Questfire Energy Corp.

Audited Financial Statements

For the year ended December 31, 2015

(amounts in Canadian dollars)

Collins Barrow

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Independent Auditors' Report

To the Shareholders
Questfire Energy Corp.

We have audited the accompanying financial statements of Questfire Energy Corp., which comprise the balance sheets as at December 31, 2015 and December 31, 2014, and the statements of income (loss) and comprehensive income (loss), statements of changes in equity and statements of cash flows for the years ended December 31, 2015 and December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Questfire Energy Corp. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 2 to the financial statements which describes the conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Corporation's ability to continue operating as a going concern. Our opinion is not qualified in respect of this matter.

Collins Barrow Calgary LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
April 26, 2016

Questfire Energy Corp.
Balance Sheets
(amounts in Canadian dollars)

	Note	**December 31, 2015**	December 31, 2014
		$	$
Assets			
Current assets			
Cash and cash equivalents		**-**	1,193,207
Accounts receivable	4(c)	**4,900,981**	8,687,909
Risk management contracts	4(e)	**-**	2,366,210
Deposits and prepaid expenses		**861,926**	780,732
Total current assets		**5,762,907**	13,028,058
Non-current assets			
Property and equipment	5, 7	**108,507,075**	119,155,988
Exploration and evaluation assets	6	**1,340,456**	1,679,187
Total assets		**115,610,438**	133,863,233
Liabilities			
Current liabilities			
Bank overdraft		**172,382**	-
Accounts payable and accrued liabilities	8	**9,812,620**	17,515,287
Current portion of long-term contract obligation	9	**344,448**	300,242
Convertible Class B shares	12	**5,086,857**	-
Total current liabilities		**15,416,307**	17,815,529
Non-current liabilities			
Bank debt	10	**41,406,473**	39,000,000
Decommissioning provisions	11	**27,635,555**	28,172,822
Convertible Class B shares	12	**-**	4,666,785
Long-term contract obligation	9	**14,155,697**	14,500,145
Deferred tax liabilities	16(b)	**2,745,062**	5,794,441
Total liabilities		**101,359,094**	109,949,722
Shareholders' Equity			
Share capital	14(b)	**6,945,345**	6,945,345
Equity component of convertible Class B shares	12	**(2,061,132)**	(2,061,132)
Contributed surplus	14(e)	**1,565,190**	840,576
Retained earnings		**7,801,941**	18,188,722
Total equity attributable to equity holders of the Corporation		**14,251,344**	23,913,511
Total liabilities and shareholders' equity		**115,610,438**	133,863,233

Going concern (note 2)
Commitments (note 19)
Subsequent events (note 20)

(Signed) "Richard Dahl", Director

(Signed) "Roger MacLeod", Director

See accompanying notes to the financial statements.

Questfire Energy Corp.

Statements of Income (Loss) and Comprehensive Income (Loss)

(amounts in Canadian dollars)

	Note	Year ended December 31, 2015	2014
		$	$
Revenue			
Oil and natural gas sales		**40,717,011**	71,619,004
Royalties		**(2,945,794)**	(9,744,194)
		37,771,217	61,874,810
Realized gain (loss) on risk management		**2,624,507**	(2,977,123)
Unrealized gain (loss) on risk management	4(e)	**(3,390,491)**	3,640,317
		37,005,233	62,538,004
Expenses			
Production and operating		**20,988,872**	27,266,216
Transportation		**1,685,686**	1,765,327
General and administrative		**5,093,196**	6,016,485
Share-based compensation	14(e)	**724,614**	567,645
Exploration and evaluation		**1,219,228**	898,652
Depletion and depreciation	5	**11,554,711**	14,211,486
Bad debt	4(c)	**204,000**	-
Property and equipment impairment	7	**3,000,000**	-
		44,470,307	50,725,811
Operating Income (Loss)		**(7,465,074)**	11,812,193
Gain on sale of assets	5	**-**	1,999,410
Gain on repurchase of Class B shares	12(b)	**-**	7,294,966
Gain on repurchase of convertible debentures	13(b)	**-**	17,722,983
Finance expense	15	**(5,971,086)**	(7,615,837)
Income (Loss) Before Income Taxes		**(13,436,160)**	31,213,715
Deferred income tax recovery (expense)	16(a)	**3,049,379**	(6,418,417)
Income (Loss) and Comprehensive Income (Loss) for the Year		**(10,386,781)**	24,795,298
Income (Loss) per Share			
Basic	14(c)	**(0.60)**	1.62
Diluted	14(c)	**(0.60)**	0.92

See accompanying notes to the financial statements.

Questfire Energy Corp.

Statements of Changes in Equity

(amounts in Canadian dollars)

	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, 2014		4,272,595	(2,081,352)	75,805	28,295	288,768	(6,607,513)	(4,023,402)
Repurchase of Class B shares	12(b)	-	20,220	-	-	-	-	20,220
Issued on conversion of convertible debentures	13(a)	1,510,805	-	(75,805)	-	-	-	1,435,000
Issued on exercise of warrants	13(a)	1,122,358	-	-	(27,358)	-	-	1,095,000
Expiry of warrants	13(a)	-	-	-	(937)	-	937	-
Share-based compensation	14(e)	-	-	-	-	567,645	-	567,645
Issued on exercise of options	14(e)	39,587	-	-	-	(15,837)	-	23,750
Income for the year		-	-	-	-	-	24,795,298	24,795,298
Balance, December 31, 2014		6,945,345	(2,061,132)	-	-	840,576	18,188,722	23,913,511
Share-based compensation	14(e)	-	-	-	-	724,614	-	724,614
Loss for the year		-	-	-	-	-	(10,386,781)	(10,386,781)
Balance, December 31, 2015		**6,945,345**	**(2,061,132)**	**-**	**-**	**1,565,190**	**7,801,941**	**14,251,344**

See accompanying notes to the financial statements.

Questfire Energy Corp.
Statements of Cash Flows

(amounts in Canadian dollars)

	Note	Year ended December 31, 2015	2014
		$	$
Cash flows related to:			
Operating Activities			
Income (loss)		**(10,386,781)**	24,795,298
Add (deduct) items not involving cash:			
Unrealized loss (gain) on risk management	4(e)	**3,390,491**	(3,640,317)
Share-based compensation	14(e)	**724,614**	567,645
Depletion and depreciation	5	**11,554,711**	14,211,486
Exploration and evaluation	6	**338,731**	-
Property and equipment impairment	7	**3,000,000**	-
Acquired office lease amortization		**-**	162,267
Gain on repurchase of Class B shares	12(b)	**-**	(7,294,966)
Gain on repurchase of convertible debentures	13(b)	**-**	(17,722,983)
Deferred income tax expense (recovery)	16(a)	**(3,049,379)**	6,418,417
Finance expense	15	**5,971,086**	7,615,837
Gain on sale of assets	5	**-**	(1,999,410)
Funds flow from operations		**11,543,473**	23,113,274
Decommissioning costs incurred	11	**(1,219,878)**	(2,969,162)
Change in non-cash working capital	17	**901,559**	1,553,715
Cash from operating activities		**11,225,154**	21,697,827
Investing Activities			
Exploration and evaluation expenditures	6	**-**	(9,204,548)
Property and equipment expenditures	5	**(4,955,048)**	(10,002,000)
Disposal of assets	5	**-**	4,284,460
Purchase of risk management contracts	4(e)	**(1,024,281)**	(332,150)
Change in non-cash working capital	17	**(4,888,033)**	2,800,436
Cash used in investing activities		**(10,867,362)**	(12,453,802)
Financing Activities			
Net bank debt draws (repayments)		**2,406,473**	(2,000,000)
Common share issuance proceeds		**-**	1,118,750
Repurchase of Class B shares	12(b)	**-**	(3,914,040)
Long-term contract obligation repayments	9	**(300,242)**	(199,613)
Long-term contract obligation draws	9	**-**	15,000,000
Convertible debenture repurchase	13(b)	**-**	(13,600,000)
Interest and financing costs paid	15	**(3,819,153)**	(4,420,521)
Change in non-cash working capital	17	**(10,459)**	131,807
Cash used in financing activities		**(1,723,381)**	(7,883,617)
Increase (decrease) in cash and cash equivalents		**(1,365,589)**	1,360,408
Cash and cash equivalents (bank overdraft), beginning of year		**1,193,207**	(167,201)
Cash and cash equivalents (bank overdraft), end of year		**(172,382)**	1,193,207

See accompanying notes to the financial statements.

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. 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 1100, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

2. Basis of preparation

Statement of compliance

These 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 set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting.

These financial statements were approved by the Corporation's Board of Directors on April 26, 2016.

Basis of measurement

These financial statements were prepared on a historical cost basis, except for certain financial instruments and share-based compensation 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.

These financial statements are presented in Canadian dollars, the Corporation's functional currency.

Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Corporation will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Uncertainties as to the Corporation's ability to continue as a going concern exist due to:

- There is uncertainty as to the determination of the borrowing base that will be provided by the lenders in May 2016;
- As at December 31, 2015, the Corporation had a working capital deficit of $4.6 million, excluding the Convertible Class B shares which will be converted into Class A shares during 2016 (note 12(a)) and do not involve cash;
- Internally prepared forecasts for 2016 indicate the Corporation may breach the debt to earnings before interest, taxes, depreciation and amortization (EBITDA) financial covenant in 2016. The lenders have waived this covenant for the March 31, 2016 quarter, but none of the subsequent quarters. In the event the Corporation has a covenant violation subsequent to March 31, 2016, this would represent an event of default under the credit facility which would result in all outstanding amounts being payable on demand; and
- Forecasted funds flow from operations, when combined with cash finance expense and anticipated decommissioning costs and property and equipment expenditures, are negative in 2016 when using strip pricing forecasts. There remains uncertainty as to the direction of movement and magnitude of commodity prices through the remainder of the year.

There is no certainty that the Credit Facility Syndicate will provide waivers for covenant breaches past March 31, 2016.

The above matters cause there to be material uncertainty that casts significant doubt as to the Corporation's ability to continue as a going concern. The Corporation and the Board of Directors have initiated a strategic alternatives process (note 20) to evaluate options at this time.

These financial statements do not reflect any adjustments to the carrying amounts of the Corporation's assets, liabilities, revenues, expenses and balance sheet classifications that would be necessary if the going concern assumption is not appropriate. Therefore the Corporation may be required to realize its assets and discharge its liabilities in other than the normal course of business at amounts different from those reflected in these financial statements.

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 revenue 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. Significant estimates and judgments made by management in the preparation of the financial statements are outlined below:

a) Reserves

Reserve estimates, although not reported as part of the Corporation's financial statements, can have a significant effect on profit or loss, assets and liabilities as a result of their impact on depletion and depreciation, decommissioning provisions, deferred tax, asset impairments and business combinations. Independent petroleum reservoir engineers evaluate the Corporation's oil and natural gas reserves annually. The estimation of reserves is a complex and inherently uncertain process requiring significant judgment. Estimates of economically recoverable oil and natural gas reserves are based on a number of variables and assumptions, such as geo-scientific interpretation, production forecasts, current and estimated future commodity prices, costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available, or as economic conditions change.

b) Impairment

The valuation of the oil and natural gas properties is based on management's best estimate of the future recoverability of these assets. Various estimates are required in assessing the potential impairment of costs capitalized. Consideration of impairment includes estimates relating to reserve quantities, overall costs, future cash flows, regulatory approval, timing, commodity prices, the general economic environment and the ability to finance future activities.

Evaluations of discounted future cash flows are initiated using a pre-tax discount rate of 10 percent, which is common industry practice and used by the Corporation's independent petroleum reservoir engineers in preparing their reserve reports. Based on an asset's individual characteristics, other economic and operating factors are also considered, which may increase or decrease the implied discount rate. Changes in economic conditions could significantly change the estimated recoverable amount.

c) Exploration and evaluation (E&E) assets

The application of the Corporation's accounting policy for E&E expenditures requires judgment in determining whether future economic benefits are likely before activities have reached a stage at which technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future commodity prices, future operating costs, as well as estimated economically recoverable reserves are considered.

d) Identification of cash-generating units (CGUs)

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

e) Decommissioning provisions

The decommissioning provision utilizes assumptions to estimate the future liability based on past experience and current economic factors which management believes are reasonable. The actual cost of decommissioning, however, is uncertain and cost estimates may change in response to numerous factors including changes in environmental and regulatory requirements, technological advances, inflation and the timing of expected decommissioning and restoration. In addition, management determines the appropriate discount rate at the end of each reporting period. This discount rate, which is credit-adjusted, determines the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market and Questfire-specific factors.

f) Derivative commodity contracts

The amounts recorded for the fair value of risk management contracts are based on estimates of future commodity prices and the volatility in those prices.

g) Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

h) Income tax

Tax interpretations, regulations and legislation in the jurisdiction in which the Corporation operates are subject to interpretations and changes. As such, income taxes are subject to measurement uncertainty. Assessing the recoverability of deferred tax assets requires the Corporation to make significant estimates relating to the expectations of future cash flows from operations, and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the Corporation's ability to realize the deferred tax assets or liabilities recorded at the balance sheet date could be affected. Additionally, changes in tax laws could limit the Corporation's ability to obtain future tax deductions.

i) Share-based compensation and financial instruments

The amounts disclosed relating to fair value of stock options and warrants issued are based on estimates of future volatility in the Corporation's share price, expected lives of options and warrants, the risk-free interest rate, and other relevant assumptions. Volatility is estimated to be a blend of the average price volatility of the Corporation's common shares subsequent to the April 30, 2013 asset acquisition and the average price volatility of common shares of a comparative group of companies over the preceding period equalling the expected lives of Questfire options.

j) Share capital, convertible Class B shares and convertible debentures

The amounts disclosed relating to share capital, convertible Class B shares and convertible debentures are based on factors including the estimated value of Class A shares on the issuance date, the Corporation's estimated borrowing rates if debt were incurred, estimated interest rates for similar non-convertible instruments and other relevant assumptions.

k) Long-term contract obligation

The amounts disclosed relating to the long-term contract obligation are based on the estimated discount rate on the issuance date.

3. Significant accounting policies

The following significant accounting policies are presented to assist the reader in evaluating these financial statements:

a) New or amended standards adopted by the Corporation

There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2015 that are material to the Corporation.

b) Cash and cash equivalents

Cash and cash equivalents consist of deposits held with banks, and term deposits and other similar short-term money market instruments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as a component of cash and cash equivalents.

c) Jointly controlled operations

Many of the Corporation's oil and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include the Corporation's proportionate interest in such revenues, expenses, assets and liabilities.

d) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Corporation or the counterparty.

e) E&E assets

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. E&E costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition, exploration, geological and geophysical, E&E drilling, sampling, appraisals, and decommissioning provision. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to profit or loss as E&E expense.

When an area is determined to be technically feasible and commercially viable the accumulated costs are transferred to property and equipment. When an area is determined not to be technically feasible and commercially viable or the Corporation decides not to continue with its activity, the unrecoverable costs are charged to profit or loss as E&E expense. E&E assets are not amortized.

Exchanges or swaps that involve only E&E assets are accounted for at cost. Any gains or losses from the divestiture of E&E assets are recognized in profit or loss.

f) Property and equipment (P&E)

P&E are carried at cost less accumulated depreciation, depletion, amortization, and impairment.

Included in cost are the purchase price and the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Corporation's management. For oil and natural gas properties, cost includes land acquisition costs, geological and geophysical expenditures, drilling costs, and the estimated costs of provisions for restoring and abandoning sites located on the asset in question. Costs incurred subsequent to the determination of technical feasibility and commercial viability are added to the cost base of the respective item of P&E when they increase the future economic benefits of that asset. The costs of regular service and maintenance are expensed in profit or loss in the period in which they occur.

Costs associated with office furniture and fixtures, leasehold improvements, office equipment, computer hardware and computer software are carried at cost and depreciated on a declining basis, at rates approximating the estimated service lives of the assets, between 20 percent and 50 percent per year.

Depletion, depreciation, and amortization

Depletion of oil and natural gas properties within each CGU is recognized using the unit-of-production method based on the Corporation's share of total proved plus probable oil and natural gas reserves before royalties as determined by independent reservoir engineers. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years. Future development costs are included in costs subject to depletion. For purposes of the depletion calculation, proved plus probable oil and natural gas reserves are converted to a common unit of measurement on the basis of the relative energy content of 6,000 standard cubic feet of natural gas per barrel of oil. Costs of major development projects are excluded from the costs subject to depletion until they are available for use.

Processing facilities and well equipment will be depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells. Where processing facilities and well equipment, including major components, have differing useful lives from that of the related wells, they are depreciated separately, on a straight-line basis over their estimated respective useful lives.

g) Impairment of assets

Impairment of financial assets

Financial assets are assessed at the end of each reporting period for any indication that an asset may be impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the asset’s estimated future cash flows. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that have similar credit risk characteristics.

Impairment losses are recognized in profit or loss in the period in which they occur. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. Impairment loss reversals are recognized in profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed at the end of each reporting period for any indication that an asset may be impaired and, if so, the Corporation compares the carrying amount to the estimated recoverable amount to determine if the asset is impaired. E&E assets are also assessed for impairment when they are reclassified to P&E.

For the purpose of the impairment test, non-financial assets are grouped into CGUs, which are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use. For the purposes of testing for impairment, E&E assets are tested separately from the related CGU containing development and production assets.

The Corporation determines value in use by estimating the future cash flows expected from the CGU, discounted at a rate which reflects the current market assessment of the time value of money and the risks specific to the CGU. Fair value less costs of disposal is determined as the amount obtainable from the sale of the CGU in an arm’s-length transaction between knowledgeable, willing parties, less the costs of disposal. The Corporation considers recent transactions for similar assets within the same industry as indicators of fair value.

An impairment loss is recognized when the carrying amount of the CGU exceeds its recoverable amount. Impairment losses for a CGU are allocated first to any goodwill allocated to the CGU and then to the other assets of the group pro rata on the basis of the carrying amount of each asset of the group. The reductions in carrying amounts are recognized in profit or loss in the period in which they occur.

At the end of each reporting period, the Corporation assesses whether there is indication that an impairment loss recognized in prior periods, for assets other than goodwill, should be reduced because the asset’s expected recoverable amount has increased since the impairment loss was recorded. Impairment losses to goodwill cannot be reversed. If circumstances have changed since the recognition of an impairment loss such that the loss has been reduced, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount to the extent that the CGU’s carrying amount does not exceed the carrying value that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized for the asset in prior periods.

h) Decommissioning provisions

The Corporation recognizes provisions for legal, contractual or constructive liabilities relating to the dismantling and reclamation of E&E and P&E in the period in which the liability is incurred. The amount recognized is the best estimate of the decommissioning cost, discounted to its present value using a credit-adjusted risk-free discount rate, and is added to the carrying amount of the related asset and depreciated or depleted on a unit-of-production or straight-line basis, depending on the asset. The decommissioning provision is increased over time, with the accretion recognized as a finance expense. The Corporation reviews the appropriateness of the provision at the end of each reporting period. Changes in the estimated timing, cost of decommissioning, or discount rate are recognized on a prospective basis with an adjustment to the provision and corresponding adjustment to the related asset. The actual costs of decommissioning are charged against the accumulated liability.

i) Income taxes

Income tax expense consists of current and deferred taxes. The expense is recognized in profit or loss, except for income tax related to the components of equity, which in such cases is recognized in equity.

Income taxes payable and receivable are obligations or claims for the current and prior periods to be paid to (or recovered from) taxation authorities that are outstanding at the end of the reporting period. Current tax is computed on the basis of tax profit, which differs from net profit. This calculation is made using tax rates and laws enacted or substantively enacted at the end of the reporting period.

The Corporation uses the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the difference between the carrying value and the tax basis of the assets and liabilities. Any changes in the net amount of deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws that will be in effect when differences are expected to be reversed. Deferred income tax assets and unused tax losses are recognized to the extent that it is probable that the assets can be utilized.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period in which the change is substantively enacted.

j) Revenue

Revenue from the sale of crude oil, natural gas and natural gas liquids is recognized based on volumes delivered to customers at contractual delivery points and prices when commodities are delivered and title passes to purchasers. Transportation costs are reported as a separate expense and are not netted against revenue. Revenues from crude oil, natural gas, and natural gas liquids production represent the Corporation's gross revenue, before royalty payments to governments and other mineral interest owners.

k) Finance expense

Finance expense comprises interest expense on borrowing, including convertible debentures, demand loans, and long-term contract obligation, financing costs, and accretion of the discount on decommissioning provisions, convertible Class B share liability, and convertible debentures.

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes substantial time to get ready for use or sale.

When funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs. When the funds used to finance a project form part of general borrowing, the amount capitalized is calculated using the weighted average of rates applicable to the Corporation's relevant general borrowing during the period.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred, using the effective interest rate method.

l) Share-based payments

Equity-settled share-based awards granted by the Corporation include options to purchase common shares and warrants granted to employees, consultants, officers and directors. The fair value of equity-settled share-based payments is determined by the fair value of the equity instruments on the grant date using the Black-Scholes option pricing model. The Corporation measures share-based payments to consultants at the fair value of the goods or services received at the date of their receipt. If their fair value cannot be measured reliably, the value of the options or warrants granted will be used, measured using the Black-Scholes option pricing model. Awards are recognized in profit or loss over the vesting period with a corresponding increase in contributed surplus. Awards issued in tranches that vest at different times are expensed on a graded basis over the vesting period of each respective tranche. On the grant date, and subsequently at the end of each reporting period, the Corporation estimates the number of awards expected to vest by applying an estimated forfeiture rate for each vesting tranche, with revisions recognized in profit or loss.

Upon the exercise of the stock options, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital. In the event that vested options expire without being exercised, previously recognized compensation expense associated with such stock options is not reversed.

m) Income (loss) per share

Basic per share amounts are computed by dividing the profit or loss by the weighted-average number of common shares outstanding during the period. The Corporation utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted-average number of shares is calculated assuming that proceeds arising from the exercise of options and other dilutive instruments where the market price exceeds option price are used to purchase, for cancellation, common shares of the Corporation at their average market price for the period. The weighted-average number of shares is then adjusted by the net change.

The number of Class A shares assumed to be issued upon conversion of each Class B share is equal to $10.00 divided by the greater of $1.00 and the weighted average trading price of the Class A shares for the 30 consecutive trading days preceding the balance sheet date.

n) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Upon initial recognition, all financial instruments, including derivatives, are recognized on the balance sheet at fair value.

Subsequent measurement of financial assets and liabilities, except those classified as fair value through profit and loss and available-for-sale, are measured at amortized cost, determined using the effective interest rate method. Financial assets classified as fair value through profit and loss are measured at fair value with changes in fair value recognized in profit or loss. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income and reclassified to profit or loss when derecognized or impaired. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted through active markets. The Corporation assesses whether its financial assets are impaired at each reporting period.

The Corporation accounts for cash and cash equivalents and derivative commodity contracts as fair value through profit or loss, accounts receivable as loans and receivables, and accounts payable and accrued liabilities, long-term contract obligation, convertible Class B shares and convertible debentures as financial liabilities measured at amortized cost.

Derivative financial instruments

Risk management assets and liabilities are derivative financial instruments classified as held-for-trading unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded on the balance sheet as either an asset or liability with changes in fair value recognized in profit or loss as a gain or loss on risk management. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

Derivative financial instruments are used to manage economic exposure to market risks relating to commodity prices. Derivative financial instruments are not used for speculative purposes.

The Corporation does not have any derivative instruments that are designated as hedges.

Compound financial instruments

The components of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the issuance date, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability, based on amortized cost, until the instrument is converted or matures. The equity component is determined by deducting the liability component from the total fair value of the compound instrument and is recognized as equity, net of income tax effects, with no subsequent re-measurement.

Share capital

Class A shares are classified as equity. Convertible Class B shares and convertible debentures are classified as compound instruments. Incremental costs directly attributable to the issuance of Class A shares, stock options and warrants are recognized as a reduction to equity, net of any tax effects.

o) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases within P&E.

p) New or revised IFRS not yet adopted

(i) In July 2014, the IASB issued IFRS 9, *Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments must be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. IFRS 9 includes a new model for expected credit losses, replacing the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright-line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses

for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. 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 on its financial statements of adopting IFRS 9.

(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.

On September 11, 2015, the IASB published an amendment to IFRS 15, deferring the effective date of the standard by one year to years beginning on or after January 1, 2018, with early adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is evaluating the impact on its financial statement of adopting IFRS 15.

(iii) On January 13, 2016, the IASB issued IFRS 16, *Leases*, which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is evaluating the impact on its financial statements of adopting IFRS 16.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

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 December 31, 2015, based on a discounted cash flow model assuming an 8.65 percent effective interest rate, is approximately $5.1 million (December 31, 2014 – $4.7 million).

The fair value of the long-term contract obligation at December 31, 2015, based on a discounted cash flow model assuming a 13.41 percent effective interest rate, is approximately $14.5 million (December 31, 2014 – $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.

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 and the long-term contract obligation fair values are determined 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.

At December 31, 2015 and 2014, the Corporation's accounts receivable were comprised of the following:

As at December 31,	**2015**	2014
	$	$
Oil and natural gas sales	**2,929,396**	5,056,091
Joint interest billings, GST and other	**1,971,585**	3,631,818
Accounts receivable	**4,900,981**	8,687,909

The Corporation considers all accounts receivable greater than 90 days to be past due. At December 31, 2015, $528,559 is past due (December 31, 2014 – $379,774). The Corporation considers this amount fully collectible. As at December 31, 2015, $345,772 of the past due balance relates to claims with the Orphan Well Association. During the year ended December 31, 2015, the Corporation recognized bad debt expense of $204,000 (year ended December 31, 2014 – $Nil) related to past due accounts receivable.

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. The next borrowing base re-determination on the Corporation's credit facility (note 10) is scheduled to occur before May 30, 2016. Assuming current economic conditions persist, management anticipates the borrowing base could be reduced at the next re-determination. If the borrowing base is reduced, this creates liquidity risk for the Corporation. Possible risk mitigation options to finance a potential decrease are to sell assets or issue equity.

The timing of undiscounted cash flows relating to the financial liabilities outstanding at December 31, 2015 is outlined below:

	1 year	2 years	3 years	>3 years	Total
	$	$	$	$	$
Bank overdraft	172,382	-	-	-	172,382
Accounts payable and accrued liabilities	9,812,620	-	-	-	9,812,620
Bank debt [(1)]	-	41,406,473	-	-	41,406,473
Long-term contract obligation [(2)]	2,326,300	2,326,300	14,234,542	-	18,887,142

(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 19.

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 income 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 December 31, 2015 and 2014, 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 is exposed to interest rate cash flow risk as its bank borrowing bears interest at variable rates. For the year ended December 31, 2015, a 1 percent increase in interest rates would decrease income by approximately $302,300 (year ended December 31, 2014 – approximately $292,500). The Corporation had no interest rate swaps or contracts as at or during the years ended December 31, 2015 or 2014.

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 policy is to limit swap commodity price contracts to a maximum of 50 percent of forecast production volume. The Corporation may also enter into other derivative financial instruments, being put options, to achieve this objective. Collars (which are generally fee-offsetting 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 December 31, 2015, the Corporation had no forward commodity contracts pertaining to future periods.

Reconciliation of changes of fair value of Questfire's risk management contracts:

Year ended December 31,	**2015**	2014
	$	$
Fair value of contracts, beginning of year	**2,366,210**	(1,606,257)
Contracts entered into	**1,024,281**	332,150
Change in fair value of contracts	**(3,390,491)**	3,640,317
Fair value of contracts, end of year	**-**	2,366,210

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 monthly 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, 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 equity, 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, 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 10) and any debt or equity to be raised is subject to approval by the Corporation's priority lender (note 10). 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 year ended December 31, 2015.

5. Property and equipment (P&E)

	Oil and natural gas interests	Corporate and other	Total
	$	$	$
Cost			
Balance, January 1, 2014	131,058,561	146,349	131,204,910
Additions	9,897,996	104,004	10,002,000
Transfer from E&E (note 6)	9,089,405	-	9,089,405
Disposals	(2,585,655)	-	(2,585,655)
Decommissioning provision	(5,470,545)	-	(5,470,545)
Balance, December 31, 2014	141,989,762	250,353	142,240,115
Additions	4,952,731	2,317	4,955,048
Decommissioning provision	(1,049,250)	-	(1,049,250)
Balance, December 31, 2015	**145,893,243**	**252,670**	**146,145,913**
Accumulated depletion and depreciation			
Balance, January 1, 2014	9,023,824	41,000	9,064,824
Depletion and depreciation	14,169,805	41,681	14,211,486
Disposals	(192,183)	-	(192,183)
Balance, December 31, 2014	23,001,446	82,681	23,084,127
Depletion and depreciation	11,512,995	41,716	11,554,711
Impairment (note 7)	3,000,000	-	3,000,000
Balance, December 31, 2015	**37,514,441**	**124,397**	**37,638,838**
Balance, January 1, 2014	122,034,737	105,349	122,140,086
Balance, December 31, 2014	118,988,316	167,672	119,155,988
Balance, December 31, 2015	**108,378,802**	**128,273**	**108,507,075**

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

During the year ended December 31, 2014, the Corporation disposed of non-core assets in Turner Valley, part of the Crossfield CGU, and other small properties, including assets held for sale acquired in an acquisition in 2013, for total proceeds of $4,284,460, resulting in a gain on sale of assets of $1,999,410.

6. Exploration and evaluation (E&E) assets

Year ended December 31,	2015	2014
	$	$
Balance, beginning of year	**1,679,187**	1,564,044
Additions	**-**	9,204,548
Transfer to P&E (note 5)	**-**	(9,089,405)
Expense	**(338,731)**	-
Balance, end of year	**1,340,456**	1,679,187

E&E assets consist of the Corporation's exploration projects which are pending the determination of proved and/or probable reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the year, and expenses represent the Corporation's share of costs relating to expired mineral rights leases.

7. Impairment

At September 30, 2015, the Corporation assessed its P&E CGUs and its E&E assets for indicators of impairment and after noting significant declines in commodity prices, conducted impairment test calculations on certain CGUs to assess whether their carrying values were recoverable. Furthermore, impairment test calculations were conducted on all CGUs at December 31, 2015. The impairment tests were based on the fair value less costs of disposal for each CGU identified to be at risk.

The following table outlines forecast commodity prices used in the Corporation's CGU tests at December 31, 2015. The forecast commodity prices are consistent with those used by the Corporation's independent petroleum reservoir engineers, and are a key assumption in assessing the recoverable amount.

	Crude Oil		Natural Gas	Natural Gas Liquids				
Year	WTI Cushing 40˚ API (US$/bbl)	Canadian Light 40˚ API ($/bbl)	AECO-C Hub ($/MMBtu)	Ethane ($/bbl)	Propane ($/bbl)	Butane ($/bbl)	Pentane plus ($/bbl)	Exchange rate (US$/Cdn$)
2016	44.67	55.89	2.57	8.35	9.76	38.73	60.16	0.7350
2017	55.20	66.47	3.14	10.24	15.88	46.91	70.95	0.7667
2018	63.47	73.21	3.47	11.35	24.09	52.58	78.05	0.8017
2019	71.00	81.35	3.80	12.41	30.49	59.42	86.58	0.8167
2020	74.77	84.57	3.99	13.03	33.69	62.81	90.00	0.8333
2021	78.24	87.88	4.13	13.53	34.95	65.25	93.46	0.8417
2022	81.75	92.01	4.30	14.10	36.45	68.33	97.79	0.8417
2023	85.37	96.24	4.48	14.73	38.06	71.46	102.23	0.8417
2024	87.32	98.17	4.60	15.17	38.79	72.90	104.29	0.8417
2025	88.90	99.94	4.70	15.49	39.50	74.22	106.16	0.8417
2026	90.54	101.79	4.79	15.79	40.23	75.58	108.13	0.8417
2027	92.22	103.69	4.88	16.09	40.96	76.98	110.14	0.8417
2028	93.90	105.55	4.96	16.40	41.70	78.38	112.12	0.8417
2029	95.62	107.49	5.05	16.71	42.45	79.81	114.18	0.8417
2030	97.40	109.49	5.15	17.02	43.21	81.31	116.31	0.8417
Thereafter	1.8% annual price increase							0.8417

Notes:
[1] Source: average of the escalated price forecasts of three independent petroleum reservoir engineers, namely GLJ Petroleum Consultants Ltd., McDaniel & Associates Consultants Ltd. and Sproule Associates Limited, effective January 1, 2016.

(2) In performing the impairment tests, the benchmark commodity prices forecast above are adjusted for quality differentials, heat content, distance to market and other factors.

Key estimated inputs used in the calculation of cash flow from oil and natural gas reserves:

(i) Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in geo-scientific interpretation, production forecasts, current and estimated future commodity prices, costs and related future cash flows may change the economic status of reserves and may ultimately result in reserves being restated.

(ii) Oil and natural gas prices – Forward estimates of oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

(iii) Discount rate – The discount rate used to calculate the net present value of cash flows is based on a CGU's individual characteristics, other economic and operating factors.

For Questfire's CGUs with impairment charges recorded for the year ended December 31, 2015, the following table summarizes the asset's primary product composition, estimated recoverable amount, estimated discount rate, and pre-tax impairment charges recognized:

	Primary type of producing assets	**Recoverable amount**	**Discount rate**	**Impairment**
		$	%	$
Brazeau River CGU [1]	Crude oil and natural gas	9,463,000	15	-
Crossfield CGU [2]	Crude oil and natural gas	4,183,000	14	-
Open Lake CGU [3]	Crude oil and natural gas	16,448,000	15	3,000,000
Total impairment recorded for the year ended December 31, 2015				**3,000,000**

1) Brazeau River impairment of $0.7 million was recorded at September 30, 2015, all of which was reversed at December 31, 2015 as a result of reserve additions in the fourth quarter of 2015.

2) Crossfield impairment of $0.8 million was recorded at September 30, 2015, all of which was reversed at December 31, 2015 as a result of reserve additions pertaining to the Elkton G Oil Unit gas cycling project.

3) Open Lake impairment of $3.0 million was recorded at September 30, 2015 primarily as a result of lower forecast commodity prices.

The estimated recoverable amounts of the CGUs are classified as a level 3 fair value measurement.

The following summarizes the sensitivity of fair value less costs of disposal to fluctuations in the pre-tax discount rate and forecast commodity prices, with all other variables held constant. Management believes the fluctuations set out below are reasonable indicators of volatility. The impact of fluctuating discount rates and forecast commodity prices would have resulted in increases or decreases to property and equipment impairment during the year ended December 31, 2015 as follows:

- If the discount rate applied to each CGU increased by 1%, the impairment of P&E would increase by approximately $1.7 million;
- If the discount rate applied to each CGU decreased by 1%, the impairment of P&E would decrease by approximately $1.1 million;

- If the forecast commodity prices applied to each CGU decreased by 5%, the impairment of P&E would increase by approximately $4.4 million; and
- If the forecast commodity prices applied to each CGU increased by 5%, the impairment of P&E would decrease by approximately $2.5 million.

No impairments were recognized during the year ended December 31, 2014.

There were no impairment reversals for P&E in 2014, and there were no impairment reversals for E&E in either 2015 or 2014.

8. Accounts payable and accrued liabilities

As at December 31,	**2015**	2014
	$	$
Accruals	**4,208,842**	6,519,204
Trade	**5,581,418**	10,883,444
Other	**22,360**	112,639
	9,812,620	17,515,287

9. Long-term contract obligation

On March 26, 2014, the Corporation entered into a facilities joint venture agreement with a third party (the "Partner"), transferring beneficial ownership of Questfire's natural gas processing facilities at Lookout Butte and Medicine Hat, in return for $15.0 million in cash, which was used to repurchase convertible debentures (note 13). 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 has the option to terminate the joint venture agreement on payment of an amount which will provide the Partner with a compound annual yield on its investment of 13.25 percent to the later of 48 months or the date the option is exercised. Upon the payment of aggregate facility fees to the Partner of a minimum of $19.5 million, the Partner has the option to sell back to Questfire its beneficial interest in the facilities for the sum equal to the total remaining scheduled facility 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 left substantially all of the economic risks and rewards of ownership with Questfire, whereby Questfire recorded the facility as P&E on its balance sheet and 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:

Year ended December 31,	**2015**	2014
	$	$
Balance, beginning of year	**14,800,387**	-
Draws	**-**	15,000,000
Principal repayments	**(300,242)**	(199,613)
Balance, end of year	**14,500,145**	14,800,387

At December 31, 2015, $344,448 (December 31, 2014 – $300,242) of the balance is classified as a current liability.

10. Bank debt

The Corporation has a $35.0 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 (together the "Credit Facility"), for a total amount available under the Credit Facility of $45.0 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 1.0 percent and 4.0 percent depending on the Corporation's ratio of senior debt, which excludes amounts under the long-term contract, to earnings before interest, taxes, depreciation and amortization (EBITDA) as defined by the agreement, effectively adjusting earnings for all other non-cash items. 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 be extended, is May 30, 2016.

The Corporation is subject to certain reporting and financial covenants under its Credit Facility. The financial covenants require the Corporation to maintain, at the end of each quarter, a maximum consolidated net debt of $47.5 million, which for purposes of the covenant is calculated as long-term bank debt and working capital, excluding convertible Class B shares, and risk management contracts. The covenants also require the Corporation to maintain at the end of each quarter, a debt to EBITDA ratio, as defined by the agreement, of less than 5.0:1 at December 31, 2015, March 31, 2016, and June 30, 2016; 4.5:1 at September 30, 2016; 3.5:1 at December 31, 2016; and 3.0:1 thereafter. Debt, for purposes of this calculation includes bank debt and the long-term contract obligation. The covenants were met at December 31, 2015 at $46.2 million and 4.46:1, respectively.

At December 31, 2015, $41.4 million of the Credit Facility was drawn (December 31, 2014 – $39.0 million). For the year ended December 31, 2015, the average effective interest rate was 4.1 percent (year ended December 31, 2014 – 4.3 percent).

At December 31, 2015, the Corporation had letters of credit of $200,000, reducing the borrowing capacity under the Credit Facility.

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 $76.9 million at December 31, 2015 (December 31, 2014 – $93.0 million). This was inflated using a weighted-average rate of 2.0 percent (December 31, 2014 – 2.0 percent) to arrive at undiscounted future cash flows of approximately $142.4 million (December 31, 2014 – $187.4 million) and then discounted using a weighted-average credit-adjusted risk-free rate of 6.69 percent at December 31, 2015 (December 31, 2014 – 6.80 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.

The following reconciles the decommissioning provisions:

Year ended December 31,	**2015**	**2014**
	$	$
Balance, beginning of year	**28,172,822**	34,706,080
Additions	**37,852**	1,446,592
Disposals	**-**	(108,422)
Costs incurred	**(1,219,878)**	(2,969,162)
Accretion (note 15)	**1,731,861**	2,014,871
Change in estimated future cash flows [(1)]	**(1,254,368)**	(6,414,428)
Change in discount rate	**167,266**	(502,709)
Balance, end of year	**27,635,555**	28,172,822

1) Changes in 2014 estimated future cash flows result mainly from increases in estimated years to abandonment in the Red Deer and East Central CGUs due to additional reserves being assigned at December 31, 2014 by the Corporation's independent petroleum reservoir engineers. Changes in 2015 estimated future cash flows result mainly from updated Medicine Hat CGU abandonment and reclamation estimates.

Sensitivities

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

As at December 31,	**2015**		2014	
	Credit-adjusted risk-free discount rate	**Inflation rate**	Credit-adjusted risk-free discount rate	Inflation rate
	$	**$**	$	$
1 percent increase	(3,541,505)	4,902,847	(4,043,038)	5,812,003
1 percent decrease	4,697,393	(3,717,785)	5,561,758	(4,242,064)

12. Convertible Class B shares

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 years ended December 31, 2015 and 2014:

	2015		2014	
	Shares	**Liability**	Shares	Liability
	#	**$**	#	$
Balance, beginning of year	**550,440**	**4,666,785**	2,055,840	15,088,437
Accretion on convertible Class B shares liability (note 15)	**-**	**420,072**	-	807,574
Repurchase of Class B shares	**-**	**-**	(1,505,400)	(11,229,226)
Balance, end of year	**550,440**	**5,086,857**	550,440	4,666,785

Class B shares are convertible (at Questfire's option) into Class A shares any time before November 30, 2016. The number of Class A shares to be issued upon conversion of one Class B share is calculated by dividing $10 by the greater of $1 and the 30-day weighted-average market price of the Class A shares. If conversion has not occurred by the close of business on November 30, 2016, the Class B shares become convertible (at the shareholder's option) into Class A shares on the same basis. Effective at the close of business on December 31, 2016, all remaining Class B shares will be automatically converted into Class A shares. 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, the Class B shares are presented as a liability.

a) 2011 Class B shares

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 would 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.

b) 2013 Class B shares

The Class B share liability related to the Class B 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 would 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 Oil & Gas Ltd. ("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.

13. Convertible debentures

The following is a continuity of the 2012 and 2013 Debentures for the years ended December 31, 2015 and 2014:

	Liability component	Warrants	Equity conversion feature	Total
	$	$	$	$
Balance, January 1, 2014	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, December 31, 2015 and 2014	**-**	**-**	**-**	**-**

a) 2012 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 year ended December 31, 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 at $0.50 per Class A share. 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.

b) 2013 Debentures

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

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 Debentures was recorded as a liability as it converted at market prices, and as such its fair value was nominal.

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, January 1, 2014	12,963,001	4,272,595
Conversion of 2012 Debentures (note 13(a))	2,870,000	1,510,805
Exercise of warrants (note 13(a))	1,460,000	1,122,358
Exercise of options	25,000	39,587
Balance, December 31, 2015 and 2014	**17,318,001**	**6,945,345**

c) Income (loss) per share

The following sets forth the computation of per share amounts:

Year ended December 31,	**2015**	2014
	$	$
Numerator		
Income (loss) attributable to Class A shares	**(10,386,781)**	24,795,298
Adjustment for dilutive effect of convertible debentures, net of tax	**-**	685,259
Adjustment for dilutive effect of Class B shares, net of tax	**-**	605,680
Numerator for diluted per share amounts	**(10,386,781)**	26,086,237
Denominator		
Weighted-average number of shares outstanding for basic per share calculation	**17,318,001**	15,267,001
Stock options	**-**	1,472,261
Warrants	**-**	449,667
Convertible debentures	**-**	6,038,072
Class B shares	**-**	5,225,242
Denominator for diluted per share amounts	**17,318,001**	28,452,243
	$	$
Basic income (loss) per share attributable to Class A shares	**(0.60)**	1.62
Diluted income (loss) per share attributable to Class A shares	**(0.60)**	0.92

For the year ended December 31, 2015, the Corporation excluded the following instruments from the calculation of diluted income per share as they would be anti-dilutive:

i. Stock options – 3,566,000 (year ended December 31, 2014 – 695,000), with a weighted-average exercise price of $0.82 (year ended December 31, 2014 – $2.10).
ii. Class B shares – 550,440 (year ended December 31, 2014 – Nil).

d) 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 year ended December 31, 2015, the Corporation granted 950,000 options (year ended December 31, 2014 – 875,000 options) 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 initial fair value of the options granted during the year ended December 31, 2015 was estimated at $693,516 (year ended December 31, 2014 – $963,639), using the Black-Scholes option pricing model with the following weighted-average assumptions: an exercise price of $1.23 (year ended December 31, 2014 – $1.89); a market price of Class A shares of $1.23 (year ended December 31, 2014 – $1.89); a risk-free interest rate of 1.13 percent (year ended December 31, 2014 – 1.95 percent); volatility of 76 percent (year ended December 31, 2014 – 73

percent); an expected life of six years (year ended December 31, 2014 – six years); a forfeiture rate of 10 percent (year ended December 31, 2014 – 10 percent) and no dividend yield (year ended December 31, 2014 – no dividend yield).

The following provides information with respect to stock option transactions:

Year ended December 31,	**2015**		2014	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
	#	**$**	#	$
Outstanding, beginning of year [1]	**2,676,000**	**0.91**	1,971,000	0.48
Granted [1]	**950,000**	**1.08**	875,000	1.89
Exercised	**-**	**-**	(25,000)	0.95
Forfeited	**(60,000)**	**1.19**	(145,000)	0.95
Outstanding, end of year	**3,566,000**	**0.82**	2,676,000	0.91

1) On November 20, 2015, 935,000 outstanding stock options with exercise prices ranging between $1.25 and $2.60 per Class A share granted to non-executive officer employees and consultants were repriced to an exercise price of $1.00 per Class A share.

The following provides information about stock options outstanding at December 31, 2015:

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	1,311,000	5.87	0.22	1,296,000	0.21
0.95 - 1.00	1,700,000 [1]	8.60	0.99	490,000	0.99
1.30 - 2.05	555,000	8.75	1.71	100,000	2.05
	3,566,000	**7.61**	**0.82**	**1,886,000**	**0.51**

1) On November 20, 2015, 935,000 outstanding stock options with exercise prices ranging between $1.25 and $2.60 per Class A share granted to non-executive officer employees and consultants were repriced to an exercise price of $1.00 per Class A share. The repriced options were fair-valued using the Black-Scholes option pricing model immediately before and after the repricing, with the increase in value recognized over the remaining vesting period. Increases in value for vested options were recognized immediately. The increase in fair value as a result of the repricing was $79,602, with $21,013 recognized immediately .

e) Contributed surplus

Year ended December 31,	**2015**	2014
	$	$
Balance, beginning of year [(1)]	**840,576**	288,768
Share-based compensation expensed for options	**750,128**	599,960
Unvested forfeitures	**(25,514)**	(32,315)
Exercise of options	**-**	(15,837)
Balance, end of year	**1,565,190**	840,576

1) All of the contributed surplus at January 1, 2014 pertained to stock options.

15. Finance expense

Year ended December 31,	**2015**	2014
	$	$
Finance expense		
Interest on convertible debentures (note 13)	**-**	540,808
Interest on bank debt (note 10)	**1,718,095**	1,710,278
Interest on long-term contract obligation (note 9)	**2,026,058**	1,578,090
Financing costs	**75,000**	591,345
Cash finance expense	**3,819,153**	4,420,521
Accretion on decommissioning provisions (note 11)	**1,731,861**	2,014,871
Accretion on convertible Class B share liability (note 12)	**420,072**	807,574
Accretion on convertible debentures (note 13)	**-**	372,871
Non-cash finance expense	**2,151,933**	3,195,316
Total finance expense	**5,971,086**	7,615,837

16. Income tax

a) Deferred income tax expense (recovery)

The following table reconciles income taxes calculated at the Canadian federal-provincial statutory rate with the recorded income tax provision included in profit or loss:

Year ended December 31,	**2015**	2014
	$	$
Income (loss) before income taxes	**(13,436,160)**	31,213,715
Canadian federal-provincial statutory tax rate	**27.0%**	25.0%
Expected income tax expense (recovery)	**(3,627,763)**	7,803,429
Increase (decrease) in income taxes resulting from:		
Tax rate change	**463,555**	-
Prior year's tax expense estimate versus actual variance	**(83,213)**	-
Expenses not deductible for tax purposes	**2,396**	3,013
Share-based compensation	**195,646**	141,911
Gain on repurchase of Class B shares	**-**	(1,529,936)
Deferred income tax expense (recovery)	**(3,049,379)**	6,418,417

b) Deferred income taxes

Temporary differences that give rise to deferred income taxes are as follows:

As at December 31,	**2015**	2014
	$	$
Deferred tax assets		
Non-capital loss carried forward	**1,385,137**	-
Share issuance costs	**92,719**	123,791
Long-term contract obligation	**752,571**	287,753
Decommissioning provision	**7,461,600**	7,043,206
Deferred tax liabilities		
Risk management contracts	**-**	(591,554)
P&E and E&E assets	**(12,324,352)**	(12,448,233)
Convertible Class B share liability	**(112,737)**	(209,404)
Net deferred tax liability	**(2,745,062)**	(5,794,441)

For purposes of the above table, deferred income tax liabilities are shown net of offsetting deferred income tax assets where these occur in the same jurisdiction.

c) Tax pools

Movement in the deferred tax liability during the year ended December 31, 2015:

	Balance, January 1, 2015	Recognized in loss	**Balance, December 31, 2015**
	$	$	$
P&E and E&E assets	(12,448,233)	123,881	**(12,324,352)**
Risk management contracts	(591,554)	591,554	**-**
Decommissioning provisions	7,043,206	418,394	**7,461,600**
Non-capital tax losses	-	1,385,137	**1,385,137**
Share issuance costs	123,791	(31,072)	**92,719**
Convertible Class B share liability	(209,404)	96,667	**(112,737)**
Long-term contract obligation	287,753	464,818	**752,571**
Deferred tax liability	(5,794,441)	3,049,379	**(2,745,062)**

Movement in the deferred tax liability or asset during the year ended December 31, 2014:

	Balance, January 1, 2014	Recognized in income	**Balance, December 31, 2014**
	$	$	$
P&E and E&E assets	(9,449,233)	(2,999,000)	**(12,448,233)**
Risk management contracts	401,565	(993,119)	**(591,554)**
Decommissioning provisions	8,676,519	(1,633,313)	**7,043,206**
Cumulative eligible capital	231,146	(231,146)	**-**
Non-capital tax losses	1,141,438	(1,141,438)	**-**
Share issuance costs	189,321	(65,530)	**123,791**
Convertible Class B share liability	(117,491)	(91,913)	**(209,404)**
Long-term contract obligation	-	287,753	**287,753**
Office lease asset	(40,567)	40,567	**-**
Convertible debentures	(408,722)	408,722	**-**
Deferred tax asset (liability)	623,976	(6,418,417)	**(5,794,441)**

17. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

Year ended December 31,	**2015**	2014
	$	$
Cash flows related to:		
Accounts receivable	**3,786,928**	(431,507)
Deposits and prepaid expenses	**(81,194)**	(187,862)
Accounts payable and accrued liabilities	**(7,702,667)**	5,267,594
Changes in non-cash working capital	**(3,996,933)**	4,648,225
Acquired non-cash working capital items:		
Office lease amortization	**-**	(162,267)
Changes in non-cash working capital	**(3,996,933)**	4,485,958
Relating to:		
Operating activities	**901,559**	1,553,715
Investing activities	**(4,888,033)**	2,800,436
Financing activities	**(10,459)**	131,807
	(3,996,933)	4,485,958

18. Related-party transactions

i. A director of Questfire was a partner of a law firm that provides legal services to Questfire. The director retired from the law firm on December 31, 2015, but will remain as a director of Questfire. Legal fees of $41,054 were incurred by Questfire to the law firm in the year ended December 31, 2015 (year ended December 31, 2014 – $339,064), of which $40,766 (year ended December 31, 2014 – $185,041) was related to general and administrative expenses and $287 (year ended December 31, 2014 – $154,023) was related to financing expense. At December 31, 2015, $12,988 (December 31, 2014 – $22,050) of these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

ii. Key management includes executive officers and non-executive directors. The compensation paid or payable to key management for services is shown below:

Year ended December 31,	**2015**	2014
	$	$
Salaries and other short-term employee benefits	**1,410,000**	1,737,500
Share-based compensation	**243,951**	193,326
	1,653,951	1,930,826

Total personnel expenses for employees, directors and management included in general and administrative expenses, and E&E expenses on the statement of income (loss) are $3,003,538 and $521,042, respectively (year ended December 31, 2014 – $3,171,698 and $550,000, respectively).

19. Commitments

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

	2016	2017	2018	2019	2020	Thereafter
	$	$	$	$	$	$
Office lease	803,254	803,254	803,254	468,565	-	-

Questfire's commitments related to its long-term contract obligation are disclosed in note 4(d).

20. Subsequent Events

a) Strategic alternatives process

On March 2, 2016, the Corporation announced the initiation of a formal process to explore strategic alternatives with a view to enhancing shareholder value. Such strategic alternatives may include, but are not limited to, a corporate sale, merger, a go private transaction, or other business combination, a sale of a material portion of Questfire's assets, a joint venture, farm-in or farm-out or other transaction. Macquarie Capital Markets Canada Ltd. has been engaged as exclusive financial advisor by the Board of Directors and will work with a special committee comprised of independent directors and the rest of the Board of Directors in connection with this comprehensive review and analysis of strategic alternatives.

b) Risk management contracts

Subsequent to the end of the year, the Corporation entered into a new risk management contract as follows:

Period	Commodity	Type of contract	Notional quantity	Pricing point	Contract price
May. 1/16 - Dec. 31/17	Natural Gas	Swap	5,000 GJ/d	AECO 7A	Cdn$2.01/GJ

c) Stock options

Subsequent to the end of the year, 132,500 options to acquire Class A shares, with a weighted-average exercise price of $0.99 per share were forfeited as a result of staffing reductions.