Questfire Energy Corp. – Financial and Operating Highlights

	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Financial				
Oil and natural gas sales	**$ 17,614,154**	$ 14,040,260	**$ 55,700,544**	$ 24,636,922
Funds flow from operations [(1)]	**5,102,045**	5,211,946	**17,902,295**	7,137,230
Per share, basic	**0.29**	0.40	**1.23**	0.55
Per share, diluted	**0.24**	0.07	**0.60**	0.14
Income (loss)	**648,466**	(527,104)	**23,195,263**	(248,933)
Per share, basic	**0.04**	(0.04)	**1.59**	(0.02)
Per share, diluted	**0.03**	(0.04)	**0.81**	(0.02)
Capital expenditures	**9,926,522**	2,847,732	**16,342,849**	3,891,634
Property acquisitions (dispositions)	**-**	1,522,782	**(3,792,346)**	84,788,453
Working capital deficit *(end of period)* [(2)]			**10,478,521**	44,373,757
Long-term contract obligation *(end of period)* [(3)]			**14,480,340**	-
Long-term bank debt *(end of period)*			**37,000,000**	-
Non-current debentures *(end of period)*			**-**	30,709,720
Shareholders' equity (deficiency) *(end of period)*			**22,141,002**	(2,155,616)
Shares outstanding *(end of period)*				
Class A			**17,318,001**	12,963,001
Class B			**550,440**	2,055,840
Options outstanding *(end of period)*			**2,646,000**	1,791,000
Warrants outstanding *(end of period)*			**-**	1,510,000
Weighted-average basic shares outstanding	**17,298,436**	12,963,001	**14,575,822**	12,893,221
Weighted-average diluted shares outstanding	**18,838,010**	12,963,001	**30,134,021**	12,893,221
Class A share trading price				
High	**2.75**	1.25	**2.75**	1.47
Low	**2.35**	0.65	**0.95**	0.50
Close	**2.51**	1.00	**2.51**	1.00
Operations [(4)]				
Production				
Natural gas *(Mcf/d)*	**23,936**	25,443	**23,152**	14,427
NGL *(bbls/d)*	**712**	621	**661**	348
Crude oil *(bbls/d)*	**507**	447	**449**	266
Total *(boe/d)*	**5,208**	5,308	**4,969**	3,018
Benchmark prices				
Natural gas				
AECO *(Cdn$/GJ)*	**3.81**	2.32	**4.57**	2.90
Crude oil				
WTI *(US$/bbl)*	**97.17**	105.82	**99.61**	98.15
Canadian Light *(Cdn$/bbl)*	**97.71**	105.17	**100.53**	95.57
Average realized prices [(5)]				
Natural gas *(per Mcf)*	**4.16**	2.58	**4.98**	2.99
Natural gas liquids *(per bbl)*	**63.87**	66.21	**70.66**	62.01
Crude oil *(per bbl)*	**91.40**	102.61	**93.67**	95.89
Operating netback *(per boe)*	**15.74**	12.32	**19.07**	13.32
Funds flow netback *(per boe)*	**10.65**	10.67	**13.20**	8.66

(1) See "Additional GAAP measures".
(2) Working capital deficit includes risk management contracts of $764,107 (September 30, 2013 - $1,606,257). Excluding this, the working capital deficit would be $9,714,414 (September 30, 2013 - $42,767,500).
(3) Long-term contract obligation excludes current portion of $357,853, which is included in working capital deficit.
(4) For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".
(5) Before hedging.

Third Quarter 2014 Corporate Highlights

- Achieved average production of 5,208 boe per day, 77 percent natural gas.
- Generated quarterly sales of $17.6 million and funds flow from operations of $5.1 million ($0.29 per basic share).
- Made capital expenditures of $9.9 million, focused on drilling, well workovers, recompletions and facility maintenance and optimization.
- Participated in the drilling of 15 gross (7.1 net) wells with an overall success rate of 93 percent; 11 of the 15 wells were horizontal oil wells.
- Exited the third quarter with production capability in excess of 5,400 boe per day, with approximately 200 boe per day awaiting tie-in.

President's Message

Third Quarter 2014 Developments

The third quarter was very active on the drilling front for Questfire. During the quarter Questfire participated in the drilling of 15 gross (7.1 net) wells of which 11 (4.1 net) were horizontal oil wells. Fourteen of the 15 wells drilled were successful resulting in an overall drilling success rate of 93 percent. Questfire's high level of drilling activity in the quarter incurred capital spending of $9.9 million, a quarterly high for the Corporation. Drilling and capital spending is expected to be significantly lower in the fourth quarter as the focus shifts away from drilling and to bringing on production from the third quarter drilling program.

Operational highlights include the successful drilling at Auburndale in East Central Alberta where nine gross (three net) horizontal oil wells were drilled targeting heavy oil in the Lloydminster Formation. Subsequent to the end of the quarter an additional two (0.7 net) horizontal oil wells have been drilled. Total gross oil production from the 12 horizontal wells at Auburndale is expected to reach approximately 900 bbls per day by mid-November, of which Questfire has a 33 percent working interest. Another highlight has been the production performance of the 100 percent working interest Open Lake 9-21 well drilled late in the second quarter and brought on production in early August at approximately 300 boe per day. After three months the 9-21 well is producing in excess of 220 boe per day (32 percent oil and NGLs) from the Ostracod Formation with low decline. Questfire is making preparations for an additional five 100 percent working interest drilling locations in the Open Lake field.

Production for the quarter averaged 5,208 boe per day (23 percent oil and NGLs), a quarterly high for 2014. Also positive is that daily oil and NGL production was up over the third quarter of 2013 to a record quarterly average for Questfire, with our oil and liquids weighting gradually climbing. At the end of the third quarter the Corporation had production capability in excess of 5,400 boe per day. At the time of this report Questfire's production is over 5,500 boe per day, putting the Corporation on track to meet or exceed its 2014 exit production rate target of 5,500 boe per day.

Natural gas prices declined during the third quarter as moderate summer weather in North America reduced the demand for air conditioning and natural gas-fired electricity. This along with record high natural gas production in the United States continues to put downward pressure on natural gas prices, with the storage build having continued through the end of October. At the time of this report gas prices have strengthened slightly as colder weather has arrived in North America, along with the imminent end of the gas storage injection season. Gas storage levels remain below the five-year average heading into the winter heating season, which may result in further strengthening of gas prices.

Subsequent to the third quarter Questfire entered into additional gas hedges, mainly in the form of puts to protect a $3.00 per GJ floor price. Approximately 70 percent of 2015 forecast gas production is protected by hedges, as detailed in the accompanying management's discussion and analysis. Questfire's oil plays are economic at current oil prices in the US$80/bbl WTI range. Questfire's management team will closely monitor commodity pricing and our cash flow, adjusting capital spending as necessary to stay within cash flow. Over the longer term we expect the fundamentals of world supply and demand to strengthen both oil and natural gas prices.

The remainder of 2014 will be busy for the Questfire team with the recently drilled wells coming on production and with continued non-operated oil drilling of one gross (0.5 net) horizontal well in the Belly River Formation in the Pembina field and two to four gross (0.5 to one net) heavy oil horizontal wells to be drilled in the Wildmere field.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
November 20, 2014

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Questfire Energy Corp. ("Questfire" or the "Corporation") is dated November 20, 2014 and is based on currently available information. It should be read in conjunction with the audited financial statements and accompanying notes for the years ended December 31, 2013 and 2012 and the unaudited condensed interim financial statements and accompanying notes for the three and nine months ended September 30, 2014. Unless otherwise noted, all financial information was prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and with Canadian generally accepted accounting principles (GAAP) as applicable to interim financial statements, including International Accounting Standard (IAS) 34, *Interim Financial Reporting*. These documents, along with other statutory filings, including the Corporation's Annual Information Form, are available on SEDAR at www.sedar.com and at the Corporation's website at www.questfire.ca.

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

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

Description of Business

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

Financial and Operating Results

Production

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Volumes				
Natural gas *(Mcf)*	**2,202,135**	2,340,782	**6,320,625**	3,938,491
NGL *(bbls)*	**65,549**	57,086	**180,466**	94,941
Crude oil *(bbls)*	**46,598**	41,118	**122,608**	72,623
Total sales *(boe)*	**479,170**	488,334	**1,356,512**	823,979
Daily average volume				
Natural gas *(Mcf/d)*	**23,936**	25,443	**23,152**	14,427
NGL *(bbls/d)*	**712**	621	**661**	348
Crude oil *(bbls/d)*	**507**	447	**449**	266
Total sales *(boe/d)*	**5,208**	5,308	**4,969**	3,018
Production weighting				
Natural gas	**77%**	80%	**78%**	80%
NGL	**13%**	12%	**13%**	11%
Crude oil	**10%**	8%	**9%**	9%
	100%	100%	**100%**	100%

The Advantage Oil & Gas Ltd. acquisition, which closed on April 30, 2013 (the “2013 Acquisition”), accounted for substantially all of the increase in production from the comparative nine-month period, as the assets contributed to only 153 days of production for the nine months ended September 30, 2013. Production for the three months ended September 30, 2014 was slightly lower than that for the comparative 2013 period due to third-party facility turnarounds and other production interruptions.

Production increased during the third quarter of 2014 over the second quarter due to several items. In Open Lake one (1.0 net) well, in East Central three (1.0 net) wells, and in Red Deer one (0.2 net) well came on production during the quarter.

The Corporation also received unforecast royalty revenue payments, pertaining to prior periods, on approximately 34 and 11 boe per day during the respective three and nine months ended September 30, 2014. In total, the Corporation recorded royalty revenues of approximately 130 and 110 boe per day during the respective three and nine months ended September 30, 2014.

Sales

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Natural gas	**9,168,702**	6,041,495	**31,464,256**	11,786,431
NGL	**4,186,610**	3,779,840	**12,751,170**	5,886,894
Crude oil	**4,258,842**	4,218,925	**11,485,118**	6,963,597
Total	**17,614,154**	14,040,260	**55,700,544**	24,636,922
Average realized prices				
Natural gas *($/Mcf)*	**4.16**	2.58	**4.98**	2.99
NGL *($/bbl)*	**63.87**	66.21	**70.66**	62.01
Crude oil *($/bbl)*	**91.40**	102.61	**93.67**	95.89
Combined average *($/boe)*	**36.76**	28.75	**41.06**	29.90

The Corporation, like much of the oil and natural gas upstream sector in Western Canada, experienced lower prices for natural gas, NGL and crude oil in the third quarter of 2014 than in the first and second quarters of 2014.

The Corporation's sales were higher across the board for the three and nine months ended September 30, 2014 than in the comparative periods of 2013 due to increased pricing of natural gas, and increased production volumes for NGL and crude oil. Natural gas prices have been higher in 2014 than in the prior year due to a prolonged 2014 winter heating season across nearly all of North America, which drew down inventory levels to decade-low levels. Natural gas prices have been moderating since the latter part of the second quarter of 2014 as inventory levels were rebuilt, but remain substantially higher than in 2013.

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

Royalties

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Royalties	**2,417,662**	1,589,376	**7,779,107**	2,900,266
Per boe	**5.05**	3.25	**5.74**	3.52
Percentage of sales	**13.7%**	11.3%	**14.0%**	11.8%

Questfire's royalty burden includes Crown, Indian, gross over-riding and freehold royalties applicable on the Corporation's revenue. The 2013 Acquisition is the cause for the increase in royalty expense from the nine months ended September 30, 2013, which included only 153 days of post-acquisition production.

Increased per boe pricing in the three and nine months ended September 30, 2014 over the comparative periods in 2013 resulted in higher royalty rates, on a percentage of sales and a per-boe basis, partially offset by greater gas cost allowance recovery related to 2013 which has been received since the second quarter of 2014.

Production and Operating Expense

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Production and operating expense	**7,221,381**	6,011,520	**20,716,662**	10,037,564
Per boe	**15.07**	12.31	**15.27**	12.18

Production and operating expenses increased on a year-to-date per-boe basis over the comparative periods due to lower daily production volumes during days on-stream since the 2013 Acquisition. Production levels are increasing, which should contribute to lower per-boe costs going forward, as a significant portion of the Corporation's costs are fixed versus variable.

Transportation Expense

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Transportation expense	**430,982**	424,875	**1,333,308**	726,694
Per boe	**0.90**	0.87	**0.98**	0.88

Operation of the assets acquired on April 30, 2013 comprise substantially all of the 2014 transportation expense, with the 2013 Acquisition being the cause for the overall increase in transportation expense from the nine months ended September 30, 2013, which included only 153 days of post-acquisition production.

Risk Management

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

Management of cash flow variability is an integral component of the Corporation's business strategy. Changing business conditions are monitored regularly and reviewed with the Board of Directors to establish risk management guidelines used by management in carrying out the Corporation's strategic risk management program. The risk exposure inherent in movements in the price of crude oil and natural gas is proactively managed by Questfire through the use of derivatives with investment-grade counterparties. The Corporation considers these derivative contracts to be an effective means to manage cash flow and commodity price risk.

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

At September 30, 2014, Questfire had the following crude oil and natural gas risk management contracts, with a total mark-to-market liability of $764,107:

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) Requires the Corporation to pay a monthly premium of approximately $28,000 over the term for a total premium of $332,150, of which $83,720 remains to be paid.

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Realized (loss) gain on risk management contracts	**(677,978)**	512,575	**(2,868,794)**	176,496
Per boe	**(1.41)**	1.05	**(2.11)**	0.21
Unrealized gain (loss) on risk management contracts	**1,318,632**	(467,019)	**593,720**	2,287,402
Per boe	**2.75**	(0.96)	**0.44**	2.78

During the three and nine months ended September 30, 2014 realized losses on risk management contracts were associated with higher commodity prices. The increased revenues as a result of the higher prices significantly outweighed any realized risk management losses. Having said that, Questfire's management has taken steps since the April 30, 2013 acquisition to reduce the likelihood of incurring significant realized risk management losses going forward. The risk management contracts that were acquired with the 2013 Acquisition were mostly fixed-price contracts, also known as "swaps". All risk management contracts entered into since then have been either purchased puts or costless collars. Purchased puts provide downside price protection while allowing Questfire to realize all pricing upside in return for payment of the put option premium. This can be viewed as being similar to an insurance contract, with a premium paid in return for protection against negative events. Fixed-price contracts, although free of direct costs such as contract premiums, impose opportunity costs due to foregoing the pricing upside. Fixed-price contracts erase all exposure to pricing upside, while so-called costless collars limit the producer's pricing upside to the higher figure (the purchaser's call option) while offsetting the costs of the put premium with a fee received for the call option.

The three and nine months ended September 30, 2014 saw Questfire realizing the rewards of its purchased puts. Approximately two-thirds of the Corporation's production received current commodity prices, accompanied by minimal risk management losses (premiums paid plus some unrealized losses associated with the market value of the puts). Substantially all of the Corporation's risk management losses arose from the two fixed-price contracts. It is Questfire's intention to continue purchasing put options.

Subsequent to the end of the quarter, the Corporation entered into several new risk management contracts as follows:

Period	Commodity	Type of contract	Notional quantity	Pricing point	Contract price
Jan. 1/15 - Dec. 31/15	Natural Gas	Purchased put (1)	10,000 GJ/d	AECO 7A	Cdn$3.00/GJ
Jan. 1/15 - Dec. 31/15	Natural Gas	Costless collar	5,000 GJ/d	AECO 7A	Cdn$2.85-4.00/GJ

(1) Requires the Corporation to pay a monthly premium of approximately $71,700 over the term for a total premium of $860,031.

General and Administrative (G&A) and Transaction Expense

	Three months ended September 30, 2014 $	2013 $	Nine months ended September 30, 2014 $	2013 $
G&A	**1,627,985**	1,296,252	**4,878,343**	2,514,382
Transaction expense	**-**	-	**-**	1,228,416
Total	**1,627,985**	1,296,252	**4,878,343**	3,742,798
G&A cash expense per boe	**3.35**	2.49	**3.48**	2.95
Transaction expense per boe	**-**	-	**-**	1.49
Total cash expense per boe	**3.35**	2.49	**3.48**	4.44
Non-cash G&A (office lease amortization) per boe	**0.05**	0.16	**0.12**	0.10
Total expense, per boe	**3.40**	2.65	**3.60**	4.54

G&A increases over 2013 are mainly due to increased office activity required to operate and manage the acquired assets. G&A expenses for the three months ended September 30, 2014 are higher than those of the comparative period in 2013, largely due to higher staffing costs, as approximately 25 percent of the head office staff have been added since the start of the third quarter of 2013. Staffing levels were not immediately ramped up after the 2013 Acquisition, but were phased in over a five-month period. Questfire expects G&A expense on a per-boe basis of production to decline in future periods as it conducts field activities to add production volumes.

Share-Based Compensation

	Three months ended September 30, 2014 $	2013 $	Nine months ended September 30, 2014 $	2013 $
Share-based compensation	**159,833**	51,486	**395,171**	92,243
Per boe	**0.33**	0.10	**0.29**	0.11

The increase in the three and nine months ended September 30, 2014 from the comparative periods in 2013 is a result of stock options issued in 2013 and 2014. These options were issued in association with the Corporation increasing staffing as a result of the 2013 Acquisition, as well as the issuance of additional options for employees and directors.

The Corporation granted 70,000 and 845,000 options in the respective three and nine months ended September 30, 2014 at Class A share exercise prices between $0.95 and $2.60 per option. There were 2,646,000 options outstanding at September 30, 2014 and 2,676,000 as at the date of this report. There were 999,000 options exercisable at September 30, 2014.

Exploration and Evaluation (E&E) Expenditures

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
E&E expense	**159,302**	100,000	**384,302**	350,000
Per boe	**0.33**	0.21	**0.28**	0.43

The increase in E&E expenditures recognized during the three and nine months ended September 30, 2014 over the comparative 2013 periods is due to increased exploration activity during the third quarter of 2014.

Depletion and Depreciation (D&D)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
D&D	**3,825,360**	3,127,652	**9,799,008**	5,227,497
Per boe	**7.98**	6.41	**7.22**	6.34

The increase in D&D for the nine months ended September 30, 2014 over the comparative 2013 period is attributable to the Corporation's higher production in 2014 as a result of the 2013 Acquisition. On a per-boe basis, D&D increased for the three and nine months ended September 30, 2014 from the prior year comparative periods due to reserve additions being at a higher rate per boe than the historic depletion rate inherent in the 2013 Acquisition. Questfire continues to experience a low rate of depletion per-boe, which it estimates is in the most advantageous decile of Canadian oil and natural gas producers, illustrating the anticipated long reserve life of the assets acquired in April 2013. Management added small amounts to the Corporation's reserve base to reflect additional wells that have come on production, but in light of the volatile commodity prices, has been conservative in these estimates. It is the expectation of management that, in the absence of significant additional declines in the reserve price decks used, Questfire's depletion rate will decrease in the fourth quarter when the reserves are evaluated by the third-party reservoir engineers. In the opinion of management, depletion rates will not decline to the $6.00 per boe range unless long-run commodity price outlooks increase. New reserves cannot currently be added at the extremely low prices that the initial reserves were purchased for in the 2013 Acquisition. Management believes it remains in the best interest of shareholders to conduct exploration, as the Corporation's wide range of lands held for exploration allows it to drill in areas attracting the highest rates of return and netback, thereby increasing cash flows and income.

Other Income

	Three months ended September 30, 2014 $	2013 $	Nine months ended September 30, 2014 $	2013 $
Gain on sale of assets	**39,232**	-	**1,986,963**	-
Per boe	**0.08**	-	**1.46**	**-**
Gain on repurchase of Class B shares	**-**	-	**7,294,966**	**-**
Per boe	**-**	-	**5.37**	**-**
Gain on repurchase of convertible debentures	**-**	-	**17,722,983**	**-**
Per boe	**-**	-	**13.07**	**-**

The majority of the gain on sale of assets during the nine months ended September 30, 2014 was related to the sale of the Corporation's Turner Valley assets, part of the Crossfield CGU, for proceeds of $3,752,297, or approximately $61,500 per flowing boe. The non-operated, low-working-interest Turner Valley assets were non-core. The natural gas and oil wells were producing approximately 61 boe per day net at the time of sale on May 1, 2014, which was comprised of 5 bbls per day of crude oil, 23 bbls per day of NGLs and 195 Mcf per day of natural gas.

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

The gain on repurchase of Class B shares during the second quarter of 2014 was for the repurchase of 1,505,400 Class B shares, by way of an issuer bid, which closed on May 5, 2014.

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

Finance Expense

	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
	$	$	**$**	$
Interest on convertible debentures	**-**	534,930	**540,808**	950,935
Interest on bank debt	**370,713**	431,528	**1,282,529**	733,047
Interest on long-term contract obligation	**499,324**	-	**1,033,790**	-
Financing costs	**19,639**	-	**591,345**	488,488
Cash finance expense	**889,676**	966,458	**3,448,472**	2,172,470
Accretion on decommissioning provision	**554,644**	508,512	**1,592,750**	848,470
Accretion on Class B share liability	**97,361**	376,045	**708,092**	736,398
Accretion on convertible debentures	**-**	318,985	**372,871**	566,572
Non-cash finance expense	**652,005**	1,203,542	**2,673,713**	2,151,440
Total finance expense	**1,541,681**	2,170,000	**6,122,185**	4,323,910
Per boe	**3.22**	4.44	**4.51**	5.25

Convertible debenture interest and accretion decreased in the three and nine months ended September 30, 2014 from the prior year due to the 2013 Debenture issuance on April 30, 2013 and subsequent repurchase on March 26, 2014. On June 30, 2014, all remaining debentures from the 2012 Debenture issuance were converted into Class A shares, resulting in no convertible debenture accretion or interest during the third quarter of 2014.

Interest on bank debt for the nine months ended September 30, 2014 increased from the prior year's comparative period, as the bank debt was first utilized on April 30, 2013. Interest on bank debt decreased in the three months ended September 30, 2014 from the prior year's comparative period, as the Corporation's bank debt and interest rate are both lower in the current year's quarter.

Interest on long-term contract obligation and financing costs relate to the facilities joint venture agreement entered into on March 26, 2014 with a third party. Questfire received $15.0 million, which was used to repurchase the 2013 Debentures, in exchange for beneficial ownership of Questfire's natural gas processing facilities at Lookout Butte and Medicine Hat, Alberta. The Corporation pays an annual facility fee of $2,326,300 for 17.5 years, after which beneficial ownership will revert to Questfire. Included in financing costs during the three and nine months ended September 30, 2014 is approximately $20,000 and $305,000, respectively, associated with the Corporation changing banks in June 2014.

Accretion on the Class B shares decreased in the three months ended September 30, 2014 from the comparative period in 2013 as on May 5, 2014 the Corporation repurchased 1,505,400 Class B shares, for $3.9 million. This repurchase resulted in a gain of approximately $7.3 million being recognized during the second quarter of 2014. As of the date of this report, there were 550,440 Class B shares outstanding.

Accretion on the decommissioning provision for the nine months ended September 30, 2014 increased from the prior year's comparative period due to the significant increase in the number of wells requiring future decommissioning as a result of the 2013 Acquisition.

Deferred Income Tax

Deferred income tax expense was $261,388 and $5,827,033 in the three and nine months ended September 30, 2014, respectively, compared to recoveries of $158,241 and $51,219 in the respective comparative periods in 2013. The current quarter's lower expense than that incurred during the first two quarters of 2014 resulted primarily from the gain on repurchase of Class B shares in the second quarter of 2014 and the gain on repurchase of the 2013 Debentures in the first quarter of 2014.

Income

The Corporation realized income of $648,466 ($0.04 per share basic and $0.03 per share diluted) and $23,195,263 ($1.59 per share basic and $0.81 per share diluted), respectively, for the three and nine-month periods ended September 30, 2014, compared to losses of $527,104 ($0.04 per share basic and diluted) and $248,933 ($0.02 per share basic and diluted) for the respective comparative periods in 2013. The current periods' higher income resulted primarily from a combination of the gain on repurchase of Class B shares in the second quarter of 2014, the gain on repurchase of the 2013 Debentures in the first quarter of 2014, and higher commodity prices.

Supplemental Quarterly Information

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

Funds Flow from Operations

	Three months ended September 30,		**Nine months ended September 30,**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Income (loss)	**648,466**	(527,104)	**23,195,263**	(248,933)
Non-cash items:				
Unrealized (gain) loss on risk management	**(1,318,632)**	467,019	**(593,720)**	(2,287,402)
Share-based compensation	**159,833**	51,486	**395,171**	92,243
D&D	**3,825,360**	3,127,652	**9,799,008**	5,227,497
Acquired office lease amortization	**23,181**	81,134	**162,267**	81,134
Deferred income tax expense (recovery)	**261,388**	(158,241)	**5,827,033**	(51,219)
Repurchase of Class B shares	**-**	-	**(7,294,966)**	-
Repurchase of convertible debentures	**-**	-	**(17,722,983)**	-
Finance expense	**1,541,681**	2,170,000	**6,122,185**	4,323,910
Gain on sale of assets	**(39,232)**	-	**(1,986,963)**	-
Funds flow from operations	**5,102,045**	5,211,946	**17,902,295**	7,137,230

Netback Analysis

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**36.76**	28.75	**41.06**	29.90
Royalties	**(5.05)**	(3.25)	**(5.74)**	(3.52)
Production and operating expenses	**(15.07)**	(12.31)	**(15.27)**	(12.18)
Transportation expense	**(0.90)**	(0.87)	**(0.98)**	(0.88)
Operating netback	**15.74**	12.32	**19.07**	13.32
G&A and transaction expense (1)	**(3.35)**	(2.49)	**(3.48)**	(4.44)
E&E expenditures	**(0.33)**	(0.21)	**(0.28)**	(0.43)
Realized (loss) gain on risk management	**(1.41)**	1.05	**(2.11)**	0.21
Funds flow netback	**10.65**	10.67	**13.20**	8.66
Finance expenses	**(3.22)**	(4.44)	**(4.51)**	(5.25)
Gain on sale of assets	**0.08**	-	**1.46**	-
Gain on repurchase of Class B shares	**-**	-	**5.37**	-
Gain on repurchase of convertible debentures	**-**	-	**13.07**	-
Office lease amortization	**(0.05)**	(0.16)	**(0.12)**	(0.10)
D&D	**(7.98)**	(6.41)	**(7.22)**	(6.34)
Share-based compensation	**(0.33)**	(0.10)	**(0.29)**	(0.11)
Unrealized gain (loss) on risk management	**2.75**	(0.96)	**0.44**	2.78
Deferred income tax expense	**(0.55)**	0.32	**(4.30)**	0.06
Netback per boe	**1.35**	(1.08)	**17.10**	(0.30)

(1) Excludes the office lease amortization included below.

Selected Quarterly Information

Three months ended	**Sept. 30, 2014**	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
Financial (000s, except per share amounts)								
Oil and natural gas sales	**17,614**	17,131	20,956	15,901	14,040	10,533	64	213
Funds flow from (used in) operations	**5,102**	4,410	8,390	4,782	5,212	2,877	(951)	(2,097)
Per share, basic	**0.29**	0.33	0.65	0.37	0.40	0.22	(0.07)	(0.16)
Per share, diluted	**0.24**	0.19	0.18	0.08	0.07	0.08	(0.07)	(0.16)
Net income (loss)	**648**	8,172	14,375	(1,930)	(527)	1,381	(1,103)	(1,390)
Per share, basic	**0.04**	0.61	1.11	(0.15)	(0.04)	0.11	(0.09)	(0.11)
Per share, diluted	**0.03**	0.36	0.32	(0.15)	(0.04)	0.04	(0.09)	(0.11)
Capital expenditures	**9,927**	3,240	3,176	4,302	4,371	84,098	210	77
Total assets *(end of quarter)*	**137,201**	131,663	140,599	133,177	132,676	130,318	5,552	5,613
Working capital deficit *(end of quarter)*	**10,479**	5,464	44,617	47,554	44,374	43,136	2,838	1,531
Non-current bank debt *(end of quarter)*	**37,000**	37,000	-	-	-	-	-	-
Shareholders' equity (deficiency) *(end of quarter)*	**22,141**	21,309	10,414	(4,023)	(2,156)	(1,680)	(3,165)	(2,074)
Weighted-average basic shares outstanding	**17,298**	13,418	12,963	12,963	12,963	12,902	12,813	12,813
Weighted-average diluted shares outstanding	**18,838**	23,062	48,344	12,963	12,963	47,825	12,813	12,813
Operations								
Production								
Natural gas *(Mcf/d)*	**23,936**	22,123	23,392	24,630	25,443	17,479	79	411
NGL *(bbls/d)*	**712**	601	669	718	621	415	1	11
Crude oil *(bbls/d)*	**507**	434	406	467	447	342	5	2
Total *(boe/d)*	**5,208**	4,722	4,974	5,290	5,308	3,670	19	82
Average realized prices								
Natural gas *(per Mcf)*	**4.16**	4.83	5.97	3.66	2.58	3.60	3.48	3.70
NGL *(per bbl)*	**63.87**	66.24	82.05	63.71	66.21	55.64	63.26	58.76
Crude oil *(per bbl)*	**91.40**	95.62	94.48	78.97	102.61	87.16	84.01	73.24
Operating netback *(per boe)*	**15.74**	16.74	24.87	12.98	12.32	14.77	16.41	19.25
Funds flow netback *(per boe)*	**10.65**	10.26	18.74	9.83	10.67	8.61	(568.25)	(279.56)

Capital Expenditures

	Three months ended September 30,		**Nine months ended September 30,**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Land	**12,674**	13,276	**93,451**	101,998
Geological and geophysical	**215,054**	-	**403,915**	889
Drilling and completions	**6,960,728**	398,693	**10,690,684**	1,133,439
Production equipment and facilities	**2,155,828**	801,772	**3,943,365**	907,513
Well workovers and recompletions	**490,065**	1,617,855	**1,107,430**	1,642,461
Office equipment	**92,173**	16,136	**104,004**	105,334
Property acquisition purchase price	**-**	1,522,782	**-**	84,788,453
	9,926,522	4,370,514	**16,342,849**	88,680,087

At September 30, 2014 and December 31, 2013, the Corporation had E&E assets of $2,235,459. This included 125,060 net acres of undeveloped land.

At September 30, 2014, the Corporation had gross property and equipment of $144,637,721. This included developed land and costs associated with the wells the Corporation has drilled and acquired to date. As well, it included $250,353 incurred since inception to purchase computer hardware and software, associated office furniture and office improvements for use by Questfire employees and consultants to evaluate oil and natural gas leads.

During the quarter Questfire participated in the drilling of 15 gross wells (7.1 net) of which 11 (4.1 net) were horizontal oil wells. Fourteen of the 15 wells drilled were successful, resulting in an overall drilling success rate of 93 percent. Capital expenditures are expected to be significantly lower in the fourth quarter as the focus shifts away from drilling and to bringing on production from the third quarter drilling program.

Share Capital and Option Activity

As at the date hereof, the Corporation had 17,318,001 Class A shares, 550,440 Class B shares, 2,676,000 stock options, and Nil warrants outstanding. Each Class B share is convertible (at Questfire's option) into Class A shares at any time after September 30, 2014 and on or before November 30, 2016. The number of Class A shares to be issued upon conversion of one Class B share is calculated by dividing $10 by the greater of $1 and the 30-day weighted-average market price of the Class A shares. If conversion has not occurred by the close of business on November 30, 2016, the Class B shares become convertible (at the shareholder's option) into Class A shares on the same basis. Effective at the close of business on December 31, 2016, all remaining Class B shares will be automatically converted into Class A shares.

The Corporation also had several convertible debenture issuances. As at the date hereof, there are $Nil of convertible debentures outstanding, as a result of redemptions and conversions into Class A shares during the first half of 2014.

Liquidity and Capital Resources

At September 30, 2014, the Corporation had a working capital deficit of $10,478,521. Funds flow from operations for the three and nine months ended September 30, 2014 was $5,102,045 and $17,902,295, respectively. The funds generated from operations are well in excess of the current working capital deficit excluding the bank debt, as it is considered unlikely to be called. Funds generated from operations are anticipated to be used for capital expenditures.

The Corporation's credit facility is a committed facility, which operates as a revolving facility for a 364-day term, extendible annually for a further 364-day revolving period, subject to a one-year term-out period should the lender not agree to an annual extension; the current conversion or extension date is May 31, 2015. The Corporation expects that it will have sufficient cash on hand to meet immediate obligations by actively monitoring its credit facilities through co-ordinating payment and revenue cycles each month and an active hedging program to mitigate commodity price risk and secure cash flows.

The credit facility had $37 million drawn and $18 million undrawn at September 30, 2014. The facility bears interest at a range of prime plus 1 percent to prime plus 3 percent per annum, depending on the Corporation's adjusted senior debt to EBITDA ratio as defined by the agreement. The facility requires the Corporation to maintain a minimum adjusted working capital ratio of at least 1:1 as well as a debt to EBITDA ratio as defined by the agreement of less than 3:1, and is secured by all of the Corporation's assets.

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

The Corporation generally relies on operating cash flows, equity issuances and its credit facility to fund its capital requirements and provide liquidity. From time to time, the Corporation may access capital markets to meet additional financing needs and to maintain flexibility in funding its capital programs. Future liquidity depends primarily on funds flow generated from operations, drawing on existing credit facilities and accessing debt and equity markets.

Off-Balance-Sheet Arrangements

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

Commitments

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

	2014	2015	2016	2017	2018	Thereafter
	$	$	$	$	$	$
Office lease base rent	100,404	401,616	401,616	401,616	401,616	234,276

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

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 $64,108 and $254,474 were incurred by Questfire to the law firm in the respective three and nine months ended September 30, 2014 (three and nine months ended September 30, 2013 – $20,856 and $302,940, respectively), of which $Nil for both periods related to debenture issuance costs (three and nine months ended September 30, 2013 – $Nil and $30,000, respectively), $48,433 and $100,451 (three and nine months ended September 30, 2013 – $20,856 and $50,830, respectively) related to general and administrative expenses, $Nil (three and nine months ended September 30, 2013 – $Nil and $174,432, respectively) related to transaction costs and $15,675 and $154,023 (three and nine months ended September 30, 2013 – $Nil and $47,678, respectively) related to financing expense. At September 30, 2014, $48,930 (December 31, 2013 – $21,230) related to these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

Hedging

The Corporation initiated an active hedging program during 2013, with the objective to provide a measure of downside protection for its greater revenue and cash flow from operations derived from the 2013 Acquisition, while maximizing exposure to potential commodity pricing upside. At September 30, 2014, the Corporation's hedges covered approximately 69 percent of forecast production for the fourth quarter of 2014, and approximately 55 percent of forecast production for 2015 (see "Risk Management" above).

Critical Accounting Judgments, Estimates and Policies

The Corporation's critical accounting judgements, estimates and policies are described in notes 2 and 3 to the December 31, 2013 annual financial statements, and September 30, 2014 condensed interim financial statements. Certain accounting policies are identified as critical because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain, and because the estimates are of material magnitude to revenue, expenses, funds flow from operations, net income and/or other important financial results. These accounting policies could result in materially different results should the underlying conditions change or the assumptions prove incorrect.

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

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

New accounting standards

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

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

Additional GAAP measures

Questfire uses "funds flow from operations" (cash generated from operating activities before changes in non-cash working capital and decommissioning provision costs incurred), a Canadian GAAP measure that is not defined under IFRS. Funds flow from operations should not, however, be considered an alternative to, or more meaningful than, cash generated from operating activities, net income (loss), or other measures determined in accordance with IFRS, as an indicator of the Corporation's performance. Management uses funds flow from operations to analyze operating performance and leverage, and believes it is a useful supplemental measure as it provides an indication of the funds generated by Questfire's principal business activities prior to consideration of changes in working capital and remediation expenditures.

Non-GAAP measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry. The term "operating netback" (oil and natural gas sales less royalties and production, operating, and transportation expenses) is not defined under IFRS, which have been incorporated into GAAP, as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting, and may not be comparable with similar measures presented by other companies.

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) of 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 exceeds 20 Mcf to 1 bbl. Readers are cautioned that boe figures may be misleading, particularly if used in isolation.

Forward-Looking Statements

This document contains forward-looking statements. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could influence actual results or events and cause actual results or events to differ materially from those stated, anticipated or implied. Such forward-looking statements necessarily involve risks including but not limited to those associated with oil and natural gas exploration, property development, production, marketing and transportation, such as dry holes and non-commercial wells, facility and pipeline damage, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, production declines, health, safety and environmental risks, competition from other producers and the ability to access sufficient capital from internal and external sources. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project", or similar words suggesting future outcomes. The Corporation cautions readers and prospective investors in the Corporation's securities not to place undue reliance on forward-looking information as, by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Corporation. Readers are further cautioned not to place undue reliance on forward-looking statements, as no assurances can be given as to future results, levels of activity or achievements.

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

Abbreviations

The following summarizes the abbreviations used in this document:

Crude Oil and Natural Gas Liquids

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

Natural Gas

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

Other

AECO	refers to the AECO Hub, a natural gas storage facility located in Suffield and Countess, Alberta
$000s	thousands of dollars
IFRS	International Financial Reporting Standards
IAS	International Accounting Standard

Corporate Information

BOARD OF DIRECTORS

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

NEIL DELL (1)(3)(4)
Independent Businessman
Calgary, Alberta

ROGER MACLEOD (1)(2)(4)
Partner
Davis LLP
Calgary, Alberta

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

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

OFFICERS AND KEY PERSONNEL

RICHARD DAHL
President & Chief Executive Officer

DARREN KISSER
Vice President, Engineering and Operations

FRED LAUDEL
Vice President, Exploration

JOHN RAMESCU
Vice President, Land

BRUCE SHEPARD
Vice President, Exploitation

RONALD WILLIAMS
Vice President, Finance & Chief Financial Officer

RODNEY KELLER
Project Manager

GRAHAM NORRIS
Corporate Secretary

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Calgary, Alberta

LEGAL COUNSEL
Davis LLP
Calgary, Alberta

TRANSFER AGENT
Computershare Limited
Calgary, Alberta

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