Financial and Operating Highlights

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
Financial				
Oil and natural gas sales	**$ 10,532,541**	$ 100,018	**$ 10,596,662**	$ 158,044
Funds flow from operations [(2)]	**2,876,531**	(294,011)	**1,925,284**	(632,520)
Per share, basic	**0.22**	(0.02)	**0.15**	(0.05)
Per share, diluted	**0.08**	(0.02)	**0.09**	(0.05)
Net income (loss)	**1,514,377**	(384,985)	**411,434**	(1,566,731)
Per share, basic	**0.12**	(0.03)	**0.03**	(0.12)
Per share, diluted	**0.05**	(0.03)	**0.03**	(0.12)
Capital expenditures	**81,470,348**	600,202	**81,680,863**	1,715,961
Working capital (deficit) *(end of period)*			**(43,135,885)**	1,038,652
Non-current debentures *(end of period)*			**(30,416,934)**	(1,300,415)
Shareholders' equity (deficiency) *(end of period)*			**(1,546,735)**	(170,756)
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)*			**1,466,000**	1,281,000
Weighted-average basic shares outstanding	**12,902,012**	12,813,001	**12,857,752**	12,813,001
Weighted-average diluted shares outstanding	**47,825,181**	12,813,001	**14,451,568**	12,813,001
Class A share trading price				
High	**1.47**	0.90	**1.47**	1.20
Low	**0.50**	0.40	**0.50**	0.40
Close	**1.25**	0.47	**1.25**	0.47
Operations [(1)]				
Production				
Natural gas *(Mcf/d)*	**17,479**	385	**8,827**	329
NGL *(bbls/d)*	**415**	2	**209**	1
Crude oil *(bbls/d)*	**342**	3	**174**	1
Total *(boe/d)*	**3,670**	69	**1,854**	58
Benchmark prices				
Natural gas				
AECO *(Cdn$/GJ)*	**3.35**	1.80	**3.19**	1.92
Crude oil				
WTI *(US$/bbl)*	**94.29**	93.49	**94.32**	98.21
Edmonton par *(Cdn$/bbl)*	**92.94**	84.20	**90.77**	88.34
Average realized prices				
Natural gas *(per Mcf)*	**3.60**	1.97	**3.60**	2.00
Natural gas liquids *(per bbl)*	**55.64**	67.78	**55.66**	70.66
Crude oil *(per bbl)*	**87.16**	75.92	**87.12**	75.92
Operating netback *(per boe)*	**14.77**	4.83	**14.77**	5.10
Funds flow netback *(per boe)*	**8.61**	(46.82)	**5.74**	(59.92)

(1) For a description of the boe conversion ratio, refer to the commentary in the Management's Discussion and Analysis under Basis of Barrel of Oil Equivalent.

(2) See "Non-GAAP measures".

Second Quarter 2013 Corporate Highlights

- On April 30, 2013 Questfire closed the previously announced Advantage asset acquisition of approximately 5,600 barrels of oil equivalent (boe) per day of conventional producing assets, comprised of 81 percent natural gas and 19 percent light oil and NGLs.
- Averaged production of 3,670 boe per day (80 percent natural gas) for the quarter. Exited the quarter with a production rate of approximately 5,500 boe per day (80 percent natural gas).
- Achieved record quarterly sales of $10.5 million.
- Achieved record funds flow from operations of $2.9 million ($0.22 per basic share).

President's Message

During the second quarter of 2013 the Questfire team closed the previously announced acquisition of approximately 5,600 boe per day of conventional producing assets located in Alberta comprised of approximately 81 percent natural gas and 19 percent light oil and natural gas liquids (NGLs). The acquired assets have a relatively low base decline rate of approximately 12 percent annually and have transformed Questfire from a micro-cap junior oil and natural gas start-up to a midsized junior producer with stable production and solid cash flow.

During the second quarter our main focus was to manage the transition to a larger asset and production base. Questfire's head office was relocated within downtown Calgary to a significantly larger space. The Calgary management and technical team was greatly expanded with the addition of 14 experienced staff and consultants. Field operations now include 35 experienced staff and contractors. Questfire's Board of Directors was expanded from four directors to five and now includes three independent directors. Numerous programs have been implemented and initiated, including corporate and site-specific emergency response plans (ERPs), an expanded corporate safety program, a pipeline integrity program, maintenance and production reporting systems and a seismic data base system, to name a few. The Questfire team has worked very hard on all levels to ensure a smooth transition to a larger asset and production base. As a result, the second quarter saw Questfire achieve all-time highs on all fronts including production, revenue and cash flow.

Current production is in the range of 5,500 boe per day with approximately 21 percent light oil and NGLs. Questfire's strategy for the remainder of 2013 is to employ a modest capital budget of approximately $12 million, to be financed primarily from cash flow. It will be focused mainly on increasing light oil production via drilling and recompletion opportunities on our asset base and also on the maintenance and optimization of our producing natural gas assets. With success, Questfire has sufficient bank line room (approximately $17 million) to accelerate oil development.

As detailed further in this report, reflecting the critical importance of safeguarding the Corporation's cash flow, Questfire has hedges in place for the remainder of 2013 that cover approximately 70 percent of current production in order to maximize cash flow protection in what continues to be a volatile natural gas price environment.

In the longer term, the fundamentals for the continued strengthening of natural gas prices are in place. Overall North American natural gas production appears to have plateaued, while drilling rig counts appear to have bottomed out, with many basins experiencing declining production. On the demand side recent developments including approvals for liquefied natural gas (LNG) exports from the United States and progress on Canadian LNG export projects bodes well for increasing demand and prices over the next several years. Our asset base includes numerous natural gas drilling and recompletion opportunities that represent significant latent upside value and which we plan to exploit as natural gas prices improve.

In the meantime the Questfire team will continue to carefully manage the asset base with the goals of increasing our oil production and overall cash flow without significantly increasing overall debt.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
August 22, 2013

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Questfire Energy Corp. ("Questfire" or the "Corporation") is dated August 22, 2013 and is based on currently available information. It should be read in conjunction with the unaudited condensed interim financial statements and accompanying notes for the three and six months ended June 30, 2013 and the audited financial statements for the years ended December 31, 2012 and 2011. Unless otherwise noted, all financial information was prepared in accordance with 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 June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Daily average volume				
Natural gas *(Mcf/d)*	**17,479**	385	**8,827**	329
NGL *(bbls/d)*	**415**	2	**209**	2
Crude oil *(bbls/d)*	**342**	3	**174**	1
Total sales *(boe/d)*	**3,670**	69	**1,854**	58
Production weighting				
Natural gas	**80%**	93%	**80%**	95%
NGL	**11%**	3%	**11%**	3%
Crude oil	**9%**	4%	**9%**	2%
	100%	100%	**100%**	100%
Production by cash-generating unit (CGU) ***(boe/d)***				
Red Deer	**787**	-	**395**	-
South	**654**	-	**329**	-
Medicine Hat	**489**	-	**246**	-
Open Lake	**450**	-	**226**	-
East Central	**333**	66	**168**	57
Westerose	**275**	-	**146**	-
Northwest	**248**	3	**126**	1
Brazeau River	**246**	-	**124**	-
Crossfield	**182**	-	**91**	-
Edmonton	**6**	-	**3**	-
Total	**3,670**	69	**1,854**	58

The production added through the Advantage acquisition, which closed on April 30, accounted for 3,665 boe and 1,842 boe, respectively, in the three and six months ended June 30, 2013. In July 2013, Questfire's production averaged approximately 5,521 boe per day.

Sales

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
Natural gas	**5,720,238**	69,094	**5,744,936**	119,509
NGL	**2,101,234**	11,184	**2,107,054**	18,795
Crude oil	**2,711,069**	19,740	**2,744,672**	19,740
Total	**10,532,541**	100,018	**10,596,662**	158,044
Average realized prices				
Natural gas *($/Mcf)*	**3.60**	1.97	**3.60**	2.00
NGL *($/bbl)*	**55.64**	67.78	**55.66**	70.66
Crude oil *($/bbl)*	**87.16**	75.92	**87.12**	75.92
Combined average *($/boe)*	**31.54**	15.93	**31.58**	14.97

Sales grew in the quarter due to the acquisition that closed on April 30. Acquired operations comprised substantially all of the second quarter's sales. All of the Corporation's production was marketed by a third-party marketer.

Realized commodity prices increased in step with the increase in the applicable underlying price benchmark. Questfire's natural gas production has an average heating value of $39.37 MJ/m3, realizing a price premium to the standard heating content, 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. Going forward, the Corporation has hedged a significant proportion of its production, which will reduce price volatility (see "Risk Management" below).

Royalties

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
Royalties	**1,307,423**	12,753	**1,310,890**	21,892
Per boe	**3.91**	2.03	**3.91**	2.07
Percentage of sales	**12.4%**	12.8%	**12.4%**	13.9%

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

Acquired operations comprised substantially all of the second quarter's royalties. The royalty rates did not significantly change as a result of the acquisition.

Production and Operating Expense

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
Production and operating expense	**3,994,119**	50,949	**4,026,044**	73,553
Per boe	**11.96**	8.11	**12.00**	6.97

Production and operating expenses increased on a boe basis from the comparative periods due to the larger proportion of non-operated and lower-working-interest production in the acquired assets, as well as a number of the acquired assets having little to no capital investment for a number of years, leading to under-utilized field facilities and general inefficiencies. Acquired operations comprised substantially all of the second quarter's production and operating expense. The Corporation is formulating plans for field-wide production optimization at a number of its properties to reduce per-boe operating costs in future periods.

Transportation Expense

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
Transportation expense	**300,555**	6,021	**301,819**	8,808
Per boe	**0.90**	0.96	**0.90**	0.83

The slight increase in transportation expense per boe for the six months ended June 30, 2013 over the six months ended June 30, 2012 was due to the April 30 acquisition. Acquired operations comprised substantially all of the second quarter's transportation expense.

Risk Management

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 decline could result in a reduction of the Corporation's net production revenue. Certain wells or other projects may become uneconomic as a result 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, therefore 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 June 30, 2013 Questfire had the following crude oil and natural gas risk management contracts with a total mark-to-market asset value of $140,832:

Period	Commodity	Type of contract	Quantity	Pricing point	Contract price
July 1/13 - Dec. 31/13	Natural gas	Fixed price	14,000 GJ/d	AECO 7A	Cdn$3.05/GJ
July 1/13 - Dec. 31/13	Natural gas	Purchased put (1)	10,000 GJ/d	AECO 7A	Cdn$3.00/GJ
July 1/13 - Dec. 31/13	Crude oil	Fixed price	250 bbls/d	WTI Canadian	Cdn$97.25/bbl
Jan. 1/14 - Dec. 31/14	Natural gas	Fixed price	8,000 GJ/d	AECO 7A	Cdn$3.3575/GJ
Jan. 1/14 - Dec. 31/14	Natural gas	Purchased put (2)	2,500 GJ/d	AECO 7A	Cdn$3.00/GJ
Jan. 1/14 - Dec. 31/14	Crude oil	Fixed price	200 bbls/d	WTI Canadian	Cdn$94.80/bbl

(1) The put contract required a premium of $169,050 be paid by the Corporation at inception.

(2) The put contract requires the Corporation to pay a monthly premium of approximately $13,000 per month over the term for a total premium of $154,213.

These contracts are considered to be financial instruments, and the resulting derivative financial asset was recorded on the Corporation's balance sheet, with the unrealized gain being recorded on the statement of income (loss) and comprehensive income (loss).

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
Realized loss on risk management contracts	**(336,079)**	-	**(336,079)**	-
Per boe	**(1.01)**	-	**(1.00)**	-
Unrealized gain on risk management contracts	**2,754,421**	-	**2,754,421**	-
Per boe	**8.25**	-	**8.21**	-

General and Administrative (G&A) and Transaction Expense

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
G&A and Transaction expense	**1,530,334**	261,506	**2,446,546**	561,011
Per boe	**4.59**	41.65	**7.29**	53.15

G&A increases over 2012 are mainly due to acquisition costs incurred in the amount of $603,951 and $1,228,416 in the respective three and six-month periods ended June 30, 2013, as well as increased office activity in the second quarter of 2013 as Questfire started to operate 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 per boe of production to decline further in future periods as it operates the net assets for entire reporting periods.

Share-Based Compensation

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
Share-based compensation	**28,476**	27,361	**40,757**	54,722
Per boe	**0.09**	4.36	**0.12**	5.18

The increase in the three months ended June 30, 2013 from the comparative period is a result of stock options being issued in June 2013. These options were issued in association with the Corporation increasing staffing as a result of the asset acquisition closing during the quarter.

The Corporation granted a total of 185,000 options in the three and six months ended June 30, 2013 at a Class A share exercise price of $1.25 per option. There were 1,466,000 options outstanding at June 30, 2013 and 1,791,000 outstanding as of the date of this report. There were 427,000 options exercisable at June 30, 2013.

Subsequent to the end of the quarter, the Corporation granted a total of 325,000 stock options to employees and a director, of which 75,000 were granted to the director, at exercise prices ranging between $0.65 and $1.00 per Class A share, based on the share 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.

Exploration and Evaluation (E&E) Expenditures

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
E&E expense	**187,500**	62,800	**250,000**	1,124,609
Per boe	**0.56**	10.00	**0.74**	106.54

The decrease in E&E expenditures recognized during the six months ended June 30, 2013 from the comparative period is due to a $999,309 E&E impairment recorded in the first quarter of 2012. The decrease in E&E expenditures 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 June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
D&D	**1,971,746**	63,861	**1,998,433**	103,920
Per boe	**5.90**	10.17	**5.96**	9.84

The current periods' increase in D&D from the prior year's comparative periods is a result of the Corporation's higher production in 2013 as a result of the asset acquisition. On per-boe basis, D&D

decreased significantly as a result of the anticipated long reserve life of the assets acquired on April 30, 2013.

Finance Income and Expense

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
Finance income				
Interest on cash and cash equivalents	**-**	335	**-**	7,291
Finance expense				
Part XII.6 tax on flow-through shares	**-**	(11,075)	**-**	(18,761)
Accretion and interest on convertible debentures	**(591,944)**	-	**(663,592)**	-
Interest on demand loan	**(301,519)**	-	**(301,519)**	-
Financing costs	**(488,488)**	-	**(488,488)**	-
Accretion on decommissioning provision	**(261,149)**	(756)	**(263,686)**	(1,511)
Accretion on Class B share liability	**(273,961)**	(80,984)	**(360,353)**	(160,242)
	(1,917,061)	(92,815)	**(2,077,638)**	(180,514)
Net finance expense	**(1,917,061)**	(92,480)	**(2,077,638)**	(173,223)
Per boe	**(5.74)**	(14.73)	**(6.19)**	(16.41)

Convertible debenture accretion has increased due to the 2012 convertible debenture issuance in July 2012 and the 2013 issuance on April 30, 2013.

Accretion on Class B shares and interest on demand loan have increased due to the Class B shares issued and debt incurred to complete the April 30, 2013 asset acquisition.

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 $199,292 and $151,443 in the respective three and six month periods ended June 30, 2013, compared to recoveries of $92,728 and $396,963 in the respective comparative periods in 2012 and is due to the Corporation having net income in 2013 compared to net losses in 2012.

Net Income (Loss)

The Corporation realized net income of $1,514,377 ($0.12 per share basic and $0.05 per share diluted) and $411,434 ($0.03 per share basic and $0.03 per share diluted), respectively, for the three and six-month periods ended June 30, 2013, compared to net losses of $384,985 ($0.03 per share basic and diluted) and $1,566,731 ($0.12 per share basic and diluted) for the respective comparative periods in 2012. The Corporation’s transition to generating net income is due to the acquisition that closed on April 30.

Supplemental Quarterly Information

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

Funds Flow from Operations

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$	$	**$**	$
Net income (loss)	1,514,377	(384,985)	411,434	(1,566,731)
Non-cash items:				
D&D	1,971,746	63,861	1,998,433	103,920
Deferred income tax expense (recovery)	199,292	(92,728)	151,443	(396,963)
E&E impairment	-	-	-	999,309
Unrealized gain on risk management	(2,754,421)	-	(2,754,421)	-
Net finance expense	1,917,061	92,480	2,077,638	173,223
Share-based compensation	28,476	27,361	40,757	54,722
Funds flow from operations	2,876,531	(294,011)	1,925,284	(632,520)

Netback Analysis

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**31.54**	15.93	**31.58**	14.97
Royalties	**(3.91)**	(2.03)	**(3.91)**	(2.07)
Production and operating expenses	**(11.96)**	(8.11)	**(12.00)**	(6.97)
Transportation expense	**(0.90)**	(0.96)	**(0.90)**	(0.83)
Operating netback	**14.77**	4.83	**14.77**	5.10
G&A and transaction expense	**(4.59)**	(41.65)	**(7.29)**	(53.15)
E&E expenditures [(1)]	**(0.56)**	(10.00)	**(0.74)**	(11.87)
Realized loss on risk management	**(1.01)**	-	**(1.00)**	-
Funds flow netback	**8.61**	(46.82)	**5.74**	(59.92)
Net finance expenses	**(5.74)**	(14.73)	**(6.19)**	(16.41)
D&D	**(5.90)**	(10.17)	**(5.96)**	(9.84)
Share-based compensation	**(0.09)**	(4.36)	**(0.12)**	(5.18)
Unrealized gain on risk management	**8.25**	-	**8.21**	-
E&E impairment	**-**	-	**-**	(94.67)
Deferred income tax recovery (expense)	**(0.60)**	14.77	**(0.45)**	37.60
Net income (loss) netback	**4.53**	(61.31)	**1.23**	(148.42)

[(1)] The June 30, 2012 $11.87 per boe figure excludes the E&E impairment included below.

Selected Quarterly Information

Three months ended	**June 30, 2013**	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011
(000's, except per share amounts and production figures)								
Financial								
Oil and natural gas sales	**10,533**	64	213	138	100	58	-	-
Funds flow from operations	**2,877**	(951)	(2,097)	(283)	(294)	(339)	(324)	(291)
Per share, basic	**0.22**	(0.07)	(0.16)	(0.02)	(0.02)	(0.03)	(0.03)	(0.03)
Per share, diluted	**0.08**	(0.07)	(0.16)	(0.02)	(0.02)	(0.03)	(0.03)	(0.03)
Net income (loss)	**1,514**	(1,103)	(1,390)	(568)	(385)	(1,182)	(419)	(265)
Per share, basic	**0.12**	(0.09)	(0.11)	(0.04)	(0.03)	(0.09)	(0.03)	(0.03)
Per share, diluted	**0.05**	(0.09)	(0.11)	(0.04)	(0.03)	(0.09)	(0.03)	(0.03)
Capital expenditures	**81,470**	211	77	777	600	1,116	2,986	259
Total assets *(end of period)*	**122,598**	5,552	5,613	6,328	6,870	5,552	8,611	1,797
Working capital surplus (deficit)[1] *(end of period)*	**(43,136)**	(2,838)	(1,531)	698	1,810	1,271	2,726	295
Shareholders' equity (deficit) *(end of period)*	**(1,547)**	(3,165)	(2,074)	(711)	(171)	79	1,233	1,138
Weighted-average basic shares outstanding	**12,902**	12,813	12,813	12,813	12,813	12,813	12,209	9,593
Weighted-average diluted shares outstanding	**47,825**	12,813	12,813	12,813	12,813	12,813	12,209	9,593
Operations								
Production								
Natural gas *(Mcf/d)*	**17,479**	79	411	397	385	272	-	-
NGL *(bbls/d)*	**415**	1	11	5	2	1	-	-
Crude oil *(bbls/d)*	**342**	5	2	3	3	-	-	-
Total *(boe/d)*	**3,670**	19	82	74	69	46	-	-
Average realized prices								
Natural gas *(per Mcf)*	**3.60**	3.48	3.70	2.47	1.97	2.03	N/A	N/A
Natural gas liquids *(per bbl)*	**55.64**	63.26	58.76	64.97	67.78	75.36	N/A	N/A
Crude oil *(per bbl)*	**87.16**	84.01	73.24	83.52	75.92	N/A	N/A	N/A
Operating netback *(per boe)*	**14.77**	16.41	19.25	11.04	4.83	5.55	N/A	N/A
Funds flow netback *(per boe)*	**8.61**	(556.14)	(279.49)	(42.14)	(46.82)	(80.98)	N/A	N/A

(1) Excludes flow through share premium.

Capital Expenditures

	Three months ended June 30,		**Six months ended June 30,**	
	2013	2012	**2013**	2012
	$	$	**$**	$
Land	**81,721**	382,748	**88,722**	415,532
Geological and geophysical	**-**	84,313	**889**	87,193
Drilling and completions	**734,746**	93,799	**734,746**	823,446
Production equipment and facilities	**105,741**	39,342	**105,741**	325,035
Well workovers and recompletions	**24,606**	-	**24,606**	64,755
Office equipment	**86,573**	-	**89,198**	-
Property acquisition	**80,436,961**	-	**80,636,961**	-
	81,470,348	600,202	**81,680,863**	1,715,961

At June 30, 2013 the Corporation had E&E assets of $1,924,495. These included 17,087 acres of undeveloped land, 3.9 km^2 of 3D seismic data in the Richdale area and 21 km^2 of 3D seismic data in the Thorsby area. There were also costs incurred and capitalized for surveying and licensing of certain wells to be drilled in 2013.

At June 30, 2013 the Corporation had gross property and equipment of $113,417,563. This included 264,089 net acres of developed land and costs associated with the wells the Corporation has drilled, as well as acquired, to date. As well, $126,081 has been incurred since inception to purchase computer systems and printers and associated office furniture for use by management to evaluate oil and natural gas leads.

Share Capital and Option Activity

As at the date hereof, the Corporation had 12,963,001 Class A shares, 2,055,840 Class B shares, and 1,510,000 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 then-current market price of the Class A shares. If conversion has not occurred by the close of business on November 30, 2016, the Class B shares become convertible (at the 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 two convertible debenture issuances, each of which has particular conversion features. 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 at a conversion price of $0.50 per Class A share. As of the date hereof, there are $32,585,000 of 2013 convertible debentures outstanding. These debentures have a 36-month term and are convertible into Class A shares at the holder's option at the Class A shares' trailing 20-day volume-weighted average trading price, for 30 days following any of the following events:

i. Questfire pays the accrued interest on the debenture by delivering Class A shares;
ii. Any Event of Default;
iii. Any conversion by the Corporation of Class B shares into Class A shares;
iv. October 31, 2015 (thirty months from closing);
v. April 1, 2016 (one month prior to maturity);
vi. Upon a Change in Control; or
vii. Any equity financing whereby the holder has the option to convert up to 50 percent of the total shares issued in the financing at the issuance price.

Liquidity and Capital Resources

At June 30, 2013 the Corporation had a working capital deficit of $43,135,885. Funds flow from operations for the three and six months ended June 30, 2013 were $2,876,531 and $1,925,284, respectively. The funds generated from operations, when combined with the available bank financing, are well in excess of the current working capital deficit. Funds generated from operations are anticipated to be used for capital expenditures.

The bank line of credit had $43,000,000 drawn and $17,000,000 undrawn at June 30, 2013. The facility bears interest at a range of prime plus 1 percent to prime plus 3 percent per annum, depending on the Corporation's senior net debt to cash flow ratio, 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 Corporation's capital expenditures will be impacted 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 farmout 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 its additional financing needs and to maintain flexibility in funding its capital programs. Future liquidity depends primarily on funds flow generated from operations, the ability to draw on existing credit facilities and the ability to access debt and equity markets. Bank debt is classified as a short term liability as it is a demand loan and could potentially be paid within a year. The Corporation generated positive funds flow from operations for the period ended June 30, 2013.

The Corporation's credit facility is a demand loan and as such the bank could demand repayment at any time. Management is not aware of 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 Corporation believes that the current portion of the convertible debentures will be converted but has adequate operating cash flow to repay the amounts if required. The Corporation believes that the convertible debentures due in 3 years will be repaid from operating cash flow and / or future equity.

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

The Corporation entered into a lease for office space that runs to August 31, 2013. As of June 30, 2013 the estimated remaining amounts due under the lease, exclusive of estimated related operating expenses and taxes, are $11,370 for 2013. During the quarter, the Corporation assumed as part of the acquisition an additional lease for office premises expiring July 31, 2014. The minimum rental payments, excluding estimated operating costs, are $216,356 for the remainder of 2013 and $252,415 for 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 $132,084 and $282,084, respectively, in the three and six months ended June 30, 2013 (three and six months ended June 30, 2012 - $43,300 and $50,770, respectively) were incurred by Questfire to the law firm, of which $30,000 and $30,000 (2012 - $34,000 and $34,000) was charged to debenture issuance costs, $29,974 and $29,974 (2012 - $9,300 and $16,770) was charged to general and administrative expenses, $24,432 and $174,432 (2012 - $Nil and $Nil) was charged to transaction costs and $47,678 and $47,678 (2012 - $NIL and $Nil) was charged to financing expense. As at June 30, 2013, $15,000 (December 31, 2012 - $24,824) related to these amounts was included in accounts payable and accrued liabilities.

Hedging

The Corporation initiated an active hedging program during the quarter, 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. As at June 30, 2013 the Corporation's hedges covered approximately 73 percent of its production for the second half of 2013 and approximately 34 percent for 2014 (see also "Risk Management" above).

Critical Accounting Judgements, Estimates and Accounting Policies

The Corporation's critical accounting judgements, estimates and accounting policies are described in notes 2 and 3 to the December 31, 2012 annual financial statements, and note 2 to the June 30, 2013 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 a magnitude to have a material impact on 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 estimates that require management to make particularly subjective or complex judgments about matters that are inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the same period. The only changes to Questfire's key sources of estimation uncertainty in the second quarter of 2013 are outlined below:

a) Identification of Cash-Generating Units (CGUs)

The Corporation's upstream assets are grouped into CGUs, defined as the lowest level of assets for which there is separately identifiable independent cash inflow. The classification of assets and allocation of corporate assets into CGUs requires significant judgment and interpretations. Factors considered in the classification include the integration among assets, shared infrastructure, the existence of common sales points, geography, geological structure and the manner in which management monitors and makes decisions about its operations. The recoverability of the Corporation's assets is assessed at the CGU level and therefore could have a significant impact on impairment losses and reversals.

b) Assets (liabilities) held for sale

The decision to transfer property, plant and equipment, exploration and evaluation assets and the related decommissioning provisions to assets (liabilities) held for sale is based on management's determination that the assets and liabilities are available for immediate sale in their current condition and that the sale is highly probable.

c) Derivative commodity contracts

The amounts recorded for the fair value of commodity contracts are based on estimates of future commodity prices, foreign exchange rates and the volatility in those prices.

d) Business combinations and asset acquisitions

The value assigned and the allocation of the purchase price to the net assets in the acquisition are based on numerous estimates that affect the valuation of certain assets and liabilities acquired including the discount rates, estimates of proved and probable reserves, estimates of fair values of exploration and evaluation assets, future oil and natural gas prices and other factors.

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

New accounting standards

Questfire has adopted the following new and revised standards, along with any amendments, effective January 1, 2013, with no material impact on the Corporation's interim financial statements or MD&A:

i) IFRS 7, *Financial Instruments: Disclosures*
ii) IFRS 10, *Consolidated Financial Statements*
iii) IFRS 11, *Joint Arrangements*
iv) IFRS 12, *Disclosure of Interests in Other Entities*
v) IFRS 13, *Fair Value Measurement*
vi) IAS 1, *Presentation of Financial Statements*
vii) IAS 28, *Investments in Associates and Joint Ventures* (amended in 2011)
viii) IAS 32, *Financial Instruments: Presentation*

Decommissioning provisions

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

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 expenses, and transportation) and "funds flow from operations" (cash generated from operating activities before changes in non-cash working capital and decommissioning provision costs incurred) do not have any standardized meaning under International Financial Reporting Standards (IFRS), which have been incorporated into Canadian generally accepted accounting principles (GAAP), as contained in part 1 of the Canadian Institute of Chartered Accountants' Handbook, and may not be comparable with similar measures presented by other companies. Management uses funds flow from operations (cash generated from operating activities before changes in non-cash working capital and decommissioning provision costs incurred) to analyze operating performance and leverage. 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.

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 greater than 25 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 is a summary of the abbreviations used in this document:

Crude Oil and Natural Gas Liquids

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

Natural Gas

Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
GJ	Gigajoule. One Mcf of natural gas is about 1.05 GJ.

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
km^2	square kilometre
3D	three-dimensional seismic survey data

Corporate Information

BOARD OF DIRECTORS

RICHARD DAHL (1)(2)(3)
President & CEO
Questfire Energy Corp.
Calgary, Alberta

NEIL DELL (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

KELLY DRADER (1)(2)
President and Chief Executive Officer
Longview Oil Corp.
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
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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