Questfire Energy Corp. – Financial and Operating Highlights

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
Financial				
Oil and natural gas sales	**$ 15,918,460**	$ 15,900,716	**$ 71,619,004**	$ 40,537,638
Funds flow from operations [(1)]	**5,210,979**	4,782,463	**23,113,274**	11,919,693
Per share, basic	**0.30**	0.37	**1.51**	0.92
Per share, diluted	**0.24**	0.08	**0.83**	0.25
Income (loss)	**1,600,035**	(1,929,541)	**24,795,298**	(2,178,474)
Per share, basic	**0.09**	(0.15)	**1.62**	(0.17)
Per share, diluted	**0.08**	(0.15)	**0.92**	(0.17)
Capital expenditures	**2,863,699**	4,302,399	**19,206,548**	8,194,033
Property acquisitions (dispositions)	**-**	-	**(3,792,346)**	84,788,453
Working capital deficit *(end of year)* [(2)]			**4,787,471**	47,554,483
Long-term contract obligation *(end of year)* [(3)]			**14,500,145**	-
Long-term bank debt *(end of year)*			**39,000,000**	-
Non-current debentures *(end of year)*			**-**	31,002,508
Shareholders' equity (deficiency) *(end of year)*			**23,913,511**	(4,023,402)
Shares outstanding *(end of year)*				
Class A			**17,318,001**	12,963,001
Class B			**550,440**	2,055,840
Options outstanding *(end of year)*			**2,676,000**	1,971,000
Warrants outstanding *(end of year)*			**-**	1,510,000
Weighted-average basic shares outstanding	**17,318,001**	12,963,001	**15,267,001**	12,910,809
Weighted-average diluted shares outstanding	**21,549,892**	12,963,001	**28,452,243**	12,910,809
Class A share trading price				
High	**2.51**	1.30	**2.75**	1.47
Low	**1.70**	0.92	**0.95**	0.50
Close	**1.76**	1.03	**1.76**	1.03
Operations [(4)]				
Production				
Natural gas *(Mcf/d)*	**24,868**	24,630	**23,585**	16,998
Natural gas liquids (NGL) *(bbls/d)*	**712**	718	**674**	441
Crude oil *(bbls/d)*	**644**	467	**498**	317
Total *(boe/d)*	**5,501**	5,290	**5,103**	3,591
Benchmark prices				
Natural gas				
AECO *(Cdn$/GJ)*	**3.42**	3.34	**4.28**	3.01
Crude oil				
WTI *(US$/bbl)*	**73.15**	97.46	**93.00**	97.98
Canadian Light *(Cdn$/bbl)*	**75.11**	86.26	**94.18**	93.24
Average realized prices [(5)]				
Natural gas *(per Mcf)*	**3.74**	3.66	**4.65**	3.24
Natural gas liquids *(per bbl)*	**51.38**	63.71	**65.52**	62.71
Crude oil *(per bbl)*	**67.23**	78.97	**85.06**	89.60
Operating netback *(per boe)* [(6)]	**13.78**	12.98	**17.63**	13.19
Funds flow netback *(per boe)* [(6)]	**10.30**	9.83	**12.41**	9.09

(1) See "Additional GAAP measures".

(2) Working capital deficit includes risk management contract assets of $2,366,210 (December 31, 2013 – liability of $1,606,257). Excluding this, the working capital deficit would be $7,153,681 (December 31, 2013 - $45,948,226).

(3) Long-term contract obligation excludes current portion of $300,242, which is included in working capital deficit.

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

(5) Before hedging.

(6) See "Non-GAAP measures".

2014 Corporate Highlights

- Achieved average production of 5,103 boe per day for the year, with fourth quarter production of 5,501 boe per day (75 percent natural gas), a 4 percent increase over 5,290 boe per day for the fourth quarter of 2013 and an all-time quarterly high.
- Achieved fourth quarter sales of $15.9 million and funds flow from operations of $5.2 million ($0.30 per basic share).
- Achieved annual sales of $71.6 million and funds flow from operations of $23.1 million ($1.51 per basic share).
- Made capital expenditures of $19.2 million for the year, focused on drilling, well workovers, recompletions and facility maintenance and optimization.
- Participated in the drilling of 32 gross (12.8 net) wells, with an overall success rate of 94 percent; 19 of the 32 wells were horizontal oil wells.
- At year-end, corporate working interest reserves were 16.017 million boe proved producing (PDP), 20.071 million boe total proved (TP) and 30.131 million boe proved plus probable (2P).
- Achieved all-in finding and development (F&D) costs of $7.74 per boe for PDP, $6.82 per boe for TP and $6.28 per boe for 2P reserve additions including all future development capital and technical revisions. Based on the 2014 operating netback of $17.63 per boe, Questfire’s recycle ratios are 2.28 for PDP, 2.59 for TP and 2.81 for 2P reserve additions.
- Repurchased 1,505,400 Class B shares at $2.60 per share.
- Repurchased $32.6 million of 2013 Debentures, for a purchase price of $13.6 million.
- Converted all remaining 2012 Debentures into 2,870,000 Class A shares, extinguishing $1,435,000 of liabilities.
- Sold the Corporation’s working interests in Turner Valley (61 boe per day) and other small properties for $3.8 million.

President's Message

Two-thousand fourteen was a year of significant value creation and operational success for Questfire. As detailed in previous press releases, the repurchase of 1.505 million Class B shares, the repurchase of the 2013 Debentures and the conversion of the 2012 Debentures all occurred in 2014 and have significantly reduced Questfire's liabilities and simplified the Corporation's share structure. We currently have only 17.318 million basic Class A shares (19.994 million including options outstanding) with 56 percent insider ownership and 0.55 million Class B shares, a relatively small and tightly owned share base for a company our size.

Operationally we employed a capital budget of $19.2 million in 2014, of which approximately 70 percent was spent on well drilling, completions and recompletions. This modest capital spending achieved significant results. New production additions more than offset production declines for the year and we achieved our target exit rate of 5,500+ boe per day with fourth quarter average production of 5,501 boe per day, an all-time quarterly high and a 4 percent increase over fourth quarter 2013 production of 5,290 boe per day.

Low Finding and Development Costs

Questfire added significant oil and gas reserves in 2014 at what may prove to be some of the lowest F&D costs in the industry. Based on the independent 2014 year-end corporate reserve evaluation prepared by GLJ Petroleum Consultants Ltd. (GLJ), year-end corporate working interest reserves stood at 16.017 million boe for PDP, 20.071 million boe for TP and 30.131 million boe for 2P. Including production and technical revisions we added 2.375 million boe PDP, 3.147 million boe TP and 6.588 million boe 2P reserves. My team and I are pleased with Questfire's all-in F&D costs, including future development capital, of $7.74 per boe for PDP, $6.82 per boe for TP and $6.28 per boe for 2P reserve additions. These low cost reserve additions were a result of the work of our experienced technical and operations teams which included the previously noted successful drilling program in 2014, facility consolidation and operating cost reduction projects which help extend the economic life of some of our shallow gas properties, recompletion and optimization projects such as uphole gas recompletions at Viking Kinsella and better than expected performance on some of our mature existing properties. The details of the GLJ reserve evaluation are contained in Questfire's Annual Information Form which has been filed on SEDAR.

Operational Successes

In 2014 Questfire spent approximately $13.5 million on drilling, completions and recompletions and participated in the drilling of 32 gross (12.8 net) wells, achieving an overall success rate of 94 percent. Nineteen of the 32 wells were horizontal oil wells. Highlights include the 100 percent working interest new pool discovery well drilled in our Open Lake field at 9-21 which continues to produce in excess of 170 boe per day (40 percent light oil and NGLs) and which has helped de-risk an additional 14 drilling locations in our inventory at Open Lake. Another significant success was the development of the Auburndale Lloydminster heavy oil pool with 12 horizontal (4 net) wells drilled in the second and third quarters of 2014. It is currently producing over 300 bbls per day of oil net to Questfire with low declines.

As part of our ongoing efforts to improve operating efficiency and reduce operating costs, we undertook a number of facility optimization and consolidation projects. These involved shutting in underutilized compressor stations and facilities and rerouting gas production in our shallow gas properties at Oberlin, and Viking Kinsella. This has reduced fixed and variable operating costs and future facility and compressor maintenance costs. Approximately 100 gas gathering pipelines no longer in use were discontinued or abandoned, which will not only meet regulatory requirements but will lead to reduced property taxes in 2015 and beyond. Our focus on reducing operating costs is starting to make an impact with fourth quarter 2014 average operating expenses of $12.94 per boe, down by 6 percent from $13.83 per boe in the fourth quarter of 2013. We will continue to focus on reducing operating costs per boe.

With capital budgets being cut and drilling programs reduced throughout the industry, investors have become very mindful of production declines. I'm pleased to note that Questfire's conventional production base has among the lowest overall rates of decline in western Canada's producing sector. If we were to suspend all drilling, our production would only decline by an estimated 12 to 15 percent in the following year. This provides a significant advantage in today's environment, enabling Questfire to replace its corporate decline and even deliver modest production growth with relatively little drilling and within its operating cash flow – as we have done in 2014.

Commodity Prices

The fourth quarter of 2014 witnessed the start of a "perfect storm" for commodity prices. Warm winter weather and surging North American natural gas production resulted in an oversupply of natural gas. This quickly eliminated most of the natural gas storage deficit created in the 2013-2014 winter season and depressed natural gas prices. Benchmark crude oil prices were influenced by geopolitical events and commenced a significant decline in November following a decision by OPEC not to reduce production to support world oil prices. Similarly, natural gas liquids (NGLs) have also experienced a sharp price decline due to oversupply and reduced demand for heating in North America. As detailed in the MD&A Questfire has natural gas hedges for 2015 that protect a floor price of $2.85-$3.00 per GJ for 20,000 GJ per day or approximately 80 percent of our 2015 forecast gas production. This provides substantial protection to our cash flow.

I believe that the basic supply and demand market forces plus the passage of time will bring a return of higher commodity prices. The drilling rig count in North America has declined rapidly in response to lower commodity prices. Along with reduced capital spending by exploration and production companies, this will inevitably result in fewer new wells and reduced supply of crude oil and natural gas. Many of the OPEC countries cannot sustain their economies and budgets at current world oil prices and will lobby for OPEC supply restrictions. On the demand side, the world economy is still growing and demand for oil continues to increase, especially in response to the lower costs of transportation fuels. In North America, LNG export terminals will start to come on-line this year and in 2016, driving higher domestic demand and, potentially, higher North American pricing for natural gas.

2015 Outlook

For the short term, Questfire has adjusted to the lower commodity price environment by focusing on the factors under the Corporation's control. Capital spending for 2015 has been reduced to $7 to $10 million to stay well within cashflow. The Corporation conducted no new drilling in the first quarter of 2015 and only minor completion, equipping and mandatory capital spending for maintenance and regulatory compliance projects totalling approximately $1.9 million. Our operating efficiency is being carefully reviewed and operating costs are being scrutinized in all areas and reduced. All efforts are being made to maximize third-party gathering and processing revenue while maintaining tight control of our G&A costs. Questfire will carefully monitor commodity prices and adjust its spending to remain within cash flow.

Questfire's drilling and recompletion inventory now stands at an all-time high of 202 gross (166 net) locations, of which 95 percent net are Questfire-operated. The inventory of drilling and recompletion prospects is diverse and ranges from low-cost shallow infill gas drilling to horizontal heavy oil wells in East-Central Alberta, and to horizontal multi-stage wells targeting liquids-rich gas in central Alberta. One of the most exciting opportunities for Questfire is the Falher liquids-rich natural gas play in the Morningside area of central Alberta. Questfire has identified eight potential horizontal drilling locations with an 87.5 percent working interest. The Falher play is being actively developed by a major E&P company in the Morningside area, who has press-released very impressive well results including initial production rates of up to 10 mmscf per day (1,670 boe per day) and natural gas liquids content of 50 bbls per mmscf.

A well license has been granted to Questfire for the drilling of its first horizontal well with a multi-stage fracture completion in the Morningside area. A site has been acquired that will allow the drilling of up to three wells from a common pad, and a pipeline route is being acquired. This well could be drilled in the third quarter and with only a short pipeline tie-in could be on production early in the fourth quarter. Total capital costs will be $2.8 million gross for drilling, completion, equipping and tie-in. A type curve based on nearby wells drilled over the last two years suggests average 90-day initial productivity of approximately 540 boe per day, 25 percent natural gas liquids. With an 87.5 percent working interest and eight horizontal locations in inventory, this play has the potential to be of very high impact to Questfire.

Our current production forecast for 2015, with a $7 to $10 million capital budget, is an average of 5,200-5,300 boe per day. As commodity prices improve, the capital budget may be expanded and production and cash flow forecasts revised.

On behalf of the Board of Directors,

(Signed) "Richard Dahl"

Richard H. Dahl
President and Chief Executive Officer
April 7, 2015

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Questfire Energy Corp. ("Questfire" or the "Corporation") is dated April 7, 2015 and is based on currently available information. It should be read in conjunction with the audited financial statements and accompanying notes for the years ended December 31, 2014 and 2013. Unless otherwise noted, all financial information is presented in Canadian dollars, and is in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (ISAB), interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and with Canadian generally accepted accounting principles (GAAP) as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting. These documents, along with other statutory filings, including the Corporation's Annual Information Form, are available on SEDAR at www.sedar.com and on the Corporation's website at www.questfire.ca.

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

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

Description of Business

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

Financial and Operating Results

Production

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
Daily average volume				
Natural gas *(Mcf/d)*	**24,868**	24,630	**23,585**	16,998
NGL *(bbls/d)*	**712**	718	**674**	441
Crude oil *(bbls/d)*	**644**	467	**498**	317
Total sales *(boe/d)*	**5,501**	5,290	**5,103**	3,591
Total sales *(boe)*	**506,108**	486,642	**1,862,620**	1,310,622
Production weighting				
Natural gas	**75%**	78%	**77%**	79%
NGL	**13%**	13%	**13%**	12%
Crude oil	**12%**	9%	**10%**	9%
	100%	100%	**100%**	100%

Production increased during the fourth quarter of 2014 over the fourth quarter of 2013 largely due to drilling activity during 2014; 14 (6.0 net) wells came on production in the East Central cash-generating unit (CGU) and 3 (2.1 net) wells came on production in the Open Lake CGU. The production increases were largely offset by natural production declines and the sale of the Turner Valley assets.

The Advantage Oil & Gas Ltd. acquisition, which closed on April 30, 2013 (the "2013 Acquisition"), accounted for substantially all of the increase in production from the comparative full-year period, as the assets contributed to the full year of production during 2014 and 245 days of production for the comparative year ended December 31, 2013.

Sales

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
	$	$	**$**	$
Natural gas	**8,567,648**	8,301,485	**40,031,904**	20,087,916
NGL	**3,370,241**	4,208,546	**16,121,411**	10,095,440
Crude oil	**3,980,571**	3,390,685	**15,465,689**	10,354,282
Total	**15,918,460**	15,900,716	**71,619,004**	40,537,638
Average realized prices				
Natural gas *($/Mcf)*	**3.74**	3.66	**4.65**	3.24
NGL *($/bbl)*	**51.38**	63.71	**65.52**	62.71
Crude oil *($/bbl)*	**67.23**	78.97	**85.06**	89.60
Combined average *($/boe)*	**31.45**	32.67	**38.45**	30.93

Full-year 2014 natural gas prices realized were higher than those of 2013 due to an abnormally cold winter in 2013-2014, leading to large draws of natural gas from storage, and the subsequent need for larger than normal injections of natural gas to refill storage prior to the 2014-2015 winter season. In the later part of 2014, natural gas storage levels were replenished to levels that were viewed as being adequate to satisfy expected demand for the 2014-2015 winter season, causing pricing to decline during the fourth quarter to only slightly higher than that experienced during the fourth quarter of 2013.

The Corporation, like much of the upstream oil and natural gas sector in Western Canada, experienced lower prices for NGLs products in the fourth quarter of 2014. This decline in pricing for NGLs during the fourth quarter of 2014 was the result of a supply-demand imbalance, most notably in propane, as inventories remained high due to milder late-autumn temperatures across North America, limiting demand. Combined with a slight production decrease from the fourth quarter of 2013, this resulted in a decrease in NGL sales. During the full year, NGL pricing and production were both higher than in 2013, resulting in increased NGL sales for 2014.

The decline in pricing for crude oil during the fourth quarter of 2014 was also related to a supply-demand imbalance, as the Organization of Petroleum Exporting Countries (OPEC) maintained its production levels, while overall production continued to grow in non-OPEC countries, most notably in North America. The OPEC decision signals a desire to protect market share as opposed to maintaining price stability. As a result, the Corporation anticipates continued high levels of volatility in crude oil prices, and anticipate prices remaining relatively low through at least the first half of 2015. The impact of declining crude oil prices, which are benchmarked in U.S. dollars, was partially offset by a strengthening of the U.S. dollar relative to the Canadian dollar, which increases the Canadian price received on Questfire's crude oil.

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

Royalties

	Three months ended December 31,		**Year ended December 31,**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Royalties	**1,965,087**	2,404,018	**9,744,194**	5,304,284
Per boe	**3.88**	4.94	**5.23**	4.05
Percentage of sales	**12.3%**	15.1%	**13.6%**	13.1%

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

The royalty rate as a percentage of sales in the fourth quarter of 2014 was lower than for the fourth quarter of 2013 as a result of lower commodity reference pricing used by the Alberta government to calculate oil and NGL royalties, as well as lower royalty rates for new production, and higher royalty rates associated with the Turner Valley assets disposed of during 2014.

The royalty rate as a percentage of sales in 2014 was higher than in 2013 as a result of higher average commodity reference pricing used by the Alberta government to calculate royalties, partially offset by lower royalty rates for new production that came online in 2014.

Production and Operating Expense

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Production and operating expense	**6,549,554**	6,731,104	**27,266,216**	16,768,668
Per boe	**12.94**	13.83	**14.64**	12.79

Production and operating expenses decreased on a total and per-boe basis during the fourth quarter of 2014 from the comparative period of 2013 due to field-wide production optimization at a number of the Corporation's properties to reduce per-boe operating costs and due to new wells coming on production with lower per-boe operating costs.

Production and operating expenses during 2014 were higher than those experienced during 2013 as a result of the 2013 Acquisition contributing to 245 days of production and operating expenses for 2013, as compared to the full year during 2014. On a per-boe basis, production and operating expenses increased in 2014 over that of 2013 due to catch-up maintenance and regulatory compliance work, which has now been completed.

Transportation Expense

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Transportation expense	**432,019**	448,385	**1,765,327**	1,175,079
Per boe	**0.85**	0.92	**0.95**	0.90

The assets acquired on April 30, 2013 comprised substantially all of the 2014 transportation expense. Transportation expense per unit of production has been largely consistent on a monthly basis in the fourth quarters and full years, as indicated by the minor changes in per-boe transportation expenses from period to period.

Risk Management

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

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

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

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

At December 31, 2014, Questfire had the following crude oil and natural gas risk management contracts, with a total mark-to-market asset of $2,366,210:

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

(1) The put contracts require the Corporation to pay a monthly premium of approximately $85,200 over the term for a total premium of $1,021,952.

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

	Three months ended December 31,		**Year ended December 31,**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Realized (loss) gain on risk management contracts	**(108,329)**	134,876	**(2,977,123)**	311,372
Per boe	**(0.21)**	0.28	**(1.60)**	0.24
Unrealized gain (loss) on risk management contracts	**3,046,597**	(1,704,383)	**3,640,317**	583,019
Per boe	**6.02**	(3.50)	**1.95**	0.44

During the three months ended December 31, 2014 the realized losses on risk management contracts associated with natural gas commodity prices being higher than swap pricing were mostly offset by the realized gains on the risk management contracts associated with oil commodity prices, as spot prices were lower than swap pricing.

The risk management contracts acquired with the 2013 Acquisition were fixed-price contracts, also known as "swaps". Most risk management contracts entered into since then have been purchased puts. These provide downside price protection while allowing Questfire to realize all pricing upside in return for payment of the put option premium. This can be viewed as being similar to an insurance contract, with a premium paid in return for protection against negative events. Fixed-price contracts, although free of direct costs such as contract premiums, impose opportunity costs in the form of foregone pricing upside. Fixed-price contacts erase all exposure to pricing upside, while so-called costless collars limit the producer's pricing upside to the higher figure (the purchaser's call option). During the fourth quarter of 2014 the Corporation entered into a costless collar risk management contract for 2015.

During the year ended December 31, 2014 realized losses on risk management contracts were associated with natural gas and oil prices being higher than swap pricing.

The three months and year ended December 31, 2014 saw Questfire realizing the rewards of its purchased puts. Approximately two-thirds of the Corporation's production received current commodity prices, accompanied by minimal risk management losses (premiums paid plus some unrealized losses associated with the market value of the puts). Substantially all of the Corporation's risk management losses arose from the two fixed-price contracts. It is Questfire's intention to continue purchasing put options and costless collars.

General and Administrative (G&A) and Transaction Expense

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
	$	$	**$**	$
G&A	**1,138,142**	1,486,949	**6,016,485**	4,001,331
Transaction expense	**-**	52,216	**-**	1,280,632
Total	**1,138,142**	1,539,165	**6,016,485**	5,281,963
G&A cash expense per boe	**2.25**	2.91	**3.14**	2.94
Transaction expense per boe	**-**	0.11	**-**	0.98
Total cash expense per boe	**2.25**	3.02	**3.14**	3.92
Non-cash G&A (office lease amortization) per boe	**-**	0.15	**0.09**	0.11
Total expense per boe	**2.25**	3.17	**3.23**	4.03

G&A expenses for the three months ended December 31, 2014 were lower than in the three months ended December 31, 2013 predominantly due to the reduction of management bonus accruals from the first three quarters of 2014.

G&A expenses for the year ended December 31, 2014 increased over 2013 mainly due to increased office activity required to operate and manage the acquired assets. The year ended 2013 included 245 days post-Acquisition, as compared to the full year in 2014. G&A expense per unit of production declined period-over-period due to the Corporation's higher production base resulting from the 2013 Acquisition.

Share-Based Compensation

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
	$	$	**$**	$
Share-based compensation	**172,474**	61,755	**567,645**	153,998
Per boe	**0.34**	0.13	**0.30**	0.12

The increase in the three months and year ended December 31, 2014 from the comparative periods in 2013 is a result of stock options issued in 2013 and 2014. These options were issued in association with the Corporation increasing staffing as a result of the 2013 Acquisition, as well as the issuance of additional options for employees and directors.

The Corporation granted 30,000 and 875,000 options in the respective three months and year ended December 31, 2014 at Class A share exercise prices between $0.95 and $2.60 per option. There were 2,676,000 options outstanding at December 31, 2014 and 2,751,000 outstanding as of the date of this report. There were 1,461,000 options exercisable at December 31, 2014.

Exploration and Evaluation (E&E) Expenditures

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
	$	$	**$**	$
E&E expense	**514,350**	200,000	**898,652**	550,000
Per boe	**1.02**	0.41	**0.48**	0.42
E&E impairment	**-**	40,825	**-**	40,825
Per boe	**-**	0.08	**-**	0.03

The increase in E&E expenditures recognized during the three months and year ended December 31, 2014 over the comparative 2013 periods is due to higher salaries for E&E personnel and the portion of G&A expenses attributable to supporting E&E activities.

Depletion and Depreciation (D&D)

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
	$	$	**$**	$
D&D	**4,412,478**	3,211,518	**14,211,486**	8,439,015
Per boe	**8.72**	6.60	**7.63**	6.43

The three months and year ended December 31, 2014 experienced increased D&D over the comparative periods in 2013, resulting mainly from the Corporation's higher production in 2014 as a result of the 2013 Acquisition. On a per-boe basis, D&D increased as a result of reserve reductions in several CGUs. Notwithstanding the period-over-period increases in D&D, Questfire continues to experience a low rate of depletion per-boe, which it estimates is in the most advantageous decile of Canadian oil and natural gas producers, illustrating the value created upon acquisition of the assets in April 2013.

Other Income

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
	$	$	**$**	$
Gain on sale of assets	**12,447**	-	**1,999,410**	-
Per boe	**0.02**	-	**1.07**	-
Gain on repurchase of Class B shares	**-**	-	**7,294,966**	-
Per boe	**-**	-	**3.92**	-
Gain on repurchase of convertible debentures	**-**	-	**17,722,983**	-
Per boe	**-**	-	**9.52**	-

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

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

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

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

Finance Expense

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
	$	$	**$**	$
Interest on convertible debentures	**-**	535,842	**540,808**	1,486,777
Interest on bank debt	**427,749**	502,949	**1,710,278**	1,235,996
Interest on long-term contract obligation	**544,300**	-	**1,578,090**	-
Financing costs	**-**	-	**591,345**	488,487
Cash finance expense	**972,049**	1,038,791	**4,420,521**	3,211,260
Accretion on decommissioning provision	**422,121**	501,121	**2,014,871**	1,349,591
Accretion on Class B share liability	**99,482**	385,689	**807,574**	1,122,087
Accretion on convertible debentures	**-**	318,986	**372,871**	885,558
Non-cash finance expense	**521,603**	1,205,796	**3,195,316**	3,357,236
Total finance expense	**1,493,652**	2,244,587	**7,615,837**	6,568,496
Per boe	**2.95**	4.61	**4.09**	5.01

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

Interest on bank debt for the year ended December 31, 2014 increased over 2013 as the bank debt was first utilized on April 30, 2013. Interest on bank debt in the three months ended December 31, 2014 decreased from the prior year’s comparative period due to lower average balances in 2014 than in 2013.

Interest on the long-term contract obligation and financing costs relate to the facilities joint venture agreement entered into on March 26, 2014 with a third party. Questfire received $15.0 million, a portion of which was used to repurchase the 2013 Debentures, in exchange for beneficial ownership of Questfire’s natural gas processing facilities at Lookout Butte and Medicine Hat, Alberta. The Corporation pays an annual facility fee of $2,326,300 for 17.5 years, after which beneficial ownership will revert to Questfire. Included in financing costs during the year ended December 31, 2014 is approximately $305,000 associated with the Corporation changing banks in June 2014.

Accretion on the decommissioning provision increased in 2014 over 2013 due to incurring a full year of accretion in 2014 associated with the 2013 Acquisition wells as compared to a part-year in 2013. Accretion during the three months ended December 31, 2014 declined from the three months ended December 31, 2013 due to longer forecasted reserve lives for the East Central and Red Deer CGUs.

Accretion on the Class B shares decreased in the three months and year ended December 31, 2014 from the comparative periods in 2013 because on May 5, 2014 the Corporation repurchased 1,505,400 Class B shares for $3.9 million. This repurchase resulted in a gain of approximately $7.3 million being recognized during the second quarter of 2014. As of the date of this report, there were 550,440 Class B shares outstanding.

Deferred Income Tax

Deferred income tax expense was $591,384 and $6,418,417 in the three months and year ended December 31, 2014, respectively, compared to recoveries of $620,606 and $671,825 in the respective comparative periods in 2013. The current periods' deferred income tax expense as compared to the prior year periods' deferred income tax recovery are a result of the Corporation realizing income in 2014, compared to losses in 2013.

Income

The Corporation realized income of $1,600,035 ($0.09 per share basic and $0.08 per share diluted) and $24,795,298 ($1.62 per share basic and $0.92 per share diluted), respectively, for the three months and year ended December 31, 2014, compared to losses of $1,929,541 ($0.15 per share basic and diluted) and $2,178,474 ($0.17 per share basic and diluted) for the respective comparative periods in 2013. The current periods' higher income resulted primarily from a combination of the gain on repurchase of Class B shares in the second quarter of 2014, the gain on repurchase of the 2013 Debentures in the first quarter of 2014, and higher realized commodity prices.

Selected Annual Information

Years ended December 31,	**2014**	2013 (1)	2012
	$	$	$
Oil and natural gas sales	**71,619,004**	40,537,638	509,124
Royalties	**(9,744,194)**	(5,304,284)	(31,057)
Net revenues	**61,874,810**	35,233,354	478,067
Funds flow from (used in) operations (2)	**23,113,274**	11,919,693	(3,012,451)
Per share, basic	**1.51**	0.92	(0.24)
Per share, diluted	**0.83**	0.25	(0.24)
Income (loss)	**24,795,298**	(2,178,474)	(3,524,622)
Per share, basic	**1.62**	(0.17)	(0.28)
Per share, diluted	**0.92**	(0.17)	(0.28)
Total assets	**133,863,233**	133,177,378	5,613,123
Total non-current financial liabilities (3)	**58,166,930**	46,090,945	5,319,161

(1) The results for 2013 include the effects of the Acquisition for the period May 1, 2013 to December 31, 2013. The assets acquired comprised substantially all of the Corporation's activities during this period.

(2) See "Additional GAAP measures".

(3) Excludes decommissioning provisions and deferred tax liabilities.

Supplemental Quarterly Information

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

Funds Flow from Operations

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Income (loss)	**1,600,035**	(1,929,541)	**24,795,298**	(2,178,474)
Non-cash items:				
Unrealized (gain) loss on risk management	**(3,046,597)**	1,704,383	**(3,640,317)**	(583,019)
Share-based compensation	**172,474**	61,755	**567,645**	153,998
D&D	**4,412,478**	3,211,518	**14,211,486**	8,439,015
Acquired office lease amortization	**-**	69,543	**162,267**	150,677
E&E non-cash items	**-**	40,825	**-**	40,825
Deferred income tax expense (recovery)	**591,384**	(620,606)	**6,418,417**	(671,825)
Repurchase of Class B shares	**-**	-	**(7,294,966)**	-
Repurchase of convertible debentures	**-**	-	**(17,722,983)**	-
Finance expense	**1,493,652**	2,244,586	**7,615,837**	6,568,496
Gain on sale of assets	**(12,447)**	-	**(1,999,410)**	-
Funds flow from operations	**5,210,979**	4,782,463	**23,113,274**	11,919,693

Netback Analysis

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**31.45**	32.67	**38.45**	30.93
Royalties	**(3.88)**	(4.94)	**(5.23)**	(4.05)
Production and operating expenses	**(12.94)**	(13.83)	**(14.64)**	(12.79)
Transportation expense	**(0.85)**	(0.92)	**(0.95)**	(0.90)
Operating netback	**13.78**	12.98	**17.63**	13.19
G&A and transaction expense (1)	**(2.25)**	(3.02)	**(3.14)**	(3.92)
E&E expenditures (2)	**(1.02)**	(0.41)	**(0.48)**	(0.42)
Realized (loss) gain on risk management	**(0.21)**	0.28	**(1.60)**	0.24
Funds flow netback	**10.30**	9.83	**12.41**	9.09
Finance expenses	**(2.95)**	(4.61)	**(4.09)**	(5.01)
Gain on sale of assets	**0.02**	-	**1.07**	-
Gain on repurchase of Class B shares	**-**	-	**3.92**	-
Gain on repurchase of convertible debentures	**-**	-	**9.52**	-
Office lease amortization	**-**	(0.15)	**(0.09)**	(0.11)
D&D	**(8.72)**	(6.60)	**(7.63)**	(6.43)
Share-based compensation	**(0.34)**	(0.13)	**(0.30)**	(0.12)
Unrealized gain (loss) on risk management	**6.02**	(3.50)	**1.95**	0.44
E&E non-cash items	**-**	(0.08)	**-**	(0.03)
Deferred income tax expense	**(1.17)**	1.27	**(3.45)**	0.51
Netback per boe	**3.16**	(3.97)	**13.31**	(1.66)

(1) Excludes the office lease amortization included below.

(2) Excludes the E&E non-cash items included below.

Selected Quarterly Information

Three months ended	**Dec. 31, 2014**	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013
Financial ($000s, except per share amounts and share numbers)								
Oil and natural gas sales	**15,918**	17,614	17,131	20,956	15,901	14,040	10,533	64
Funds flow from (used in) operations	**5,211**	5,102	4,410	8,390	4,782	5,212	2,877	(951)
Per share, basic *($)*	**0.30**	0.29	0.33	0.65	0.37	0.40	0.22	(0.07)
Per share, diluted *($)*	**0.24**	0.24	0.19	0.18	0.08	0.07	0.08	(0.07)
Income (loss)	**1,600**	648	8,172	14,375	(1,930)	(527)	1,381	(1,103)
Per share, basic *($)*	**0.09**	0.04	0.61	1.11	(0.15)	(0.04)	0.11	(0.09)
Per share, diluted *($)*	**0.08**	0.03	0.36	0.32	(0.15)	(0.04)	0.04	(0.09)
Capital expenditures	**2,864**	9,927	3,240	3,176	4,302	4,371	84,098	211
Total assets *(end of quarter)*	**133,863**	137,201	131,663	140,599	133,177	132,676	130,318	5,552
Working capital deficit *(end of quarter)*	**4,787**	10,479	5,464	44,617	47,554	44,374	43,136	2,838
Non-current bank debt *(end of quarter)*	**39,000**	37,000	37,000	-	-	-	-	-
Shareholders' equity (deficiency) *(end of quarter)*	**23,914**	22,141	21,309	10,414	(4,023)	(2,156)	(1,680)	(3,165)
Weighted-average basic shares outstanding *(000s)*	**17,318**	17,298	13,418	12,963	12,963	12,963	12,902	12,813
Weighted-average diluted shares outstanding *(000s)*	**21,550**	18,838	23,062	48,344	12,963	12,963	47,825	12,813
Operations								
Production								
Natural gas *(Mcf/d)*	**24,868**	23,936	22,123	23,392	24,630	25,443	17,479	79
NGL *(bbls/d)*	**712**	712	601	669	718	621	415	1
Crude oil *(bbls/d)*	**644**	507	434	406	467	447	342	5
Total *(boe/d)*	**5,501**	5,208	4,722	4,974	5,290	5,308	3,670	19
Average realized prices *($)*								
Natural gas *(per Mcf)*	**3.74**	4.16	4.83	5.97	3.66	2.58	3.60	3.48
NGL *(per bbl)*	**51.38**	63.87	66.24	82.05	63.71	66.21	55.64	63.26
Crude oil *(per bbl)*	**67.23**	91.40	95.62	94.48	78.97	102.61	87.16	84.01
Operating netback *(per boe)*	**13.78**	15.74	16.74	24.87	12.98	12.32	14.76	16.41
Funds flow netback *(per boe)*	**10.30**	10.65	10.26	18.74	9.83	10.67	8.61	(568.25)

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

Capital Expenditures

	Three months ended December 31, 2014	2013	Year ended December 31, 2014	2013
	$	$	**$**	$
Land	**237,859**	121,100	**331,310**	223,098
Geological and geophysical	**2,856**	14,496	**406,771**	15,385
Drilling and completions	**1,642,695**	2,235,366	**12,333,379**	3,368,805
Production equipment and facilities	**926,061**	1,028,942	**4,869,426**	1,936,455
Well workovers and recompletions	**54,228**	898,362	**1,161,658**	2,540,823
Office equipment	**-**	4,133	**104,004**	109,467
Deposit for property acquisition	**-**	-	**-**	84,788,453
	2,863,699	4,302,399	**19,206,548**	92,982,486

At December 31, 2014, the Corporation had E&E assets of $1,679,187 (December 31, 2013 – $1,564,044). This included 119,778 net acres of undeveloped land.

At December 31, 2014, the Corporation had gross property and equipment of $142,240,115. This included developed land and costs associated with the wells the Corporation has drilled and acquired to date. As well, it included $250,353 incurred since inception to purchase computer hardware and software, associated office furniture and office improvements for use by Questfire employees and consultants to evaluate oil and natural gas leads.

During the quarter, Questfire participated in the drilling of 9 gross wells (1.5 net) of which 3 (1.2 net) were horizontal oil wells. All nine wells drilled were successful, for a drilling success rate of 100 percent. During the year, Questfire participated in the drilling of 32 gross wells (12.8 net) of which 19 (6.4 net) were horizontal oil wells. Thirty of the 32 wells drilled were successful, resulting in an overall drilling success rate of 94 percent.

Share Capital and Option Activity

As at the date hereof, the Corporation had 17,318,001 Class A shares, 550,440 Class B shares, 2,751,000 stock options, and Nil warrants outstanding. Each Class B share is convertible (at Questfire's option) into Class A shares at any time before November 30, 2016. The number of Class A shares to be issued upon conversion of one Class B share is calculated by dividing $10 by the greater of $1 and the 30-day weighted-average market price of the Class A shares. If conversion has not occurred by the close of business on November 30, 2016, the Class B shares become convertible (at the shareholder's option) into Class A shares on the same basis. Effective at the close of business on December 31, 2016, all remaining Class B shares will be automatically converted into Class A shares.

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

Liquidity and Capital Resources

At December 31, 2014, the Corporation had a working capital deficit of $4,787,471. Funds flow from operations for the three months and year ended December 31, 2014 were $5,210,979 and $23,113,274, respectively. The funds generated from operations are well in excess of the current working capital deficit. Funds generated from operations are anticipated to be used for capital expenditures.

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

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

The credit facility had $39 million drawn and $16 million undrawn at December 31, 2014. The facility bears interest at a range of prime plus 1 percent to prime plus 3 percent per annum, depending on the Corporation's adjusted senior debt to EBITDA ratio as defined by the agreement. The facility requires the Corporation to maintain a minimum adjusted working capital ratio of at least 1:1 as well as a debt to EBITDA ratio, as defined by the agreement, of less than 3:1, and is secured by all of the Corporation's assets.

The Corporation's long-term contract obligation relates to the facilities joint venture agreement entered into on March 26, 2014 with a third party. Questfire received $15.0 million, a portion of which was used to repurchase the 2013 Debentures, in exchange for beneficial ownership of Questfire's natural gas processing facilities at Lookout Butte and Medicine Hat, Alberta. The Corporation pays an annual facility fee of $2,326,300 for 17.5 years, after which beneficial ownership will revert to Questfire. Questfire has the option to terminate the joint venture agreement on payment of an amount which will provide the partner with a compound annual yield on its investment of 13.25 percent to the later of 48 months or the date the option is exercised. Upon the payment of aggregate processing fees to the partner of a minimum of $19.5 million, the partner has the option to sell back to Questfire its beneficial interest in the facilities for the sum equal to the total remaining scheduled processing payments, discounted at 17.5 percent to the time of exercise.

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

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

Off-Balance-Sheet Arrangements

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

Commitments

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

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

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

Related-Party Transactions

The Corporation retains a law firm to provide legal services, in which one of the Corporation's directors, Roger MacLeod, is a partner. Legal fees in the amount of $84,590 and $339,064 were incurred by Questfire to the law firm in the respective three months and year ended December 31, 2014 (three months and year ended December 31, 2013 – $25,798 and $328,838, respectively), of which $Nil for both periods related to debenture issuance costs (three months and year ended December 31, 2013 – $Nil and $30,000, respectively), $84,590 and $185,041 (three months and year ended December 31, 2013 – $24,231 and $75,061, respectively) related to general and administrative expenses, $Nil (three months and year ended December 31, 2013 – $1,567 and $175,999, respectively) related to transaction costs and $Nil and $154,023 (three months and year ended December 31, 2013 – $Nil and $47,678, respectively) related to financing expense. At December 31, 2014, $22,050 (December 31, 2013 – $21,230) related to these amounts was included in accounts payable and accrued liabilities and was due under normal credit terms.

Key management compensation is disclosed in the notes to the Corporation's financial statements.

Hedging

The Corporation utilizes an active hedging program, with the objective to provide a measure of downside protection for its oil and natural gas sales and cash flow from operations, while maximizing exposure to potential commodity pricing upside. At December 31, 2014, the Corporation's hedges covered approximately 60 percent of forecast production for 2015, with 15 percent in the form of a costless collar and 45 percent in the form of purchased puts (see "Risk Management" above).

Critical Accounting Judgments, Estimates and Policies

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

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

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

New accounting standards

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

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

Accounting standards issued but not yet adopted

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2015 and have not been applied in preparing the financial statements for the year ended December 31, 2014. The standards applicable to the Corporation are as follows and will be adopted on their respective effective dates:

(i) In July 2014, the International Accounting Standards Board (IASB) issued IFRS 9, *Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised 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. The standard includes a new expected credit losses model that replaces 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 use 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 when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Disclosure requirements have also been expanded for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 is effective for years beginning on or after January 1, 2017, with early adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is evaluating the impact on its financial statements of adopting IFRS 15.

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.

Additional GAAP measures

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

Non-GAAP measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry. The terms "operating netback" (oil and natural gas sales less royalties, production and operating, and transportation expenses) and "funds flow netback" (operating netback less G&A and transaction expenses, E&E expenditures and realized gain or loss on risk management) are not defined under IFRS, which have been incorporated into GAAP, as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting, and may not be comparable with similar measures presented by other companies. Operating netback and funds flow netback are per unit of production measures that may be used to assess the Corporation's performance and efficiency.

Basis of Barrel of Oil Equivalent

Reserves and petroleum and natural gas volumes are stated as a "barrel of oil equivalent" (boe), derived by converting gas to an oil equivalency in the ratio of six thousand cubic feet of gas to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 thousand cubic feet of gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead which under current commodity price conditions is in the range of 20-25 Mcf to 1 bbl. Readers are cautioned that boe figures may be misleading, particularly if used in isolation.

Finding & Development Costs (F&D)

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

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

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

Forward-Looking Statements

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

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

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

Abbreviations

The following summarizes the abbreviations used in this document:

Crude Oil and Natural Gas Liquids

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

Natural Gas

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

Other

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

Corporate Information

BOARD OF DIRECTORS

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

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

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

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

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

OFFICERS

RICHARD DAHL
President & Chief Executive Officer

DARREN KISSER
Vice President, Engineering and Operations

FRED LAUDEL
Vice President, Exploration

JOHN RAMESCU
Vice President, Land

BRUCE SHEPARD
Vice President, Exploitation

RONALD WILLIAMS
Vice President, Finance & Chief Financial Officer

GRAHAM NORRIS
Corporate Secretary

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LEGAL COUNSEL
Davis LLP
Calgary, Alberta

TRANSFER AGENT
Computershare Limited
Calgary, Alberta

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