Questfire Energy Corp.

Audited Financial Statements

For the year ended December 31, 2016

(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, 2016 and December 31, 2015, and the statements of loss and comprehensive income loss, statements of changes in equity and statements of cash flows for the years ended December 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 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 24, 2017

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

	Note	**December 31, 2016**	December 31, 2015
		$	$
Assets			
Current assets			
Accounts receivable	4(c)	**5,849,001**	4,900,981
Deposits and prepaid expenses		**675,048**	861,926
Total current assets		**6,524,049**	5,762,907
Non-current assets			
Property and equipment	5, 7	**87,452,394**	108,507,075
Exploration and evaluation assets	6	**916,516**	1,340,456
Total assets		**94,892,959**	115,610,438
Liabilities			
Current liabilities			
Bank overdraft		**974,010**	172,382
Accounts payable and accrued liabilities	8	**10,008,184**	9,812,620
Risk management contracts	4(e)	**2,957,743**	-
Current portion of long-term contract obligation	9	**395,163**	344,448
Convertible Class B shares	10	**-**	5,086,857
Bank debt	11	**33,514,750**	-
Total current liabilities		**47,849,850**	15,416,307
Non-current liabilities			
Bank debt	11	**-**	41,406,473
Decommissioning provisions	12	**20,432,168**	27,635,555
Long-term contract obligation	9	**13,760,534**	14,155,697
Deferred tax liabilities	15(b)	**135,251**	2,745,062
Total liabilities		**82,177,803**	101,359,094
Shareholders' Equity			
Share capital	13(b)	**10,388,613**	6,945,345
Equity component of convertible Class B shares		**-**	(2,061,132)
Contributed surplus	13(e)	**2,052,725**	1,565,190
Retained earnings		**273,818**	7,801,941
Total shareholders' equity		**12,715,156**	14,251,344
Total liabilities and shareholders' equity		**94,892,959**	115,610,438

Going concern (note 2)
Commitments (notes 4(e) and 18)
Subsequent events (note 19)

(Signed) "Richard Dahl", Director

(Signed) "Roger MacLeod", Director

See accompanying notes to the financial statements.

Questfire Energy Corp.

Statements of Loss and Comprehensive Loss

(amounts in Canadian dollars)

	Note	Year ended December 31, 2016	2015
		$	$
Revenue			
Oil and natural gas sales		**32,180,438**	40,717,011
Royalties		**(1,667,597)**	(2,945,794)
		30,512,841	37,771,217
Realized gain (loss) on risk management		**(484,037)**	2,624,507
Unrealized loss on risk management	4(e)	**(2,957,743)**	(3,390,491)
Total revenue		**27,071,061**	37,005,233
Expenses			
Production and operating		**17,732,605**	20,988,872
Transportation		**1,849,075**	1,685,686
General and administrative	17	**4,353,413**	5,093,196
Share-based compensation	13(e)	**487,535**	724,614
Exploration and evaluation		**1,225,810**	1,219,228
Depletion and depreciation	5	**10,426,977**	11,554,711
Bad debt	4(c)	**100,000**	204,000
Corporate reorganization		**393,371**	-
Property and equipment impairment (reversal)	7	**(2,426,000)**	3,000,000
Total expense		**34,142,786**	44,470,307
Operating Loss		**(7,071,725)**	(7,465,074)
Gain on sale of assets	5	**3,566,744**	-
Finance expense	14	**(6,632,953)**	(5,971,086)
Loss Before Income Taxes		**(10,137,934)**	(13,436,160)
Deferred income tax recovery	15(a)	**2,609,811**	3,049,379
Loss and Comprehensive Loss for the Year		**(7,528,123)**	(10,386,781)
Loss per Share			
Basic and diluted	13(c)	**(0.42)**	(0.60)

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	Contributed surplus	Retained earnings (deficit)	Total
		$	$	$	$	$
Balance, January 1, 2015		6,945,345	(2,061,132)	840,576	18,188,722	23,913,511
Share-based compensation	13(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
Conversion of Class B shares	13(b)	3,443,268	2,061,132	-	-	5,504,400
Share-based compensation	13(e)	-	-	487,535	-	487,535
Loss for the year		-	-	-	(7,528,123)	(7,528,123)
Balance, December 31, 2016		**10,388,613**	**-**	**2,052,725**	**273,818**	**12,715,156**

See accompanying notes to the financial statements.

Questfire Energy Corp.
Statements of Cash Flows
(amounts in Canadian dollars)

	Note	Year ended December 31, 2016	2015
		$	$
Cash flows related to:			
Operating Activities			
Loss		**(7,528,123)**	(10,386,781)
Add (deduct) items not involving cash:			
Unrealized loss on risk management	4(e)	**2,957,743**	3,390,491
Share-based compensation	13(e)	**487,535**	724,614
Exploration and evaluation expenditures	6	**458,602**	338,731
Depletion and depreciation	5	**10,426,977**	11,554,711
Property and equipment impairment (reversal)	7	**(2,426,000)**	3,000,000
Deferred income tax recovery	15(a)	**(2,609,811)**	(3,049,379)
Finance expense	14	**6,632,953**	5,971,086
Gain on sale of assets	5	**(3,566,744)**	-
Funds flow from operations		**4,833,132**	11,543,473
Decommissioning costs incurred	12	**(1,339,814)**	(1,219,878)
Change in non-cash working capital	16	**(605,437)**	901,559
Cash from operating activities		**2,887,881**	11,225,154
Investing Activities			
Exploration and evaluation expenditures	6	**(34,662)**	-
Property and equipment expenditures	5	**(615,827)**	(4,955,048)
Disposal of property and equipment	5	**10,610,040**	-
Purchase of risk management contracts	4(e)	**-**	(1,024,281)
Change in non-cash working capital	16	**(35,387)**	(4,888,033)
Cash from (used in) investing activities		**9,924,164**	(10,867,362)
Financing Activities			
Net bank debt draws (repayments)		**(7,891,723)**	2,406,473
Long-term contract obligation repayments	9	**(344,448)**	(300,242)
Interest and financing costs paid	14	**(5,452,748)**	(3,819,153)
Change in non-cash working capital	16	**75,246**	(10,459)
Cash used in financing activities		**(13,613,673)**	(1,723,381)
Decrease in cash and cash equivalents		**(801,628)**	(1,365,589)
Cash and cash equivalents (bank overdraft), beginning of year		**(172,382)**	1,193,207
Bank overdraft, end of year		**(974,010)**	(172,382)

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 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

The 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.

The financial statements were approved and authorized for issuance by Questfire's Board of Directors on April 24, 2017.

Basis of measurement

The 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.

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

Going concern

The financial statements were 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.

The Corporation's ability to continue as a going concern is uncertain due to:

- Uncertainty regarding the borrowing base that will be provided by the lenders in May 2017 and the fact that the lenders are under no requirement to renew the current lending facility, which matures May 31, 2017;
- As at December 31, 2016, the Corporation had a working capital deficit of $38.4 million, excluding the risk management contracts (note 4(e));
- Management is pursuing additional sales of certain of its oil and gas properties to generate cash to reduce bank debt. The size and timing of such sales are uncertain; and
- Forecast funds flow from operations, when combined with cash finance expense and anticipated decommissioning costs and property and equipment expenditures, are positive for 2017 when using commodity strip pricing forecasts; strip pricing forecasts, however, are not adequate to meet bank covenants. In addition, the direction and magnitude of commodity price movements through 2017 remain uncertain.

The above matters cause material uncertainty sufficient to cast significant doubt on the Corporation's ability to continue as a going concern. The Corporation and its Board of Directors continue to seek strategic alternatives for the Corporation. During 2016, the Corporation raised $10.6 million in cash by disposing of non-core assets (note 5), which was applied to bank debt.

The financial statements do not reflect any adjustments to the carrying amounts of the Corporation's assets, liabilities, revenues, expenses or balance sheet classifications that would be necessary if the going-concern assumption were not appropriate. The Corporation may, therefore, 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 the 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts 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 and convertible Class B shares

The amounts disclosed relating to share capital and convertible Class B shares are based on factors including the estimated value of Class A shares on the issuance date, the Corporation's 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 the 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, 2016 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 the Corporation's or counterparty's default, insolvency or bankruptcy.

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 activities, E&E drilling, sampling, appraisals, and the 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, with 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 their relative energy content, with 6,000 standard cubic feet of natural gas equalling 1 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. When processing facilities and well equipment, including major components, have useful lives differing from those 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 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 having 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 determines whether the asset is impaired by comparing the carrying amount to the estimated recoverable amount. 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 of the group's assets. 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 evidence 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 but never beyond the previous value, 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 assets 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 taxable 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 using 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 demand loans, long-term contract obligation, financing costs, accretion of the discount on decommissioning provisions, and convertible Class B share liability.

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, as estimated 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 (bank overdraft) 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, and convertible Class B shares 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 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 in which 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.

In September 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, but anticipates the impact to be predominantly related to disclosure.

(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.

(iv) In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows*, as part of its disclosure initiative. The amendments require an entity to disclose changes in liabilities arising from financing activities. IAS 7 is effective for years beginning on or after January 1, 2017 with earlier adoption permitted. The Corporation will apply the amendments to IAS 7 on January 1, 2017, which it expects to have an immaterial impact on its financial statements.

There are no other not-yet-effective IFRS or IFRIC interpretations that are 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 the long-term contract obligation at December 31, 2016, based on a discounted cash flow model assuming a 13.41 percent effective interest rate, is approximately $14.2 million (December 31, 2015 – $14.5 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. The long-term contract obligation fair value is 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, 2016 and 2015, the Corporation's accounts receivable were comprised of:

As at December 31,	2016	2015
	$	$
Oil and natural gas sales	**3,756,184**	2,929,396
Joint interest billings, GST and other	**2,092,817**	1,971,585
Accounts receivable	**5,849,001**	4,900,981

The Corporation considers all accounts receivable greater than 90 days to be past due. At December 31, 2016, $868,271 is past due (December 31, 2015 – $528,559). The Corporation considers this amount fully collectible. During the year ended December 31, 2016, the Corporation recognized bad debt expense of $100,000 (year ended December 31, 2015 – $204,000) related to past due accounts receivable. As at December 31, 2016, approximately $285,000 of the past due balance relates to claims with the Orphan Well Association (December 31, 2015 – approximately $346,000).

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 11) is to occur on or before May 31, 2017. Assuming current economic conditions persist, management anticipates the borrowing base could be reduced and, if so, the Corporation will experience liquidity risk. Possible risk mitigation options are to sell assets or issue equity. During the year ended December 31, 2016, the Corporation disposed of assets for approximately $10.6 million (note 5) in cash, a portion of which was used to reduce bank debt.

The timing of undiscounted cash flows relating to the financial liabilities outstanding at December 31, 2016 is outlined below:

	1 year	**2 years**	**3 years**	**>3 years**	**Total**
	$	$	$	$	$
Bank overdraft	974,010	-	-	-	974,010
Accounts payable and accrued liabilities	10,008,184	-	-	-	10,008,184
Risk management contracts	2,957,743	-	-	-	2,957,743
Bank debt [(1)]	33,514,750	-	-	-	33,514,750
Long-term contract obligation [(2)]	2,326,300	14,234,542	-	-	16,560,842

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

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

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

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

e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates, will reduce the Corporation's net 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, 2016 and 2015, 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, 2016, a 1 percent increase in interest rates would decrease income by approximately $244,700 (year ended December 31, 2015 – approximately $302,300). The Corporation had no interest rate swaps or contracts as at or during the year ended December 31, 2016 or 2015.

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, 2016, the Corporation's forward commodity contracts consisted of a mix of natural gas swaps.

(i) Summary of risk management positions

At December 31, 2016, Questfire had the following natural gas risk management contracts with a total mark-to-market liability of $2,957,743:

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$2.010/GJ
May 1/16 - Mar. 31/17	Natural Gas	Swap	2,500 GJ/d	AECO 7A	Cdn$1.910/GJ
May 1/16 - Mar. 31/17	Natural Gas	Swap	2,500 GJ/d	AECO 7A	Cdn$1.875/GJ

Subsequent to the end of the year, the Corporation entered into risk management contracts as follows:

Period	Commodity	Type of contract	Notional quantity	Pricing point	Contract price
Apr. 1/17 - May 31/17	Natural Gas	Swap	2,500 GJ/d	AECO 7A	Cdn$2.600/GJ
Feb. 1/17 - May 31/17	Oil	Costless collar	100 bbls/d	WTI Nymex	US$48.00/bbl-US$54.80/bbl
Feb. 1/17 - May 31/17	Oil	Purchased put (1)	100 bbls/d	WTI Nymex	US$51.75/bbl
Feb. 1/17 - May 31/17	Oil	Swap	125 bbls/d	WTI Nymex	US$52.50/bbl

(1) Requires the Corporation to pay a monthly premium of $3.00 per bbl over the term for a total premium of $36,000.

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

Year ended December 31,	**2016**	2015
	$	$
Fair value of contracts, beginning of year	**-**	2,366,210
Contracts entered into	**-**	1,024,281
Change in fair value of contracts	**(2,957,743)**	(3,390,491)
Fair value of contracts, end of year	**(2,957,743)**	-

(ii) Commodity price sensitivities – risk management positions

The following summarizes the sensitivity of the fair value of Questfire's risk management contracts to fluctuations in commodity prices, with all other variables held constant. Management believes the price fluctuations identified below are a reasonable measure of volatility. Fluctuating commodity prices could have resulted in unrealized gains or losses on the Corporation's risk management contracts at December 31, 2016, affecting profit or loss for the year ended December 31, 2016 as follows:

Commodity	**Sensitivity range**	**Increase**	**Decrease**
		$	$
Natural gas commodity price	± $0.10 per Mcf – AECO 7A contracts	(156,168)	156,172

f) Capital management

The Corporation considers its capital structure to include shareholders' equity, long-term contract obligation and bank debt. The balance of each of these items is as follows:

As at December 31,	**2016**	2015
	$	$
Bank debt	**33,514,750**	41,406,473
Long-term contract obligation	**14,155,697**	14,500,145
Shareholders' equity	**12,715,156**	14,251,344

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 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 11) and any debt or equity to be raised is subject to approval by the Corporation's priority lender (note 11). 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, 2016.

5. Property and equipment (P&E)

	Oil and natural gas interests	Corporate and other	Total
	$	$	$
Cost			
Balance, January 1, 2015	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
Additions	615,827	-	615,827
Disposals	(10,838,582)	-	(10,838,582)
Decommissioning provision (note 12)	(6,462,281)	-	(6,462,281)
Balance, December 31, 2016	**129,208,207**	**252,670**	**129,460,877**
Accumulated depletion and depreciation			
Balance, January 1, 2015	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
Depletion and depreciation	10,395,538	31,439	10,426,977
Impairment reversal (note 7)	(2,426,000)	-	(2,426,000)
Disposals	(3,631,332)	-	(3,631,332)
Balance, December 31, 2016	**41,852,647**	**155,836**	**42,008,483**
Balance, January 1, 2015	118,988,316	167,672	119,155,988
Balance, December 31, 2015	108,378,802	128,273	108,507,075
Balance, December 31, 2016	**87,355,560**	**96,834**	**87,452,394**

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

During the year ended December 31, 2016, in the course of multiple transactions the Corporation disposed of assets in various CGUs for proceeds of $10,610,040, net of $447,591 in transaction costs, resulting in a gain on sale of assets of $3,566,744.

6. Exploration and evaluation (E&E) assets

Year ended December 31,	2016	2015
	$	$
Balance, beginning of year	**1,340,456**	1,679,187
Additions	**34,662**	-
Expense	**(458,602)**	(338,731)
Balance, end of year	**916,516**	1,340,456

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, and expenses represent the Corporation's share of costs relating to expired mineral rights leases.

7. Impairment (reversal)

At December 31, 2016, the Corporation assessed its P&E CGUs and its E&E assets for indicators of impairment and, after noting price declines in commodity futures prices, conducted impairment tests on all CGUs to assess whether their carrying values were recoverable. The impairment tests were based on the fair value less costs of disposal for each CGU, based on discount rates of 14 to 15 percent. No impairment was recorded in 2016 for any of the Corporation's CGUs. The Corporation recorded a reversal of a previously recognized impairment, net of depletion and depreciation that would have been otherwise recorded, of $2.426 million for the Open Lake CGU.

The following table outlines forecast commodity prices used in the Corporation's CGU tests at December 31, 2016. 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$)
2017	55.00	68.24	3.43	11.16	24.82	47.01	70.95	0.7600
2018	60.90	73.16	3.17	10.26	26.16	52.53	75.40	0.7900
2019	65.47	76.25	3.26	10.61	27.70	54.57	78.72	0.8167
2020	69.13	79.37	3.67	11.90	29.10	57.49	81.52	0.8333
2021	73.21	82.56	3.86	12.58	30.61	60.83	84.77	0.8500
2022	75.19	84.85	3.97	12.96	31.80	62.55	87.17	0.8500
2023	77.19	87.15	4.11	13.41	33.01	64.24	89.44	0.8500
2024	79.23	89.50	4.23	13.82	34.26	66.00	91.86	0.8500
2025	81.28	91.89	4.31	14.07	35.54	67.74	94.67	0.8500
2026	83.39	94.01	4.41	14.40	36.73	69.31	96.73	0.8500
2027	85.03	95.85	4.51	14.72	37.82	70.69	98.66	0.8500
2028	86.73	97.78	4.60	15.04	38.59	72.10	100.62	0.8500
2029	88.48	99.74	4.68	15.29	39.36	73.56	102.65	0.8500
2030	90.26	101.76	4.77	15.61	40.14	75.03	104.73	0.8500
2031	92.06	103.78	4.87	15.94	40.97	76.53	106.81	0.8500
Thereafter	2.0% annual price increase							0.8500

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, 2017.

(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.

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 tests on certain CGUs to assess whether their carrying values were recoverable. Furthermore, impairment tests 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 comprise:

(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 CGU with an impairment reversal recorded for the year ended December 31, 2016, the following table summarizes the asset's primary product composition, estimated recoverable amount, estimated discount rate, and pre-tax impairment reversal recognized:

Producing asset	**Primary product**	**Recoverable amount**	**Discount rate**	**Reversal**
		$	%	$
Open Lake CGU [1]	Crude oil and natural gas	14,613,000	15	2,426,000
Total impairment reversal recorded for the year ended December 31, 2016				**2,426,000**

1) Open Lake impairment reversal of $2.426 million was recorded at December 31, 2016 primarily as a result of lower forecast operating costs due to a disposition of assets with high operating costs, and the reduction of the carrying value from a 2016 disposition.

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

Producing asset	**Primary product**	**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, 2016 as follows:

- If the discount rate applied to each CGU increased by 1%, the impairment reversal of P&E would decrease by approximately $0.4 million (year ended December 31, 2015 – impairment increase of $1.7 million);

- If the discount rate applied to each CGU decreased by 1%, the impairment reversal of P&E would increase by approximately $0.2 million (year ended December 31, 2015 – impairment decrease of $1.1 million);
- If the forecast commodity prices applied to each CGU decreased by 5%, the impairment reversal of P&E would decrease by approximately $2.3 million (year ended December 31, 2015 – impairment increase of $4.4 million); and
- If the forecast commodity prices applied to each CGU increased by 5%, the impairment reversal of P&E would increase by approximately $0.2 million (year ended December 31, 2015 – impairment decrease of $2.5 million).

8. Accounts payable and accrued liabilities

As at December 31,	**2016**	2015
	$	$
Accruals	**3,260,279**	4,208,842
Trade	**6,721,072**	5,581,418
Other	**26,833**	22,360
Total accounts payable and accrued liabilities	**10,008,184**	9,812,620

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. Questfire operates the facilities and continues using them to process its Lookout Butte and Medicine Hat natural gas production. 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.

Any amounts owing by the Corporation for facility fees are subject to interest at prime plus 9 percent per annum. The Partner has the right to obtain payment of amounts owing through the sale of natural gas processed through the Lookout Butte and Medicine Hat facilities.

The following reconciles the long-term contract obligation:

Year ended December 31,	**2016**	2015
	$	$
Balance, beginning of year	**14,500,145**	14,800,387
Principal repayments	**(344,448)**	(300,242)
Balance, end of year	**14,155,697**	14,500,145

At December 31, 2016, $395,163 (December 31, 2015 – $344,448) of the balance is classified as a current liability. At December 31, 2016, $110,202 (December 31, 2015 – $Nil) of payments have been deferred and are in accounts payable and accrued liabilities.

10. Convertible Class B shares

The following is a continuity of the convertible Class B shares liability for the years ended December 31, 2016 and 2015:

	2016		2015	
	Shares	**Liability**	Shares	Liability
	#	**$**	#	$
Balance, beginning of year	**550,440**	**5,086,857**	550,440	4,666,785
Accretion on convertible Class B shares liability (note 14)	**-**	**417,543**	-	420,072
Conversion of Class B shares (note 13(b))	**(550,440)**	**(5,504,400)**	-	-
Balance, end of year	**-**	**-**	550,440	5,086,857

Class B shares were 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 was calculated by dividing $10 by the greater of $1 and the 30-day weighted-average market price of the Class A shares. On November 25, 2016, the Corporation elected to convert all outstanding Class B shares into Class A shares at a ratio of 10 Class A shares for each Class B share. At December 31, 2016, no Class B shares were outstanding.

11. Bank debt

The Corporation has a $23.0 million extendible revolving term credit facility and an approximately $8.1 million supplemental facility with a syndicate of Canadian banks (the "Syndicate"), and a $5.0 million operating facility with one member of the Syndicate (together the "Credit Facility"), for a total available amount of approximately $36.1 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 2.0 percent and 6.0 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. Amounts under the supplemental facility bear interest at an additional 2 percent to those under the revolving term credit facility and the operating facility. All proceeds from asset sales, operations, debt and equity issuances, excluding flow-through shares, will permanently reduce the availability of the supplemental facility and will be fully applied against the remaining balance. Cash proceeds from operations are considered cash proceeds from oil and natural gas sales after risk management gains and losses, royalties, transportation, production and operating expenses, maintenance P&E expenditures and mandatory decommissioning costs (not to exceed $750,000), general and administrative expenses and interest. Cash payments of at least $100,000 per month must be paid towards the outstanding bank debt balance starting January 2017. The Corporation has made the required $100,000 payments in January through April 2017. Should the loan not be extended, it matures on May 31, 2017.

The Corporation is subject to certain reporting, operational and financial covenants under its Credit Facility. The reporting covenant requires Questfire to maintain a liability management rating (LMR), as reported by the Alberta Energy Regulator (AER), of at least 1.10:1 at all times. This was met, as Questfire has maintained an LMR of 1.29 or higher since this metric was established as a covenant.

The operational covenant requires Questfire to maintain overall production volume of at least 80 percent of that forecast by the Corporation and approved by the Syndicate. This covenant has been met.

The first financial covenant requires Questfire to have, at the end of each quarter, 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 consolidated net debt, including letters of credit, at December 31, 2016 is $38.6 million. The second financial covenant requires Questfire to generate minimum monthly EBITDA, as defined by the agreement, of 80 percent of that forecast by the Corporation and approved by the Syndicate. This covenant has been met through December 2016. The third financial covenant requires Questfire to have a cumulative negative monthly cash flow variance of no more than $0.5 million from the amount forecast by the Corporation in August 2016 and approved by the Syndicate. This covenant has been met through December 2016. The fourth financial covenant requires Questfire to hedge between 40 percent and 60 percent of its proved developed producing production through May 31, 2017 by January 31, 2017. This covenant was met subsequent to year-end.

The Corporation is also subject to several corporate covenants. The first corporate covenant required Questfire to dispose of several specific minor oil and natural gas properties for no less than $0.425 million before January 31, 2017. This covenant was breached subsequent to year-end; a waiver, however, was issued and one of the properties was sold for $0.3 million (note 19). The second corporate covenant required Questfire to enter into a term sheet in the amount of no less than $67 million by January 31, 2017 in order to pay out the Syndicate by February 28, 2017. If either of these deadlines is not met, a minimum of $5 million must be raised by March 15, 2017, of which a minimum of $2.5 million must be used to drill a minimum of two wells and a minimum of $2.5 million must be used to repay the supplemental facility. Such funds raised must come from sources other than asset dispositions, cash flow or the Credit Facility. This covenant was breached subsequent to year-end, and the deadlines were extended as discussed below. The third corporate covenant required Questfire to sign a letter of intent for a corporate merger with a specific entity prior to December 23, 2016. This covenant was met.

At December 31, 2016, $33.5 million of the Credit Facility was drawn (December 31, 2015 – $41.4 million). For the year ended December 31, 2016, the average effective interest rate was 6.9 percent (year ended December 31, 2015 – 4.1 percent).

At December 31, 2016, the Corporation had letters of credit of $200,000, reducing the borrowing capacity under the Credit Facility.

Subsequent to year-end, the Corporation entered into an amended Credit Facility with the Syndicate. The amendments included revising the dates of the second corporate covenant from February 28 to March 31, 2017 and from March 15 to the earlier of April 30, 2017 and the date which is 30 days from the date the Syndicate determines that a corporate merger will not be entered into.

12. 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 $75.1 million at December 31, 2016 (December 31, 2015 – $76.9 million). This was inflated using a weighted-average rate of 2.0 percent (December 31, 2015 – 2.0 percent) to arrive at undiscounted future cash flows of approximately $129.3 million (December 31, 2015 – $142.4 million) and then discounted using a weighted-average credit-adjusted risk-free rate of 11.00 percent at December 31, 2016 (December 31, 2015 – 6.69 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 fair value of certain oil and natural gas properties of the Corporation is $Nil. As a result, changes in the credit-adjusted risk-free discount rate and estimates for the decommissioning provision related to these properties resulted in a recovery of $1,000,000 for the year ended December 31, 2016 (year ended December 31, 2015 – $Nil) and has been included in finance expense (note 14).

The following reconciles the decommissioning provisions:

Year ended December 31,	**2016**	2015
	$	$
Balance, beginning of year	**27,635,555**	28,172,822
Additions	**-**	37,852
Disposals (note 5)	**(163,954)**	-
Costs incurred	**(1,339,814)**	(1,219,878)
Accretion (note 14)	**1,762,662**	1,731,861
Change in estimated future cash flows (1)	**3,180,890**	(1,254,368)
Change in discount rate (2)	**(10,643,171)**	167,266
Balance, end of year	**20,432,168**	27,635,555

1) Changes in 2016 estimated future cash flows resulted mainly from decreases in estimated years to abandonment in the East Central CGU due to fewer reserves being assigned at December 31, 2016 by the Corporation's independent petroleum reservoir engineers. Changes in 2015 estimated future cash flows resulted mainly from updated Medicine Hat CGU abandonment and reclamation estimates.

2) Changes in the 2016 discount rate resulted mainly from increases in Questfire's risk margin as calculated under the Credit Facility (note 11), which is a factor in estimating the Corporation's weighted-average credit-adjusted risk-free rate.

Sensitivities

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

As at December 31,	**2016**		2015	
	Credit-adjusted risk-free discount rate	**Inflation rate**	Credit-adjusted risk-free discount rate	Inflation rate
	$	**$**	$	$
1 percent increase	(1,499,120)	1,915,295	(3,541,505)	4,902,847
1 percent decrease	1,766,369	(1,632,659)	4,697,393	(3,717,785)

13. 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, 2015 and December 31, 2015	17,318,001	6,945,345
Conversion of Class B shares (note 10)	5,504,400	5,504,400
Equity component of Class B shares	-	(2,061,132)
Balance, December 31, 2016	**22,822,401**	**10,388,613**

c) Loss per share

The following sets forth the computation of per-share amounts:

Year ended December 31,	**2016**	2015
Numerator		
Loss attributable to Class A shares	**$ (7,528,123)**	$ (10,386,781)
Denominator		
Weighted-average number of shares outstanding for basic and diluted per-share calculation	**17,799,260**	17,318,001
Basic and diluted loss per share attributable to Class A shares	**$ (0.42)**	$ (0.60)

For the year ended December 31, 2016, the Corporation excluded the following instruments from the calculation of diluted loss per share as they would be anti-dilutive:

i. Stock options – 3,133,500 (year ended December 31, 2015 – 3,566,000), with a weighted-average exercise price of $0.69 (year ended December 31, 2015 – $0.82).
ii. Class B shares – Nil (year ended December 31, 2015 – 550,440).

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, 2016, the Corporation granted no options (year ended December 31, 2015 – 950,000 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 $693,516, using the Black-Scholes option pricing model with the following weighted-average assumptions: an exercise price of $1.23; a market price of Class A shares of $1.23; a risk-free interest rate of 1.13 percent; volatility of 76 percent; an expected life of six years; a forfeiture rate of 10 percent and no dividend yield.

The following provides information with respect to stock option transactions:

Year ended December 31,	**2016**		2015	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
	#	**$**	#	$
Outstanding, beginning of year [(1)]	**3,566,000**	**0.82**	2,676,000	0.91
Granted [(1)]	**-**	**-**	950,000	1.08
Cancelled	**(300,000)**	**2.05**	-	-
Forfeited	**(132,500)**	**0.99**	(60,000)	1.19
Outstanding, end of year	**3,133,500**	**0.69**	3,566,000	0.82

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.

The following provides information about stock options outstanding at December 31, 2016:

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	4.86	0.22	1,311,000	0.22
0.95 - 1.00	1,567,500	7.57	0.99	989,722	0.99
1.30	255,000	8.29	1.30	85,000	1.30
	3,133,500	**6.50**	**0.69**	**2,385,722**	**0.58**

e) Contributed surplus

Year ended December 31,	**2016**	2015
	$	$
Balance, beginning of year [(1)]	**1,565,190**	840,576
Share-based compensation expensed for options	**562,227**	750,128
Unvested forfeitures	**(74,692)**	(25,514)
Balance, end of year	**2,052,725**	1,565,190

1) All of the contributed surplus at January 1, 2015 pertained to stock options.

14. Finance expense

Year ended December 31,	**2016**	2015
	$	$
Finance expense		
Interest on bank debt (note 11)	**2,935,342**	1,718,095
Interest on long-term contract obligation (note 9)	**1,981,084**	2,026,058
Financing costs	**536,322**	75,000
Cash finance expense	**5,452,748**	3,819,153
Recovery of decommissioning provision change in estimates (note 5)	**(1,000,000)**	-
Accretion on decommissioning provisions (note 12)	**1,762,662**	1,731,861
Accretion on convertible Class B share liability (note 10)	**417,543**	420,072
Non-cash finance expense	**1,180,205**	2,151,933
Total finance expense	**6,632,953**	5,971,086

15. Income tax

a) Deferred income tax 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,	**2016**	2015
	$	$
Loss before income taxes	**(10,137,934)**	(13,436,160)
Canadian federal-provincial statutory tax rate	**27.0%**	27.0%
Expected income tax recovery	**(2,737,242)**	(3,627,763)
Increase (decrease) in income taxes resulting from:		
Tax rate change	**-**	463,555
Prior year's tax expense estimate versus actual variance	**-**	(83,213)
Other	**(4,203)**	2,396
Share-based compensation	**131,634**	195,646
Deferred income tax recovery	**(2,609,811)**	(3,049,379)

b) Deferred income taxes

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

As at December 31,	2016	2015
	$	$
Deferred tax assets		
Non-capital loss carried forward	**3,996,292**	1,385,137
Risk management contracts	**798,591**	-
Share issuance costs	**29,774**	92,719
Long-term contract obligation	**1,205,886**	752,571
Decommissioning provision	**5,516,685**	7,461,600
Deferred tax liabilities		
P&E and E&E assets	**(11,682,479)**	(12,324,352)
Convertible Class B share liability	**-**	(112,737)
Net deferred tax liability	**(135,251)**	(2,745,062)

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 asset or liability during the year ended December 31, 2016:

	Balance, January 1, 2016	Recognized in loss	**Balance, December 31, 2016**
	$	$	$
P&E and E&E assets	(12,324,352)	641,873	**(11,682,479)**
Risk management contracts	-	798,591	**798,591**
Decommissioning provisions	7,461,600	(1,944,915)	**5,516,685**
Non-capital tax losses	1,385,137	2,611,155	**3,996,292**
Share issuance costs	92,719	(62,945)	**29,774**
Convertible Class B share liability	(112,737)	112,737	**-**
Long-term contract obligation	752,571	453,315	**1,205,886**
Deferred tax asset (liability)	(2,745,062)	2,609,811	**(135,251)**

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)**

16. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

Year ended December 31,	**2016**	2015
	$	$
Cash flows related to:		
Accounts receivable	**(948,020)**	3,786,928
Deposits and prepaid expenses	**186,878**	(81,194)
Accounts payable and accrued liabilities	**195,564**	(7,702,667)
Changes in non-cash working capital	**(565,578)**	(3,996,933)
Relating to:		
Operating activities	**(605,437)**	901,559
Investing activities	**(35,387)**	(4,888,033)
Financing activities	**75,246**	(10,459)
	(565,578)	(3,996,933)

17. 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 remains a director of Questfire. Legal fees of $174,847 were incurred by Questfire to the law firm in the year ended December 31, 2016 (year ended December 31, 2015 – $41,054), of which $65,323 (year ended December 31, 2015 – $40,766), was related to general and administrative expenses, $31,644 (year ended December 31, 2015 – $287), was related to finance expense, $33,851 (year ended December 31, 2015 – $Nil), was related to corporate reorganization and $44,029 (year ended December 31, 2015 – $Nil) was related to transaction costs which are included in the calculation of gain on sale of assets. At December 31, 2016, $Nil (December 31, 2015 – $12,988) 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,	**2016**	2015
	$	$
Salaries and other short-term employee benefits	**1,150,500**	1,410,000
Share-based compensation	**267,497**	243,951
	1,417,997	1,653,951

Total personnel expenses for employees, directors and management included in general and administrative expenses, share-based compensation and E&E expenses on the statement of loss are $2,317,782, $487,535 and $430,792, respectively (year ended December 31, 2015 – $3,003,538, $724,614 and $521,042, respectively).

18. Commitments

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

	2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**
	$	$	$	$	$	$
Office lease	767,087	767,087	447,467	-	-	-

Questfire's commitments related to its long-term contract obligation are disclosed in note 4(d), and to its risk management program are disclosed in note 4(e).

19. Subsequent Events

In January 2017, the Corporation signed and closed an agreement with an oil and gas company to dispose of non-core assets in Ferrybank, part of the Westerose CGU, for total proceeds of $0.3 million. Proceeds were applied to the supplemental facility (note 11).

Subsequent to the end of the year, the Corporation entered into new risk management contracts as disclosed in note 4(e).

Subsequent to the end of the year, several modifications were made to the Credit Facility, as disclosed in note 11.