



Questfire Energy Corp.

Condensed Interim Financial Statements
For the three and six months ended June 30, 2014
(amounts in Canadian dollars) (unaudited)

Questfire Energy Corp.
Condensed Interim Balance Sheets

(amounts in Canadian dollars) (unaudited)

	Note	June 30, 2014	December 31, 2013
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		927,236	-
Accounts receivable	4(c)	8,071,830	8,256,402
Deposits and prepaid expenses		920,822	592,870
Total current assets		9,919,888	8,849,272
Non-current assets			
Property and equipment	6	120,179,374	122,140,086
Exploration and evaluation assets		1,564,044	1,564,044
Deferred tax asset		-	623,976
Total assets		131,663,306	133,177,378
Liabilities			
Current liabilities			
Bank overdraft		-	167,201
Accounts payable and accrued liabilities	8	12,871,499	12,247,693
Bank debt	9	-	41,000,000
Current portion of long-term contract obligation	10	346,118	-
Risk management contracts	4(e)	2,166,459	1,606,257
Convertible debentures	13	-	1,382,604
Total current liabilities		15,384,076	56,403,755
Non-current liabilities			
Bank debt	9	37,000,000	-
Decommissioning provisions	11	33,984,339	34,706,080
Convertible Class B shares	12	4,469,942	15,088,437
Long-term contract obligation	10	14,574,327	-
Convertible debentures	13	-	31,002,508
Deferred tax liabilities		4,941,669	-
Total liabilities		110,354,353	137,200,780
Shareholders' Equity (Deficiency)			
Share capital	14(b)	6,905,758	4,272,595
Equity component of convertible Class B shares	12	(2,061,132)	(2,081,352)
Equity component of convertible debentures	13	-	75,805
Warrants	13	-	28,295
Contributed surplus		524,106	288,768
Retained earnings (deficit)		15,940,221	(6,607,513)
Total equity (deficiency) attributable to equity holders of the Corporation		21,308,953	(4,023,402)
Total liabilities and shareholders' equity (deficiency)		131,663,306	133,177,378

Commitments (note 18)

(Signed) "Richard Dahl", Director

(Signed) "Roger MacLeod", Director

See accompanying notes to the financial statements.

Questfire Energy Corp.

Condensed Interim Statements of Income and Comprehensive Income

(amounts in Canadian dollars) (unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
			(Note 3(c))		(Note 3(c))
		\$	\$	\$	\$
Revenue					
Oil and natural gas sales		17,130,571	10,532,541	38,086,390	10,596,662
Royalties		(2,189,906)	(1,307,423)	(5,361,445)	(1,310,890)
		14,940,665	9,225,118	32,724,945	9,285,772
Realized loss on risk management		(1,102,833)	(336,079)	(2,190,816)	(336,079)
Unrealized gain (loss) on risk management	4(e)	1,075,912	2,754,421	(724,912)	2,754,421
		14,913,744	11,643,460	29,809,217	11,704,114
Expenses					
Production and operating		7,297,807	3,994,119	13,495,281	4,026,044
Transportation		449,412	300,555	902,326	301,819
General and administrative		1,637,223	926,383	3,250,358	1,218,130
Share-based compensation		173,715	28,476	235,338	40,757
Exploration and evaluation		112,500	187,500	225,000	250,000
Depletion and depreciation	6	2,966,516	2,073,158	5,973,648	2,099,845
Transaction costs	5(b)	-	603,951	-	1,228,416
		12,637,173	8,114,142	24,081,951	9,165,011
Operating Income		2,276,571	3,529,318	5,727,266	2,539,103
Gain on sale of assets	5(a), 6	1,516,469	-	1,947,731	-
Gain on repurchase of Class B shares	12	7,294,966	-	7,294,966	-
Gain on repurchase of convertible debentures	13	-	-	17,722,983	-
Finance expense	15	(2,164,907)	(1,993,333)	(4,580,504)	(2,153,910)
Income Before Income Taxes		8,923,099	1,535,985	28,112,442	385,193
Deferred income tax expense		(751,582)	(154,871)	(5,565,645)	(107,022)
Income and Comprehensive Income for the Period		8,171,517	1,381,114	22,546,797	278,171
Income per Share					
Basic	14(c)	0.61	0.11	1.71	0.02
Diluted	14(c)	0.36	0.04	0.76	0.02

See accompanying notes to the financial statements.

Questfire Energy Corp.
Condensed Interim Statements of Changes in Equity

(amounts in Canadian dollars) (unaudited)

	Note	Share capital	Equity component of convertible Class B shares	Equity component of convertible debentures	Warrants	Contributed surplus	Retained earnings (deficit)	Total
		\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2013		4,193,633	(2,081,352)	79,767	28,295	134,770	(4,429,039)	(2,073,926)
Issued on conversion of convertible debentures	13	78,962	-	(3,962)	-	-	-	75,000
Share-based compensation		-	-	-	-	40,757	-	40,757
Income for the period		-	-	-	-	-	278,171	278,171
Balance, June 30, 2013		4,272,595	(2,081,352)	75,805	28,295	175,527	(4,150,868)	(1,679,998)
Share-based compensation		-	-	-	-	113,241	-	113,241
Loss for the period		-	-	-	-	-	(2,456,645)	(2,456,645)
Balance, December 31, 2013		4,272,595	(2,081,352)	75,805	28,295	288,768	(6,607,513)	(4,023,402)
Repurchase of Class B shares	12	-	20,220	-	-	-	-	20,220
Issued on conversion of convertible debentures	13	1,510,805	-	(75,805)	-	-	-	1,435,000
Issued on exercise of warrants	13, 14	1,122,358	-	-	(27,358)	-	-	1,095,000
Expiration of warrants	13	-	-	-	(937)	-	937	-
Share-based compensation		-	-	-	-	235,338	-	235,338
Income for the period		-	-	-	-	-	22,546,797	22,546,797
Balance, June 30, 2014		6,905,758	(2,061,132)	-	-	524,106	15,940,221	21,308,953

See accompanying notes to the financial statements.

Questfire Energy Corp.

Condensed Interim Statements of Cash Flows

(amounts in Canadian dollars) (unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
			(Note 3(c))		(Note 3(c))
		\$	\$	\$	\$
Cash flows related to:					
Operating Activities					
Income		8,171,517	1,381,114	22,546,797	278,171
Add (deduct) items not involving cash:					
Unrealized (gain) loss on risk management	4(e)	(1,075,912)	(2,754,421)	724,912	(2,754,421)
Share-based compensation		173,715	28,476	235,338	40,757
Depletion and depreciation	6	2,966,516	2,073,158	5,973,648	2,099,845
Acquired office lease amortization	16	69,543	-	139,086	-
Gain on repurchase of Class B shares	12	(7,294,966)	-	(7,294,966)	-
Gain on repurchase of convertible debentures	13	-	-	(17,722,983)	-
Deferred income tax expense		751,582	154,871	5,565,645	107,022
Finance expense	15	2,164,907	1,993,333	4,580,504	2,153,910
Gain on sale of assets	5(a), 6	(1,516,469)	-	(1,947,731)	-
Funds flow from operations		4,410,433	2,876,531	12,800,250	1,925,284
Decommissioning costs incurred	11	(889,457)	(100,433)	(1,641,506)	(100,433)
Change in non-cash working capital	16	(1,655,753)	(3,625,247)	(589,016)	(2,559,530)
Cash from (used in) operating activities		1,865,223	(849,149)	10,569,728	(734,679)
Investing Activities					
Exploration and evaluation expenditures		-	(6,720)	-	(13,722)
Property and equipment expenditures	6	(3,240,324)	(1,026,667)	(6,416,327)	(1,030,180)
Property acquisitions		-	(39,952,343)	-	(40,152,343)
Disposal of property and equipment	6	3,752,297	-	3,792,346	-
Disposal of assets held for sale	5(a)	9,173	-	440,435	-
Purchase of risk management contracts	4(e)	(82,810)	(169,050)	(164,710)	(169,050)
Change in non-cash working capital	16	2,397,895	828,904	733,761	812,752
Cash from (used in) investing activities		2,836,231	(40,325,876)	(1,614,495)	(40,552,543)
Financing Activities					
Net bank debt draws (repayments)		(5,000,000)	43,000,000	(4,000,000)	43,000,000
Common share issuance proceeds		1,095,000	-	1,095,000	-
Repurchase of Class B shares	12	(3,914,040)	-	(3,914,040)	-
Long-term contract obligation draws	10	-	-	15,000,000	-
Long-term contract obligation repayments	10	(79,555)	-	(79,555)	-
Convertible debenture repurchase	13	-	-	(13,600,000)	-
Convertible debenture issuance costs		-	(62,875)	-	(62,875)
Interest and financing costs paid	15	(1,394,987)	(1,160,562)	(2,558,796)	(1,206,012)
Deferred financing costs		-	100,000	-	-
Change in non-cash working capital	16	42,686	130,152	196,595	130,152
Cash from (used in) financing activities		(9,250,896)	42,006,715	(7,860,796)	41,861,265
Increase (Decrease) in Cash and Cash Equivalents		(4,549,442)	831,690	1,094,437	574,043
Cash and Cash Equivalents (Bank Overdraft), Beginning of Period		5,476,678	137,641	(167,201)	395,288
Cash and Cash Equivalents, End of Period		927,236	969,331	927,236	969,331

See accompanying notes to the financial statements.

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

1. General business description

Questfire Energy Corp. (“Questfire” or the “Corporation”) is engaged in the exploration for, and development and production of, oil and natural gas in Alberta and may conduct its activities jointly with others; these condensed interim financial statements reflect only the Corporation’s proportionate interest in such activities. The Corporation’s Class A shares and Class B shares are listed on the TSX Venture Exchange (TSXV). The address and principal place of business of the Corporation is Suite 1100, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

The condensed interim financial statements were approved and authorized for issuance by the Corporation’s Board of Directors on August 26, 2014.

2. Basis of preparation

Statement of compliance

These condensed interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and Canadian generally accepted accounting principles (GAAP) as applicable to interim financial statements, including International Accounting Standard (IAS) 34, *Interim Financial Reporting*, and should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which were prepared in accordance with IFRS. The disclosure provided is incremental to that included with the annual financial statements. Certain information and disclosures included in the notes to the annual financial statements is condensed or disclosed only on an annual basis.

Basis of measurement

These condensed interim financial statements were prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions, which were measured at fair value.

The Corporation conducts many of its oil and natural gas production activities through jointly controlled operations and the financial statements reflect only the Corporation’s proportionate interest in such revenues, expenses, assets and liabilities. Joint control for contractual arrangements governing the Corporation’s assets is indicated where the Corporation has less than 100 percent working interest, and the partners control the arrangement collectively.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the period. These estimates are reviewed periodically and, as adjustments become necessary, are reported in the period in which they become known. By their nature, these estimates and related future cash flows are subject to measurement uncertainty, and the impact on future financial statements could be material.

In preparing these condensed interim financial statements, the significant estimates and judgments made by management in applying the Corporation’s accounting policies and the key sources of estimation uncertainty were the same as those that applicable to the financial statements for the year ended December 31, 2013, with the exception of changes in estimates that are required in determining the provision for income taxes. Income taxes in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual income or loss.

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

3. Significant accounting policies

The accounting policies followed in these condensed interim financial statements are consistent with those for the year ended December 31, 2013, except as described below:

a) New or amended standards adopted by the Corporation

Questfire adopted the following new or revised standards, effective January 1, 2014:

- (i) IAS 32, *Financial Instruments: Presentation*, amendments clarify the requirements for offsetting financial assets and liabilities by indicating that the right to offset must be available on the current date and cannot be contingent on a future event. IAS 32 did not impact the financial statements.
- (ii) In December 2013, the IASB under its annual improvement process issued narrow-scope amendments to nine standards. Some of the amendments were: clarifying the definition of vesting conditions in IFRS 2, *Share-based Payment*; defining the classification and measurement of contingent consideration; scope exclusion for the formation of joint arrangements in IFRS 3, *Business Combinations*; and modifying the definition of a related party in IAS 24, *Related Party Disclosures*. The adoption of the amendments did not affect the financial statements.
- (iii) IFRIC Interpretation 21, *Levies*, pertains to accounting for certain payments to governments. Levies may be any amount paid to a government that is not income tax, for the acquisition of an asset, nor for the rendering of contractual services by the government. The interpretation of IFRIC 21 continues to evolve. The Corporation believes royalties are outside the scope of IFRIC 21, and that its current accounting treatment is appropriate even were IFRIC 21 applied. Property tax is considered within the scope of IFRIC 21, and is material to the Corporation. Property taxes are due for individual properties at various points throughout the year, depending on the municipality, and are billed on a calendar year basis. Management has assessed its current accounting treatment and considers it appropriate. IFRIC 21 did not impact the financial statements.

These changes were made in accordance with the applicable transitional provisions.

b) New or revised IFRS not yet adopted

- (i) On July 29, 2014, the IASB issued IFRS 9, *Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for years beginning on or after January 1, 2018, with early adoption permitted if the standard is adopted in its entirety at the beginning of a fiscal period. The Corporation is evaluating the impact of adoption of IFRS 9 on the financial statements.
- (ii) In May 2014, the IASB published IFRS 15, *Revenue From Contracts With Customers*, replacing IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. IFRS 15 is effective for years beginning on or after January 1, 2017, with early adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is evaluating the impact of adoption of IFRS 15 on the financial statements.

A description of additional standards and interpretations that will be adopted by the Corporation in future periods can be found in the notes to the financial statements for the year ended December 31, 2013.

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

c) Measurement period adjustment

During the fourth quarter of 2013, Questfire received new information related to facts unknown on April 30, 2013, the date the Corporation completed its acquisition of producing assets in Alberta, as described in note 5(a). The new information was derived from the final statement of adjustments, as well as revised reserve report estimations as at April 30, 2013. It required retrospective measurement period adjustments to the purchase price equation and did not result from events subsequent to the acquisition date.

The adjustments were made largely to better reflect market participant assumptions about facts and circumstances as of the acquisition date, such as for: decommissioning provisions, long-term expectations of well lives, estimated costs to reclaim and abandon the wells and facilities, revised well status, type, and working interests; property and equipment, and revised reserve estimates. These items also resulted in retrospective adjustments to the statements of income, cash flow, and changes in equity for the periods subsequent to the acquisition date. The Corporation recalculated depletion and depreciation, and finance expense as though these changes were made upon acquisition. The impacts for the three and six months ended June 30, 2013 were: depletion and depreciation increased by \$101,412, finance expense increased by \$76,272 and deferred income tax expense was reduced by \$44,421 for a decrease in income and comprehensive income of \$133,263. The comparative periods for the condensed interim statements of income and comprehensive income, changes in equity, and cash flows were restated to reflect these adjustments.

4. Financial instruments and risk management

a) Risk management overview

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

b) Fair value of financial instruments

The fair values of cash and cash equivalents or bank overdraft, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the bank debt is equal to its carrying value as the facility bears floating-rate interest with credit spreads indicative of market rates.

The fair value of convertible Class B shares at June 30, 2014, based on a discounted cash flow model assuming an 8.65 percent effective interest rate, is approximately \$4.5 million (December 31, 2013 – \$14.8 million).

The fair value of financial derivatives, including risk management contracts, is determined by discounting the difference between the contracted prices and published forward price curves at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate adjusted for the Corporation's and the counterparty's non-performance risk (see also note 4(e)).

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

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

Cash and cash equivalents are measured at fair value based on their Level 1 designation. Derivative financial instruments, including risk management contracts, are measured at fair value based on a Level 2 designation. Convertible Class B shares are measured at fair value based on a Level 3 designation.

c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk with respect to accounts receivable, cash and cash equivalents, and risk management contracts if in an unrealized asset position.

Substantially all of the Corporation's accounts receivable are due from purchasers of Questfire's oil and natural gas production, joint interest partners and government agencies and are subject to normal industry credit risk. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation mitigates the credit risk associated with the marketing of its oil and natural gas production by establishing marketing relationships with large, credit-worthy purchasers. The Corporation has not experienced any collection issues with its marketers.

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

At June 30, 2014 and December 31, 2013, the Corporation's accounts receivable were comprised of the following:

	June 30, 2014	December 31, 2013
	\$	\$
Oil and natural gas sales	5,180,663	5,789,802
Joint interest billings, GST and other	2,891,167	2,466,600
Accounts receivable	8,071,830	8,256,402

The Corporation considers all amounts greater than 90 days to be past due. At June 30, 2014, \$523,838 is past due (December 31, 2013 – \$542,509). The Corporation considers this amount fully collectible. Some of these amounts arose from the acquisition of producing assets from Advantage Oil & Gas Ltd. (Advantage) (note 5(a)), and the subsequent delay in some parties recognizing Questfire's ownership of the assets.

The Corporation manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. The Corporation manages the credit exposure related to risk management contracts by ensuring the contracts are entered into with counterparties that are financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's goal is to meet its liabilities when due, and its management of liquidity is structured accordingly. The Corporation's liquidity is affected by various external events and conditions, including commodity price fluctuations and global economic instability.

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

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

The timing of undiscounted cash flows relating to the financial liabilities outstanding at June 30, 2014 is outlined below:

	1 year	2 years	3 years	>3 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	12,871,499	-	-	-	12,871,499
Risk management contracts	2,166,459	-	-	-	2,166,459
Bank debt ⁽¹⁾	-	37,000,000	-	-	37,000,000
Long-term contract obligation ⁽²⁾	2,326,300	2,326,300	2,326,300	15,090,864	22,069,764

⁽¹⁾ Excludes future interest payable on amounts drawn on the bank credit facility.

⁽²⁾ Includes the payments required if the long-term contract obligation is repaid within 48 months of inception.

The Corporation strives to ensure it will have sufficient access to funds to meet short-term obligations by actively monitoring its credit facilities, and coordinating payment cycles with revenue cycles.

The Corporation is also subject to commitments as disclosed in note 18.

e) Market risk

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

Foreign currency risk

Crude oil prices are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Corporation are influenced by U.S. and Canadian supply and demand and, to a much lesser degree, the international market for liquefied natural gas. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease the revenues received from the sale of oil and natural gas. The impact of such exchange rate fluctuations cannot be predicted. At June 30, 2014 and December 31, 2013, the Corporation had no forward exchange rate contracts nor any working capital denominated in foreign currencies.

Interest rate risk

Interest rate risk is the risk that future cash flows will fall as a result of changes in market interest rates. The Corporation has exposure to interest rate cash flow risk as its bank borrowing bears interest at variable rates. For the six months ended June 30, 2014, a 1 percent increase in interest rates would decrease income by approximately \$138,750 (six months ended June 30, 2013 – \$53,750). The Corporation had no interest rate swaps or contracts as at or during the three and six months ended June 30, 2014 or 2013.

Commodity price risk

The Corporation's operations expose it to fluctuations in commodity prices. Commodity prices for oil and natural gas are affected by global economic events that influence supply and demand. Questfire's management continuously monitors commodity prices and has opted to employ a number of risk-management instruments.

The Corporation's production was historically sold using spot or near-term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Corporation's policy is to limit swap commodity price contracts to a maximum of 50 percent of forecast production volume. The Corporation has also entered into other derivative financial instruments, being put options, to achieve this objective. Collars (which are generally fee-offsetting

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

put and call options for the same volume and time-frame) ensure that the realized commodity prices will fall into a contracted range for a contracted sale volume based on the monthly index price, while puts ensure the realized price will not fall below a price floor. The purchase of put options creates a floor for the realized price, while maintaining exposure to potential price upside. At June 30, 2014, the Corporation's forward commodity contracts consisted of a mix of fixed-price, fixed-volume oil and natural gas swaps and purchased put options.

I. Summary of risk management positions

At June 30, 2014, Questfire had the following crude oil and natural gas risk management contracts with a total mark-to-market liability of \$2,166,459:

Period	Commodity	Type of contract	Notional quantity	Pricing point	Contract price
July 1/14 - Dec. 31/14	Natural gas	Fixed price	8,000 GJ/d	AECO 7A	Cdn\$3.3575/GJ
July 1/14 - Dec. 31/14	Natural gas	Purchased put ⁽¹⁾	5,000 GJ/d	AECO 7A	Cdn\$3.00/GJ
July 1/14 - Dec. 31/14	Natural gas	Purchased put ⁽²⁾	10,000 GJ/d	AECO 7A	Cdn\$3.00/GJ
July 1/14 - Dec. 31/14	Crude oil	Fixed price	200 bbls/d	WTI Nymex	Cdn\$94.80/bbl
Jan. 1/15 - Dec. 31/15	Natural Gas	Purchased put ⁽³⁾	5,000 GJ/d	AECO 7A	Cdn\$3.00/GJ

⁽¹⁾ Require the Corporation to pay a monthly premium of approximately \$28,000 over the term for a total premium of \$332,150, of which \$167,440 remains to be paid.

⁽²⁾ Required the Corporation to pay total premiums of \$424,313 at inception.

⁽³⁾ Require the Corporation to pay a monthly premium of approximately \$13,500 over the term for a total premium of \$161,921.

Reconciliation of unrealized risk management contracts for the six months ended June 30, 2014:

	Fair value	Total unrealized loss
	\$	\$
Fair value of contracts, beginning of period	(1,606,257)	-
Contracts entered into	164,710	-
Change in fair value of contracts	(724,912)	(724,912)
Fair value of contracts, end of period	(2,166,459)	(724,912)

II. Commodity price sensitivities – risk management positions

The following summarizes the sensitivity of the fair value of Questfire's risk management contracts to fluctuations in commodity prices, with all other variables held constant. Management believes the price fluctuations identified below are a reasonable measure of volatility. The impact of fluctuating commodity prices on the Corporation's risk management contracts at June 30, 2014 could have resulted in unrealized gains or losses affecting profit or loss for the six months ended June 30, 2014 as follows:

Commodity	Sensitivity range	Increase	Decrease
		\$	\$
Natural gas commodity price	± \$0.10 per Mcf – AECO 7A contracts	(118,321)	120,615
Crude oil commodity price	± \$1.00 per bbl – WTI Canadian contracts	(26,255)	26,255

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

f) Capital management

The Corporation maintains a flexible capital structure to maximize its ability to pursue oil and natural gas exploration and asset acquisition opportunities and to sustain future development of the business. The Corporation monitors risks for each capital project to balance the proportion of debt and equity in its capital structure. Its officers manage its capital through quarterly meetings and regular reviews of financial information, including budgets and forecasts. The Corporation's Board of Directors oversees this process. The Corporation considers its capital structure to include shareholders' equity or deficiency, the convertible Class B share liability, long-term contract obligation and bank debt.

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

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

The Corporation has no externally imposed capital requirements other than its financial covenants related to its bank debt (note 9) and any debt or equity to be raised is subject to approval by the Corporation's priority lender (note 9). The Corporation has not paid or declared any dividends since incorporation. There were no changes to the Corporation's approach to capital management during the three and six months ended June 30, 2014 other than a new bank loan (note 9), entering into the long-term contract obligation (note 10) and the repurchase of the convertible debentures (note 13).

5. Acquisitions

- a) On April 30, 2013, the Corporation completed its acquisition of producing assets in Alberta from Advantage.

The acquisition was accounted for using the purchase method, with the results of the acquired assets included in the Corporation's financial statements commencing on the day of closing.

The acquisition-date fair value of consideration transferred and net assets acquired was as follows:

	Recognized as of acquisition date
	\$
Fair value of net assets acquired	
Risk management contracts	(2,782,639)
Office lease	312,944
Assets held for sale	281,000
Property and equipment	116,918,361
Decommissioning provisions	(33,636,218)
Total net assets acquired	81,093,448
Consideration	
Cash	40,608,830
Accrued liabilities assumed	200,000
Convertible senior secured debentures	30,284,618
Class B shares (note 12)	10,000,000
Total purchase price	81,093,448

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

The assets were acquired with full tax pools.

The Corporation funded the cash portion of the purchase price by entering into an agreement for a credit facility with National Bank of Canada and the Alberta Treasury Branches that provided a revolving operating demand loan of \$60.0 million. Questfire paid National Bank Financial Inc. a success fee on closing of the asset purchase and credit facility.

The assets held for sale were disposed of prior to December 31, 2013. Gains on sale of assets of \$9,173 and \$440,435, were recognized during the respective three and six months ended June 30, 2014, and were related to assets acquired from Advantage that were assigned a value of \$Nil at the time of acquisition.

- b) On July 31, 2013, the Corporation purchased a working interest in certain Alberta producing assets for \$1,506,310, which was allocated to property and equipment. The acquisition was accounted for using the purchase method, with the results of the operations of the acquired assets included in the Corporation's financial statements commencing on the acquisition date. The allocation of fair values to the net assets acquired is based on the best available information at this time and could be subject to further change.

During the three and six months ended June 30, 2014, the Corporation incurred \$Nil for both periods (three and six months ended June 30, 2013 – \$603,951 and \$1,228,416, respectively) of costs related to acquisitions that are recorded as transaction costs in the statement of income.

The revenues and profit or loss since the closing date of the acquisitions, and pro-forma revenues and profit or loss giving effect to the acquisitions as if they had occurred on January 1, 2013, are not practical to determine. The operations of the acquired assets are not managed as separate business units, and the Corporation's general business overhead and other costs are not allocated or identified on a specific property basis. Such allocation would, accordingly, be arbitrary and would require significant assumptions and estimates concerning management's intentions and decision-making.

6. Property and equipment (P&E)

	Oil and natural gas interests	Corporate and other	Total
	\$	\$	\$
Cost			
Balance, December 31, 2013	131,058,561	146,349	131,204,910
Additions	6,404,496	11,831	6,416,327
Disposals	(2,393,471)	-	(2,393,471)
Decommissioning provision	(9,920)	-	(9,920)
Balance, June 30, 2014	135,059,666	158,180	135,217,846
Accumulated depletion, depreciation and impairment			
Balance, December 31, 2013	9,023,824	41,000	9,064,824
Depletion and depreciation	5,957,586	16,062	5,973,648
Balance, June 30, 2014	14,981,410	57,062	15,038,472
Balance, December 31, 2013	122,034,737	105,349	122,140,086
Balance, June 30, 2014	120,078,256	101,118	120,179,374

To date, the Corporation has not capitalized any interest nor general and administrative expenses to P&E.

During the three months ended June 30, 2014, the Corporation disposed of non-core assets in Turner Valley, part of the Crossfield cash generating unit (CGU), for proceeds of \$3,752,297, resulting in a gain on sale of assets of \$1,507,296.

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

7. Impairment

At June 30, 2014, the Corporation assessed its P&E CGUs and exploration and evaluation (E&E) assets for indicators of impairment and noted none. There were no impairment reversals for either P&E or E&E during the three and six months ended June 30, 2014 or 2013.

8. Accounts payable and accrued liabilities

As at	June 30, 2014	December 31, 2013
	\$	\$
Accruals	8,764,436	6,944,491
Trade	3,930,045	5,222,409
Other	177,018	80,793
	<u>12,871,499</u>	<u>12,247,693</u>

9. Bank debt

On June 27, 2014, the Corporation terminated its \$55.0 million revolving credit facility and \$5.0 million non-revolving development demand line and entered into a \$45.0 million extendible revolving term credit facility with a syndicate of Canadian banks (the "Syndicate") and a \$10.0 million operating facility with one member of the Syndicate (the "Credit Facility"), for a total amount available under the Credit Facility of \$55.0 million. The Credit Facility provides that advances may be made by way of direct advances, bankers' acceptances or standby letters of credit, with advances secured by a \$150 million first charge demand debenture on the Corporation's oil and natural gas interests.

The Credit Facility bears interest at a floating rate based on the applicable Canadian prime rate, plus between 1.00 percent and 3.00 percent depending on the Corporation's adjusted senior debt to EBITDA ratio as defined by the agreement. The Credit Facility constitutes a revolving facility for a 364-day term which is 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 date, should the loan not extend, is May 31, 2015.

The Corporation is subject to certain reporting and financial covenants on its Credit Facility. The financial covenants require the Corporation to maintain, at the end of each quarter, a minimum adjusted working capital ratio of at least 1:1 (for purposes of the covenant, bank debt, and the fair value of any risk management contracts are excluded and the undrawn portion of the Credit Facility is added to current assets), and to maintain a debt to EBITDA ratio, as defined by the agreement, of less than 3:1. The covenants were met at June 30, 2014 at 2.11:1 and 2.24:1, respectively.

At June 30, 2014, \$37.0 million of the Credit Facility was drawn. For the three and six months ended June 30, 2014, the average effective interest rate was 4.4 percent.

At June 30, 2014, the Corporation had letters of credit of \$350,000, reducing the borrowing capacity under the Credit Facility.

10. Long-term contract obligation

On March 26, 2014, the Corporation entered into a facilities joint venture agreement with a third party (the "Partner"). The Corporation received \$15.0 million, which was used to fund the repurchase of the 2013 Debentures (note 13), in exchange for beneficial ownership of Questfire's natural gas processing facilities at Lookout Butte and Medicine Hat, Alberta. Questfire operates the facilities and continues to process its Lookout Butte and Medicine Hat natural gas production through the facilities. The Corporation will pay an annual facility fee of \$2,326,300 for 17.5 years, after which beneficial ownership will revert to Questfire.

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

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 until 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 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 long-term contract obligation is secured by Questfire's Lookout Butte and Medicine Hat natural gas processing facilities. Questfire has also indemnified the Partner for all costs and expenses that may arise out of operating the facilities.

This transaction effectively leaves substantially all of the economic risks and rewards of ownership with Questfire, whereby Questfire continues to record the facility as property and equipment on its balance sheet and has accounted for the \$15.0 million proceeds as a long-term contract obligation and the annual facility fee payments as blended repayments of principal and interest expense.

The following reconciles the long-term contract obligation for the six months ended June 30, 2014:

As at	June 30, 2014
	\$
Balance, beginning of period	-
Draws	15,000,000
Principal repayments	(79,555)
Balance, end of period	14,920,445

At June 30, 2014 \$346,118 of the ending balance has been classified as a current liability.

11. Decommissioning provisions

The Corporation's decommissioning provisions result from its ownership interest in oil and natural gas assets, including well sites, facilities and gathering systems. The total decommissioning provision is estimated based on the Corporation's net ownership interest, estimated costs to reclaim and abandon its wells, facilities and gathering systems and the estimated timing of the costs to be incurred in future years. The estimated cash flows required to settle the provisions, excluding salvage, are approximately \$91.8 million at June 30, 2014 (December 31, 2013 – \$91.2 million). This was inflated using a weighted-average rate of 2.0 percent (December 31, 2013 – 2.0 percent), to arrive at undiscounted future cash flows of approximately \$172.2 million (December 31, 2013 – \$173.1 million), and then discounted using a weighted-average credit-adjusted risk-free rate of 6.56 percent at June 30, 2014 (December 31, 2013 – 6.48 percent) to arrive at the present value of the decommissioning provision as disclosed below. The weighted-average credit-adjusted risk-free rate is based on a combination of Government of Canada benchmark bond rates and an adjustment for Questfire's estimated credit risk. These obligations are to be settled based on the estimated economic lives of the underlying assets, which currently extend up to 50 years, and will be funded from general corporate resources at the time of abandonment.

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

The following reconciles the decommissioning provisions for the six months ended June 30, 2014:

As at	June 30, 2014
	\$
Balance, beginning of period	34,706,080
Additions	61,967
Disposals	(108,421)
Costs incurred	(1,641,506)
Accretion (note 15)	1,038,106
Change in estimated future cash flows	-
Change in discount rate	(71,887)
Balance, end of period	33,984,339

Sensitivities

Changes to the risk-free discount rate or the inflation rate would have had the following impact on the decommissioning provisions:

As at	June 30, 2014	
	Credit-adjusted risk-free discount rate	Inflation rate
	\$	\$
1 percent increase	(3,659,682)	5,243,729
1 percent decrease	4,925,996	(3,919,624)

12. Convertible Class B shares

Class B shares are convertible (at Questfire's option) into Class A shares any time after September 30, 2014 and on or before November 30, 2016. The number of Class A shares to be issued upon conversion of one Class B share is calculated by dividing \$10 by the greater of \$1 and the 30-day weighted-average market price of the Class A shares. If conversion has not occurred by the close of business on November 30, 2016, the Class B shares become convertible (at the shareholder's option) into Class A shares on the same basis. Effective at the close of business on December 31, 2016, all remaining Class B shares will be automatically converted into Class A shares. The Class B shares are listed and posted for trading on the TSXV under the symbol "Q.B".

The Class B shares were determined to be compound financial instruments. As the Class B shares are convertible into Class A shares, based on the conversion formula above, the number of Class A shares is unknown and, therefore, they are presented as a liability.

The Class B share liability related to the Class B shares issued in 2011 ("2011 Class B shares"), estimated at issuance to be \$3,576,932, based on the present value of discounted cash flows using a discount rate of 8.65 percent, is accreted using the effective interest rate method over the term of the 2011 Class B shares, such that the carrying amount of the financial liability will be equal to the principal of \$5,558,400 at maturity. Upon issuance of the 2011 Class B shares, the Corporation recognized the equity component of the convertible 2011 Class B shares as a conversion option of \$1,585,985, with a further \$495,367 related to the deferred income tax effect of the 2011 Class B shares, for a total of \$2,081,352.

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

The Class B share liability related to the shares issued in 2013 (“2013 Class B shares”), estimated at issuance to be \$10.0 million, based on the present value of discounted cash flows using a discount rate of 11.69 percent, was accreted using the effective interest rate method over the term of the 2013 Class B shares, such that the carrying amount of the financial liability will be equal to the principal of \$15.0 million at maturity. Upon issuance of the 2013 Class B shares, the Corporation estimated the equity component to be \$Nil.

On March 26, 2014, the Corporation executed an agreement with Advantage whereby Questfire agreed that it would make an offer to purchase, by way of issuer bid, all of its 2,055,840 issued and outstanding Class B shares at a purchase price of \$2.60 per share, which was mailed to shareholders. Advantage agreed to tender all of its 1,500,000 Class B shares to the Issuer Bid. The issuer bid was open for acceptance until May 5, 2014, at which time 1,505,400 Class B shares were tendered through the issuer bid, and were repurchased by the Corporation for \$3,914,040, resulting in a gain of \$7,294,966 and a reduction of the equity component of Class B shares of \$20,220.

The Corporation has authorized an unlimited number of Class B shares. The following is a continuity of the convertible Class B shares liability for the six months ended June 30, 2014:

As at	June 30, 2014	
	Shares	Amount
	#	\$
Balance, beginning of period	2,055,840	15,088,437
Accretion of convertible Class B shares liability (note 15)	-	610,731
Repurchase of Class B shares	(1,505,400)	(11,229,226)
Balance, end of period	550,440	4,469,942

13. Convertible debentures

On June 28, 2012, the Corporation completed the issuance of unsecured senior convertible debentures (the “2012 Debentures”) for gross proceeds of \$1,510,000 (\$1,444,497 net), of which \$750,000 was raised from officers and directors of the Corporation. The Corporation issued 302 units at a price of \$5,000 per unit, with each unit being comprised of one \$5,000 debenture and 5,000 Class A share purchase warrants. The 2012 Debentures bore interest at a rate of 12 percent per annum, payable quarterly in arrears commencing on September 30, 2012, matured on June 30, 2014 and were convertible into Class A shares of Questfire at any time at the option of the holder at a conversion price of \$0.50 per Class A share. In aggregate the Corporation issued 1,510,000 share purchase warrants and each warrant entitled the holder to acquire one Class A share at a price of \$0.75 until June 30, 2014. During the three months ended June 30, 2014, 1,460,000 of these warrants were exercised, with the remaining 50,000 warrants expiring. During the year ended December 31, 2013, \$75,000 of the 2012 Debentures were converted into 150,000 Class A shares by officers and directors of the Corporation. On June 30, 2014, the remaining \$1,435,000 of the 2012 Debentures matured and were converted into 2,870,000 Class A shares at \$0.50 per Class A share.

The 2012 Debentures were classified as debt, net of issuance costs and of the fair value of the conversion feature and the warrants (the “Conversion Features”) at the date of issuance, which were classified in shareholders’ equity. The issuance costs were amortized over the term of the debentures and the debt portion accreted up to the original face value at maturity. The accretion, amortization of issuance costs and interest paid were expensed to profit or loss. The fair value of the Conversion Features was determined at the time of issuance as the difference between the face value of the debentures and the discounted cash flows assuming an 18 percent effective interest rate, the estimated rate for debt with similar terms but without convertibility. When the debentures or the warrants were converted to Class A shares, a portion of the value of the Conversion Features under shareholders’ equity was reclassified to share capital along with the conversion price paid.

On April 30, 2013, the Corporation issued convertible debentures in association with the Advantage acquisition (the “2013 Debentures”). The 2013 Debentures had a face value of \$32,585,000, and the Corporation incurred \$62,875 of issuance costs. The 2013 Debentures bore interest at a rate of 6 percent per annum until April 30, 2014, 7 percent per annum from

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

May 1, 2014 to April 30, 2015, and 9 percent per annum from May 1, 2015 until maturity on April 30, 2016. Interest on the 2013 Debentures was payable quarterly in arrears, and commenced on June 30, 2013. They would have matured on April 30, 2016 and could be converted into Class A shares of Questfire at a conversion price equal to the trailing 20-day volume-weighted-average trading price of Class A shares at the time of exercise for a 30-day period.

The 2013 Debentures were classified as debt, net of issuance costs. The debt portion was accreting up to the original face value at maturity, with the accretion and interest paid expensed to profit or loss. The fair value of the 2013 Debentures was determined at the time of issuance based on the discounted cash flows assuming a 10 percent effective interest rate, the estimated rate for debt with similar terms but without convertibility. The conversion feature of the 2013 Debenture was recorded as a liability as it converted at market prices, and as such its fair value was nominal.

On March 26, 2014, the Corporation executed an agreement with Advantage to repurchase all of the 2013 Debentures. They were repurchased for \$13.6 million, resulting in a gain of approximately \$17.7 million.

The following is a continuity of the 2012 and 2013 Debentures for the six months ended June 30, 2014:

	Liability component	Warrants	Equity conversion feature	Total
	\$	\$	\$	\$
Balance, December 31, 2013	32,385,112	28,295	75,805	32,489,212
Repurchase of 2013 Debentures	(31,322,983)	-	-	(31,322,983)
Accretion of discount (note 15)	372,871	-	-	372,871
Conversion of 2012 Debentures (note 14(b))	(1,435,000)	-	(75,805)	(1,510,805)
Exercise of warrants (note 14(b))	-	(27,358)	-	(27,358)
Expiry of warrants	-	(937)	-	(937)
Balance, June 30, 2014	-	-	-	-

14. Share capital

- a) **Authorized** – Unlimited number of Class A and Class B common shares with no par value.
- b) **Issued – Class A shares**

	Shares	Amount
	#	\$
Balance, December 31, 2013	12,963,001	4,272,595
Conversion of 2012 Debentures (note 13)	2,870,000	1,510,805
Exercise of warrants (note 13)	1,460,000	1,122,358
Balance, June 30, 2014	17,293,001	6,905,758

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

c) Income per share

The following sets forth the computation of per share amounts:

	Three months ended		Six months ended	
	2014	June 30, 2013	2014	June 30, 2013
	\$	\$	\$	\$
Numerator				
Income attributable to Class A shares	8,171,517	1,381,114	22,546,797	278,171
Adjustment for dilutive effect of convertible debentures, net of tax	51,494	445,758	685,259	-
Adjustment for dilutive effect of Class B shares, net of tax	172,479	205,471	458,048	-
Numerator for diluted per share amounts	8,395,490	2,032,343	23,690,104	278,171
Denominator				
Weighted-average number of shares outstanding for basic per share calculation	13,418,386	12,902,012	13,191,951	12,857,752
Stock options	1,470,310	1,036,783	1,404,971	1,033,296
Warrants	889,125	573,886	905,552	560,520
Convertible debentures	2,593,077	20,689,956	8,974,339	-
Class B shares	4,690,796	12,622,544	6,667,041	-
Denominator for diluted per share amounts	23,061,694	47,825,181	31,143,854	14,451,568
	\$	\$	\$	\$
Basic income per share attributable to Class A shares	0.61	0.11	1.71	0.02
Diluted income per share attributable to Class A shares	0.36	0.04	0.76	0.02

For the three and six-month periods ended June 30, 2014, the Corporation excluded the following securities from the calculation of diluted income per share as they would be anti-dilutive:

- i. Stock options – 615,000 for both periods (three and six months ended June 30, 2013 – 185,000 for both periods), with a weighted-average exercise price of \$2.05 for both periods (three and six months ended June 30, 2013 – \$1.25 for both periods)
- ii. Warrants – Nil for both periods (three and six months ended June 30, 2013 – Nil for both periods)
- iii. Class B shares – Nil for both periods (three and six months ended June 30, 2013 – Nil and 2,055,840, respectively)
- iv. Face value of convertible debentures – \$Nil for both periods (three and six months ended June 30, 2013 – \$Nil and \$34,020,000, respectively)

d) Shares in escrow

At June 30, 2014 a total of 1,229,250 Class A shares (December 31, 2013 – 2,458,500) were held in escrow pursuant to TSXV requirements and will be released on October 25, 2014. The above escrow release schedule is subject to acceleration in accordance with National Policy 46-201, *Escrow for Initial Public Offerings*, and the policies of the TSXV in the event that the Corporation meets certain listing requirements.

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

e) Share-based compensation

The Corporation has a stock option plan under which it is authorized to issue stock options to employees, officers, directors and consultants for up to 20 percent of the total issued and outstanding number of Class A and Class B shares. Options under the stock option plan cannot have an exercise price less than the closing market price on the day immediately preceding grant and expire a maximum of ten years from grant. It is the Corporation's intention for the options it grants generally to vest as to one-third on each of the first, second and third anniversaries of grant and expire ten years from grant.

During the three and six months ended June 30, 2014, the Corporation granted 615,000 and 775,000 options, respectively (three and six months ended June 30, 2013 – 185,000 for both periods) to acquire Class A shares. The options vest one-third on each of the first, second and third anniversaries of grant and expire ten years from grant. The fair value of the options granted during the three and six months ended June 30, 2014 was estimated at \$757,804 and \$846,883, respectively, using the Black-Scholes option pricing model with the following weighted-average assumptions: an exercise price of \$2.05 and \$1.82, respectively, a market price of Class A shares of \$2.05 and \$1.82, respectively, a risk-free interest rate of 1.95 percent and 1.97 percent, respectively, volatility of 76 percent and 75 percent, respectively, an expected life of six years, a forfeiture rate of 10 percent and no dividend yield.

The following provides information with respect to stock option transactions:

As at	June 30, 2014	
	Number of options	Weighted-average exercise price
	#	\$
Outstanding, beginning of period	1,971,000	0.48
Granted	775,000	1.82
Forfeited	(75,000)	0.65
Outstanding, end of period	2,671,000	0.86

The following provides information about stock options outstanding at June 30, 2014:

Range of exercise prices (\$)	Number outstanding	Weighted-average remaining contractual life (years)	Options outstanding – weighted-average exercise price (\$)	Number exercisable	Options exercisable – weighted-average exercise price (\$)
0.20 - 0.65	1,326,000	7.37	0.22	854,000	0.20
0.95 - 1.25	730,000	9.20	1.04	61,667	1.25
1.25 - 2.05	615,000	9.79	2.05	-	-
	2,671,000	8.43	0.86	915,667	0.27

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

15. Finance expense

	Three months ended		Six months ended	
	2014	June 30, 2013	2014	June 30, 2013
	\$	\$	\$	\$
Finance expense				
Interest on convertible debentures	42,460	370,555	540,808	416,005
Interest on bank debt	465,449	301,519	911,816	301,519
Interest on long-term contract obligation	502,021	-	534,466	-
Financing costs	385,057	488,488	571,706	488,488
Cash finance expense	1,394,987	1,160,562	2,558,796	1,206,012
Accretion on decommissioning provisions (note 11)	528,916	337,421	1,038,106	339,958
Accretion on convertible Class B share liability (note 12)	214,806	273,961	610,731	360,353
Accretion on convertible debentures (note 13)	26,198	221,389	372,871	247,587
Non-cash finance expense	769,920	832,771	2,021,708	947,898
Total finance expense	2,164,907	1,993,333	4,580,504	2,153,910

16. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three months ended		Six months ended	
	2014	June 30, 2013	2014	June 30, 2013
	\$	\$	\$	\$
Cash flows related to:				
Accounts receivable	2,423,507	(7,668,851)	184,572	(7,538,500)
Deposits and prepaid expenses	(345,956)	(231,507)	(327,952)	(274,557)
Accounts payable and accrued liabilities	(1,223,180)	5,234,167	623,806	6,196,431
	854,371	(2,666,191)	480,426	(1,616,626)
Acquired non-cash working capital items:				
Office lease amortization	(69,543)	-	(139,086)	-
Changes in non-cash working capital	784,828	(2,666,191)	341,340	(1,616,626)
Relating to:				
Operating activities	(1,655,753)	(3,625,247)	(589,016)	(2,559,530)
Investing activities	2,397,895	828,904	733,761	812,752
Financing activities	42,686	130,152	196,595	130,152
	784,828	(2,666,191)	341,340	(1,616,626)

Questfire Energy Corp.

Condensed Interim Notes to the Financial Statements

As at and for the three and six months ended June 30, 2014 and 2013
(amounts in Canadian dollars) (unaudited)

17. Related-party transactions

A director of Questfire is a partner of a law firm that provides legal services to Questfire. Legal fees of \$43,174 and \$190,366 were incurred by Questfire to the law firm in the respective three and six months ended June 30, 2014 (three and six months ended June 30, 2013 – \$132,084 and \$282,084, respectively), of which \$Nil for both periods was related to debenture issuance costs (three and six months ended June 30, 2013 – \$30,000 for both periods), \$32,202 and \$52,018, respectively (three and six months ended June 30, 2013 – \$29,974 for both periods), was related to general and administrative expenses, \$Nil for both periods was related to transaction costs (three and six months ended June 30, 2013 – \$24,432 and \$174,432, respectively) and \$10,972 and \$138,348, respectively (three and six months ended June 30, 2013 – \$47,678 for both periods), was related to financing expense. At June 30, 2014, \$60,307 (December 31, 2013 – \$21,230) related to these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

18. Commitments

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

	2014	2015	2016	2017	2018	Thereafter
	\$	\$	\$	\$	\$	\$
Office leases	203,399	401,616	401,616	401,616	401,616	234,276

Questfire's commitments related to its risk management program are disclosed in note 4(e).