 31, 2014
	\$	\$
Interest on convertible debentures	-	498,348
Interest on bank debt	382,554	446,367
Interest on long-term contract obligation	510,177	32,445
Financing costs	-	186,649
Cash finance expense	892,731	1,163,809
Accretion on decommissioning provisions	435,690	509,190
Accretion on Class B share liability	101,648	395,925
Accretion on convertible debentures	-	346,673
Non-cash finance expense	537,338	1,251,788
Total finance expense	1,430,069	2,415,597
Per boe	3.05	5.40

Convertible debenture interest and accretion decreased in the three months ended March 31, 2015 from the prior year's period due to the repurchase of 2013 debentures on March 26, 2014. On June 30, 2014, all of the remaining debentures from an issuance of debentures in 2012 were converted into Class A shares, resulting in no convertible debenture accretion or interest during 2015.

Interest on bank debt in the three months ended March 31, 2015 decreased from the prior year's comparative period due to lower average balances in 2015 than in 2014.

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

Accretion on the decommissioning provision decreased in 2015 from 2014 due to longer forecast reserve lives for the East Central and Red Deer cash-generating units in the December 31, 2014 reserve report.

Accretion on the Class B shares decreased in the three months ended March 31, 2015 from the comparative period in 2014 because on May 5, 2014 the Corporation repurchased 1,505,400 Class B shares for \$3.9 million. As of the date of this report, there were 550,440 Class B shares outstanding.

Deferred Income Tax

Deferred income tax recovery was \$606,683 in the three months ended March 31, 2015, compared to an expense of \$4,814,063 in the comparative period in 2014. The period-to-period reversal is a result of the Corporation incurring a loss in 2015 versus realizing income in 2014.

Income (Loss)

The Corporation incurred a loss of \$2,000,065 (\$0.12 per share basic and diluted) for the three months ended March 31, 2015, compared to income of \$14,375,280 (\$1.11 per share basic and \$0.32 per share diluted) for the comparative period in 2014. The current period's loss resulted primarily from lower realized commodity prices. The income in the first quarter of 2014 resulted primarily from a combination of the gain on repurchase of the debentures issued in 2013, and from higher realized commodity prices.

Supplemental Quarterly Information

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

Funds Flow from Operations

	Three months ended	
	2015	March 31, 2014
	\$	\$
Income (loss)	(2,000,065)	14,375,280
Non-cash items:		
Unrealized loss on risk management	923,254	1,800,824
Share-based compensation	175,182	61,623
D&D	3,129,782	3,007,132
Acquired office lease amortization	-	69,543
Deferred income tax expense (recovery)	(606,683)	4,814,063
Repurchase of convertible debentures	-	(17,722,983)
Finance expense	1,430,069	2,415,597
Gain on sale of assets	-	(431,262)
Funds flow from operations	3,051,539	8,389,817

Netback Analysis

	Three months ended	
	2015	March 31, 2014
	\$/boe	\$/boe
Average sales price	23.18	46.82
Royalties	(1.72)	(7.09)
Production and operating expense	(11.57)	(13.85)
Transportation expense	(0.93)	(1.01)
Operating netback	8.96	24.87
G&A ⁽¹⁾	(2.96)	(3.45)
E&E	(0.40)	(0.25)
Realized gain (loss) on risk management	0.92	(2.43)
Funds flow netback	6.52	18.74
Finance expense	(3.05)	(5.40)
Gain on sale of assets	-	0.96
Gain on repurchase of convertible debentures	-	39.59
Office lease amortization	-	(0.15)
D&D	(6.68)	(6.72)
Share-based compensation	(0.38)	(0.14)
Unrealized loss on risk management	(1.97)	(4.02)
Deferred income tax (expense) recovery	1.29	(10.75)
Netback (loss) per boe	(4.27)	32.11

⁽¹⁾ Excludes the office lease amortization included below.

Selected Quarterly Information

Three months ended	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013
Financial								
(\$000s, except per share amounts and share numbers)								
Oil and natural gas sales	10,854	15,918	17,614	17,131	20,956	15,901	14,040	10,533
Funds flow from operations	3,052	5,211	5,102	4,410	8,390	4,782	5,212	2,877
Per share, basic (\$)	0.18	0.30	0.29	0.33	0.65	0.37	0.40	0.22
Per share, diluted (\$)	0.13	0.24	0.24	0.19	0.18	0.08	0.07	0.08
Income (loss)	(2,000)	1,600	648	8,172	14,375	(1,930)	(527)	1,381
Per share, basic (\$)	(0.12)	0.09	0.04	0.61	1.11	(0.15)	(0.04)	0.11
Per share, diluted (\$)	(0.12)	0.08	0.03	0.36	0.32	(0.15)	(0.04)	0.04
Capital expenditures	1,649	2,864	9,927	3,240	3,176	4,302	4,371	84,098
Total assets (end of quarter)	129,884	133,863	137,201	131,663	140,599	133,177	132,676	130,318
Working capital deficit (end of quarter)	4,103	4,787	10,479	5,464	44,617	47,554	44,374	43,136
Non-current bank debt (end of quarter)	40,774	39,000	37,000	37,000	-	-	-	-
Shareholders' equity (deficiency) (end of quarter)	22,089	23,914	22,141	21,309	10,414	(4,023)	(2,156)	(1,680)
Weighted-average basic shares outstanding (000s)	17,318	17,318	17,298	13,418	12,963	12,963	12,963	12,902
Weighted-average diluted shares outstanding (000s)	17,318	21,550	18,838	23,062	48,344	12,963	12,963	47,825
Operations								
Production								
Natural gas (Mcf/d)	22,341	24,868	23,936	22,123	23,392	24,630	25,443	17,479
NGL (bbls/d)	689	712	712	601	669	718	621	415
Crude oil (bbls/d)	790	644	507	434	406	467	447	342
Total (boe/d)	5,203	5,501	5,208	4,722	4,974	5,290	5,308	3,670
Average realized prices (\$)								
Natural gas (per Mcf)	2.87	3.74	4.16	4.83	5.97	3.66	2.58	3.60
NGL (per bbl)	33.25	51.38	63.87	66.24	82.05	63.71	66.21	55.64
Crude oil (per bbl)	42.51	67.23	91.40	95.62	94.48	78.97	102.61	87.16
Operating netback (per boe)	8.96	13.78	15.74	16.74	24.87	12.98	12.32	14.76
Funds flow netback (per boe)	6.52	10.30	10.65	10.26	18.74	9.83	10.67	8.61

Inherent to the nature of the oil and gas industry, fluctuations in Questfire's quarterly oil and natural gas sales, funds flow from or used in operations, and income or loss are primarily caused by variations in production volumes, realized commodity prices and the related impact on royalties, realized and unrealized gains/losses on financial instruments, changes in per-unit expenses, and deferred income taxes. Please refer to the Financial and Operating Results section above for an explanation of changes.

Capital Expenditures

	Three months ended	
	2015	March 31, 2014
	\$	\$
Land	9,461	22,586
Geological and geophysical	2,275	172,473
Drilling and completions	347,505	1,710,118
Production equipment and facilities	929,209	693,757
Well workovers and recompletions	360,118	573,512
Office equipment	-	3,557
	1,648,568	3,176,003

At March 31, 2015, the Corporation had E&E assets of \$1,679,187 (December 31, 2014 – \$1,679,187). This included 117,194 net acres of undeveloped land.

At March 31, 2015, the Corporation had gross property and equipment of \$143,934,580. This included developed land and costs associated with the wells the Corporation has drilled and acquired to date. As well, it included \$250,353 incurred since inception to purchase computer hardware and software, associated office furniture and office improvements for use by Questfire employees and consultants to evaluate oil and natural gas leads.

During the quarter, Questfire spent approximately \$1.0 million for mandatory spending related to the sales line upgrades at our Lookout Butte field and for facility maintenance and optimization projects. The remainder was spent completing and equipping an oil well which had been drilled late in the fourth quarter of 2014.

Share Capital and Option Activity

As at the date hereof, the Corporation had 17,318,001 Class A shares, 550,440 Class B shares, and 3,291,000 stock options outstanding. Each Class B share is convertible (at Questfire's option) into Class A shares at any time before November 30, 2016. The number of Class A shares to be issued upon conversion of one Class B share is calculated by dividing \$10 by the greater of \$1 and the 30-day weighted-average market price of the Class A shares. If conversion has not occurred by the close of business on November 30, 2016, the Class B shares become convertible (at the shareholder's option) into Class A shares on the same basis. Effective at the close of business on December 31, 2016, all remaining Class B shares will be automatically converted into Class A shares.

Liquidity and Capital Resources

At March 31, 2015, the Corporation had a working capital deficit of \$4,102,872. Funds flow from operations for the three months ended March 31, 2015 were \$3,051,539. Annualized funds generated from operations are well in excess of the current working capital deficit. Funds generated from operations are anticipated to be used for capital expenditures.

The significant decline in commodity prices has caused the Corporation to defer the majority of its capital expenditure program for operated properties in order to maintain financial flexibility. If commodity prices improve, the Corporation is in a position to resume its planned capital program.

The Corporation's credit facility is a committed facility, which operates as a revolving facility for a 364-day term, extendible annually for a further 364-day revolving period, subject to a one-year term-out period should the lender not agree to an annual extension. The current conversion or extension date is May 31, 2015. The Corporation expects that it will have sufficient cash on hand to meet immediate obligations by actively monitoring its credit facilities through co-ordinating payment and revenue cycles each month and an active hedging program to mitigate commodity price risk and secure cash flows. The Corporation's management expects that the lender will extend the credit facility in 2015; there is no assurance, however, that it will do so. Should the lender not extend the loan, the Corporation would need to seek alternative sources of debt or equity financing.

The credit facility had \$40.8 million drawn and \$14.2 million undrawn at March 31, 2015. The facility bears interest at a range of prime plus 1 percent to prime plus 3 percent per annum, depending on the Corporation's adjusted senior debt to EBITDA ratio as defined by the agreement. The facility requires the Corporation to maintain a minimum adjusted working capital ratio of at least 1:1 as well as a debt to EBITDA ratio, as defined by the agreement, of less than 3:1, and is secured by all of the Corporation's assets.

The Corporation's long-term contract obligation relates to the facilities joint venture agreement with a third party, to which the Corporation pays an annual facility fee of \$2,326,300 for 17.5 years. Questfire has the option to terminate the joint venture agreement on payment of an amount which will provide the partner with a compound annual yield on its investment of 13.25 percent to the later of 48 months or the date the option is exercised. Upon the payment of aggregate processing fees to the partner of a minimum of \$19.5 million, the partner has the option to sell back to Questfire its beneficial interest in the facilities for the sum equal to the total remaining scheduled processing payments, discounted at 17.5 percent to the time of exercise.

The size of the Corporation's capital expenditures will be affected by the total funding available through varying combinations of the funds generated from operations, additional debt or equity as market conditions may allow, and potential asset sales if the Corporation so chooses. Management believes that if a farm-out or asset sale were to be conducted, funds received would be sufficient to eliminate the current working capital deficit.

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.

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:

	2015	2016	2017	2018	2019	Thereafter
	\$	\$	\$	\$	\$	\$
Office lease base rent	602,440	803,254	803,254	803,254	468,565	-

Questfire's commitments related to its risk management program are disclosed in "Risk Management" and its commitments related to its long-term contract obligation are disclosed in "Liquidity and Capital Resources".

Related-Party Transactions

The Corporation retains a law firm to provide legal services, in which one of the Corporation's directors, Roger MacLeod, is a partner. Legal fees in the amount of \$25,712 were incurred by Questfire to the law firm in the three months ended March 31, 2015 (three months ended March 31, 2014 – \$147,193), of which \$25,712 (three months ended March 31, 2014 – \$19,816) was related to general and administrative expenses and \$Nil (three months ended March 31, 2014 – \$127,377) was related to financing expense. At March 31, 2015, \$46,976 (December 31, 2014 – \$22,050) related to these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

Hedging

The Corporation utilizes an active hedging program, with the objective to provide a measure of downside protection for its oil and natural gas sales and cash flow from operations, while maximizing exposure to potential commodity pricing upside. At March 31, 2015, the Corporation's hedges covered approximately 60 percent of forecast production for the remainder of 2015, with 15 percent in the form of a costless collar and 45 percent in the form of purchased puts (see "Risk Management" above).

Critical Accounting Judgments, Estimates and Policies

The Corporation's critical accounting judgements, estimates and policies are described in notes 2 and 3 to the December 31, 2014 annual financial statements and March 31, 2015 interim condensed financial statements. Certain accounting policies are identified as critical because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain, and because the estimates are of material magnitude to revenue, expenses, funds flow from operations, income (loss) and/or other important financial results. These accounting policies could result in materially different results should the underlying conditions change or the assumptions prove incorrect.

Critical accounting estimates are those requiring management to make particularly subjective or complex judgments about inherently uncertain matters. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the same period.

Management's assumptions are based on factors that, in management's opinion, are relevant and appropriate, and may change over time as operating conditions change.

New accounting standards

There were no new or amended accounting standards or interpretations adopted during the three months ended March 31, 2015.

Additional GAAP measures

Questfire uses “funds flow from operations” (cash from operating activities before changes in non-cash working capital and decommissioning costs incurred), an additional 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 from operating activities, income or loss, or other measures determined in accordance with IFRS, as an indicator of the Corporation’s performance. Management uses funds flow from operations to analyze operating performance and leverage, and believes it is a useful supplemental measure as it provides an indication of the funds generated by Questfire’s principal business activities prior to consideration of changes in working capital and remediation expenditures.

Non-GAAP measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry. The terms “operating netback” (oil and natural gas sales less royalties, production and operating, and transportation expenses) and “funds flow netback” (operating netback less G&A and transaction expenses, E&E expenditures and realized gain or loss on risk management) are not defined under IFRS, which have been incorporated into 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. Operating netback and funds flow netback are per-unit of production measures that may be used to assess the Corporation’s performance and efficiency.

Basis of Barrel of Oil Equivalent

Petroleum and natural gas reserves and production volumes are stated as a “barrel of oil equivalent” (boe), derived by converting gas to an oil equivalency in the ratio of 6,000 cubic feet of gas to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6,000 cubic feet of gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead, which under current commodity price conditions is approximately 20 Mcf to 1 bbl. Readers are cautioned that boe figures may be misleading, particularly if used in isolation.

Finding and Development Costs

Finding and development costs may be used as a measure of capital efficiency, and are calculated by dividing the E&E and property and equipment (P&E) expenditures, including the change in undiscounted future development costs, for a period by the change in the reserves, incorporating revisions and production, for the same period.

The aggregate of E&E and P&E expenditures incurred in the most recent financial year, and the change during that year in estimated future development costs, generally will not reflect total finding and development costs related to reserve additions for that year.

For more information on the Corporation’s reserves, refer to the press release dated April 8, 2015 announcing the December 31, 2014 reserves. The complete statement of reserves data and required reporting in compliance with National Instrument 51-101 is included in the Corporation’s Annual Information Form, available on SEDAR at www.sedar.com.

Forward-Looking Statements

This document contains certain forward-looking statements. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could influence actual results or events and cause 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.

Forward-looking information may involve substantial known and unknown risks and uncertainties, certain of which are beyond the Corporation’s control. Such risks and uncertainties include, but are not limited to: financial risk of marketing reserves at an acceptable price given market conditions; volatility in market prices for oil and natural gas; delays in business operations; pipeline restrictions; blowouts; the risk of carrying out operations with minimal environmental impact; industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; uncertainties associated with estimating oil and natural gas reserves; risks and uncertainties related to oil and gas interests and operations on aboriginal lands; economic risk of finding and producing reserves at a reasonable cost; uncertainties associated with partner plans and approvals; operational matters related to non-operated properties; increased competition for, among other things, capital, acquisitions of reserves and undeveloped lands; competition for and availability of qualified personnel or management; incorrect assessments of the value of acquisitions and exploration and development programs; unexpected geological, technical, drilling, construction, processing and transportation problems; availability of insurance; fluctuations in foreign exchange and interest rates; stock market volatility; general economic, market and business conditions; uncertainties associated with regulatory approvals; uncertainty of government policy changes; uncertainties associated with credit facilities and counterparty credit risk; changes in income tax laws, tax laws, Crown royalty rates and incentive programs relating to the oil and gas industry; and other factors, many of which are outside the Corporation’s control. Therefore, the Corporation’s actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward looking estimates and whether such actual results, performance or achievements transpire or occur, or if any of them do so, there can be no certainty as to what benefits or detriments the Corporation will derive therefrom.

The forward-looking information included herein is expressly qualified in its entirety by this cautionary statement. It is made as of the date hereof and the Corporation assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

Abbreviations

The following summarizes the abbreviations used in this document:

Crude Oil and Natural Gas Liquids

bbl	barrel
Mbbl	thousand barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
Mboe	thousand barrels of oil equivalent
boe/d	barrel of oil equivalent per day
NGL	natural gas liquids

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
GJ	Gigajoule. One Mcf of natural gas is about 1.05 GJ
MMBtu	million British thermal units. One GJ is about 0.95 MMBtu.

Other

AECO	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
DLA Piper (Canada) LLP
Calgary, Alberta

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

Notes:

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

OFFICERS

RICHARD DAHL
President & Chief Executive Officer

DARREN KISSER
Vice President, Engineering and Operations

FRED LAUDEL
Vice President, Exploration

JOHN RAMESCU
Vice President, Land

BRUCE SHEPARD
Vice President, Exploitation

RONALD WILLIAMS
Vice President, Finance & Chief Financial Officer

GRAHAM NORRIS
Corporate Secretary

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Calgary, Alberta

BANKERS

Alberta Treasury Branches
TD Canada Trust

EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

DLA Piper (Canada) LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Limited
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Symbols: Q.A and Q.B