ACQUIRE ENHANCE EXPLOIT

2012 Q3 MD&A

WestFire ENERGY LTD

Management's Discussion and Analysis

The following management discussion and analysis ("MD&A") of financial results is dated October 19, 2012, and should be read in conjunction with the accompanying unaudited interim financial statements and related notes for the three and nine month periods ended September 30, 2012 and 2011 of WestFire Energy Ltd. ("WestFire" or the "Company") and its audited financial statements, related notes and MD&A for the year ended December 31, 2011. The interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34. The reporting and the measurement currency is the Canadian dollar.

DESCRIPTION OF THE BUSINESS

WestFire is a Calgary based energy company primarily focused on light oil and natural gas development and production in Alberta and west central Saskatchewan. Common shares of WestFire are listed on the Toronto Stock Exchange under the symbol WFE.

PLAN OF ARRANGEMENT

On August 8th, 2012 WestFire entered into a plan of arrangement ("the "Arrangement") with Guide Exploration Ltd. ("Guide"), whereby WestFire agreed to acquire all of the issued and outstanding Guide shares and WestFire and Guide agreed to amalgamate to continue as Long Run Exploration Ltd. Pursuant to the Arrangement, Guide shareholders will receive 0.4167 of a WestFire common share for each Guide share held. The plan of arrangement is subject to approval by the shareholders of both WestFire and Guide at special meetings to be held October 22, 2012 with anticipated closing of the Arrangement on October 23, 2012. Refer to the Joint Information Circular of WestFire and Guide dated September 24, 2012 for further information.

RESULTS OF OPERATIONS

Financial	**Three Months Ended Sept 30,**		**Nine Months Ended Sept 30,**	
($ thousands except share and production information)	**2012**	2011	**2012**	2011
Petroleum and natural gas sales	**60,094**	51,568	**177,605**	86,630
Cash from operating activities	**31,417**	47,251	**92,711**	58,039
Funds flow from operations[(1)]	**26,546**	27,448	**90,312**	44,770
Per share – basic[(1)]	**0.32**	0.33	**1.09**	0.79
Per share – diluted[(1)]	**0.32**	0.33	**1.09**	0.79
Net earnings (loss)	**(4,747)**	11,427	**13,938**	13,945
Per share – basic	**(0.06)**	0.14	**0.17**	0.25
Per share – diluted	**(0.06)**	0.14	**0.17**	0.25
Expenditures on oil & gas properties	**31,379**	59,361	**145,886**	107,433
Net debt	**178,001**	88,031	**178,001**	88,031
Common and convertible non-voting shares				
Outstanding – basic	**82,968,941**	82,968,941	**82,968,941**	82,968,941
Outstanding – diluted	**83,016,077**	83,315,174	**83,061,348**	83,501,742
Weighted average– basic	**82,968,941**	82,968,941	**82,968,941**	56,460,379
Weighted average– diluted	**83,016,077**	83,315,174	**83,061,348**	56,993,180
Sales Volumes				
Oil and NGL (bbls per day)	**7,854**	5,499	**7,428**	3,153
Natural gas (Mcf per day)	**18,214**	17,766	**18,017**	10,287
Barrels of oil equivalent (boe per day) [(2)]	**10,890**	8,460	**10,431**	4,868

(1) The reader is referred to the section - "Non-IFRS Measurements".

(2) The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to Boe's".

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Company's results of operations are dependent on production volumes of crude oil, natural gas and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant volatility during recent years and are determined by supply and demand factors, including weather, general economic conditions and changes in the Canadian/United States ("US") currency exchange rate.

In this MD&A, production and reserves information may be presented on a "barrel of oil equivalent" or "boe" basis with six thousand cubic feet ("mcf") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Oil and gas production

	Three Months Ended Sept 30,			Nine Months Ended Sept 30,		
	2012	2011	**Change**	**2012**	2011	**Change**
Sales volumes						
Crude oil (bbls per day)	**7,185**	4,856	**48%**	**6,530**	2,872	**127%**
Natural gas liquids ("NGL") (bbls per day)	**669**	643	**4%**	**898**	281	**220%**
Natural gas (Mcf per day)	**18,214**	17,766	**3%**	**18,017**	10,287	**75%**
Total daily production (boe per day)	**10,890**	8,460	**29%**	**10,431**	4,868	**114%**
Liquids as a percentage of total	**72.1%**	65.0%		**71.2%**	64.8%	
Sulphur sales (tonnes per day)	**35**	94		**81**	32	

	Three Months Ended Sept 30,			Nine Months Ended Sept 30,		
	2012	2011	**Change**	**2012**	2011	**Change**
Production by area (boe per day)						
Redwater/Provost	**5,072**	3,511	**44%**	**5,041**	1,908	**164%**
Kaybob/Bigstone	**1,982**	3,241	**(39%)**	**2,164**	1,092	**98%**
West central Saskatchewan	**1,644**	468	**251%**	**1,248**	435	**187%**
Lloydminster	**1,106**	540	**105%**	**814**	535	**52%**
Alberta gas	**1,006**	504	**100%**	**1,059**	836	**27%**
Other	**80**	196	**(59%)**	**105**	62	**69%**
Total daily production	**10,890**	8,460	**29%**	**10,431**	4,868	**114%**

WestFire's production for the three months ended September 30, 2012 (the "Quarter") averaged 10,890 boe per day, and consisted of 6,144 bbls per day of light oil, 1,041 bbls per day of heavy oil, 669 bbls per day of natural gas liquids and 18,214 Mcf (3,036 boe) per day of natural gas. Production for the Quarter was 29 percent higher than the 8,460 boe per day recorded in the same period in 2011. The increase in production as compared to the same period in 2011 is primarily due to the Viking asset acquisition in the fourth quarter of 2011, with the balance of production growth coming from the Company's successful 2011 and 2012 drilling program.

WestFire's production for the nine months ended September 30, 2012 averaged 10,431 boe per day, and consisted of 5,751bbls per day of light oil, 779 bbls per day of heavy oil, 898 bbls per day of natural gas liquids and 18,017 Mcf (3,003 boe) per day of natural gas. Production for the first nine months of 2012 was 114 percent higher than the 4,868 boe per day recorded in the same period in 2011. The increase in production as compared to the same period in 2011 is primarily due to the Viking asset acquisition in the fourth quarter of 2011, with the balance of production growth coming from the Company's successful 2011 and 2012 drilling program. During the Quarter, a prior period adjustment was recorded from the Company's third party operator of the KA plant which processes the Company's Kaybob natural gas production. The adjustment relates to a notice received during the Quarter from the KA plant operator regarding a reduction in the allocation of natural gas liquids from the Company's natural gas production at the KA plant for production months between June 2011 and February 2012. This adjustment has negatively impacted production in the Quarter by 254 boe per day (85 boe per day year to date). Excluding this prior period adjustment, average production for the Quarter would have been 11,143 boe per day (10,515 boe per day year to date). The corresponding reduction to revenue for the Quarter and year to date was $2,000.

Price risk management

The Company from time to time may enter into crude oil and natural gas financial contracts to manage the volatility of commodity prices. WestFire's policy is to hedge no more than 50 percent of budgeted net after royalty volumes using a combination of fixed swaps and price collars, under contract terms not exceeding 24 months with only investment grade counterparties.

The fair market value of the Company's risk management financial contracts and resulting gain (loss) are as follows:

($ thousands)	**Three Months Ended Sept 30,**		**Nine Months Ended Sept 30,**	
	2012	2011	**2012**	2011
Current asset (liability)	**7,234**	5,869	**7,234**	5,869
Non-current asset	**1,316**	264	**1,316**	264
Total asset (liability)	**8,550**	6,133	**8,550**	6,133
Unrealized gain (loss)	**(5,785)**	8,046	**14,462**	8,143
Realized gain	**1,362**	415	**829**	530
Gain (loss) on risk management contracts	**(4,423)**	8,461	**15,291**	8,673

The following table describes the contracts outstanding as at Sept 30, 2012;

	Volume	**$/bbl or $/GJ**	**Term**	
Type	**(bbls/d)**	**(Cdn $)**	**From**	**To**
Costless Collar (WTI)	200	$95.00-$115.85	January 2012	December 2012
Swap (WTI)	200	$90.60	January 2012	December 2012
Swap (WTI)	500	$105.10	April 2012	December 2012
Swap (WTI)	500	$91.25	July 2012	December 2012
Costless Collar (WTI)	500	$85.00-$95.05	July 2012	December 2012
Swap (WTI)	500	$92.75	July 2012	December 2012
Costless Collar (WTI)	100	$85.00-$97.90	July 2012	December 2012
Costless Collar (WTI)	400	$85.00-$99.15	July 2012	December 2012
Swap (WTI)	500	$106.40	July 2012	December 2012
Swap (WTI)	500	$105.10	January 2013	June 2013
Costless Collar (WTI)	400	$85.00-$109.05	January 2013	September 2013
Swap (WTI)	600	$97.05	January 2013	December 2013
Swap (WTI)	1,600	$100.30	January 2013	December 2013

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the nine months ended September 30, 2012 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL ($/bbl)	+/- $1.00	$ 1,747
Natural gas ($/Mcf)	+/- $0.10	$ 494

Petroleum and natural gas sales

($ thousands)	**Three Months Ended Sept 30,**		**Nine Months Ended Sept 30,**	
	2012	2011	**2012**	2011
Sales				
Light oil	**45,292**	36,284	**131,969**	58,822
Heavy oil	**5,661**	3,032	**13,317**	9,574
Natural gas liquids	**3,831**	4,254	**18,453**	5,462
Natural gas	**4,090**	6,463	**10,936**	11,237
Sulphur	**1,220**	1,535	**2,930**	1,535
Total	**60,094**	51,568	**177,605**	86,630

Light oil sales increased 25 percent in the Quarter compared to the same period in 2011. The increase reflects an increase in volumes of 42 percent which was offset slightly by a 12 percent decrease in oil prices during the Quarter compared to the same period in 2011. Light oil sales increased 124 percent for the first nine months of 2012 compared to the same period in 2011. The increase is a result of a 148 percent increase in volumes offset by a 10 percent decrease in oil prices for the period.

Heavy oil sales increased 87 percent during the Quarter compared to the same period in 2011. The increase reflects a 95 percent increase in volumes which was offset by a 4 percent decline in prices over the same period in 2011. Heavy oil sales increased 39 percent for the first nine months of 2012 compared to the same period in 2011 due to a 41 percent increase in volumes which was offset by a two percent price decrease.

NGL sales decreased 10 percent in the Quarter compared to the same period in 2011. This decrease reflects a 3 percent increase in volumes, offset by a 13 percent decline in prices over the same period in 2011. NGL sales increased 238 percent for the first nine months of 2012 compared to the same period in 2011. The increase is a result of a 220 percent increase in volumes combined with a 5 percent increase in NGL prices for the period.

Natural gas sales decreased 37 percent in the Quarter over the same period in 2011. The decrease reflects a three percent increase in volumes which was offset by a 38 percent decline in prices during the same period. Natural gas sales decreased three percent for the first nine months of 2012 compared to the same period in 2011. The decrease can be attributed to a volume increase of 75 percent offset by a decrease in natural gas prices of 45 percent.

	Three Months Ended Sept 30,		**Nine Months Ended Sept 30,**	
	2012	2011	**2012**	2011
WestFire average prices				
Light oil ($/bbl)	**80.13**	91.27	**83.75**	92.85
Heavy oil ($/bbl)	**59.09**	61.56	**62.40**	63.55
Natural gas liquids ($/bbl)	**62.24**	71.93	**75.03**	71.22
Natural gas ($/mcf)	**2.44**	3.95	**2.22**	4.00
Sulphur ($/tonne)	**128.37**	178.35	**131.75**	178.35
Benchmark pricing				
WTI (US$/bbl)	**92.22**	89.76	**96.21**	95.48
US$/Cdn$ foreign exchange rate	**0.995**	.980	**1.002**	.978
WTI (Cdn$/bbl)	**95.69**	87.89	**96.35**	93.28
Natural gas – AECO Daily index (Cdn $/gj)	**2.08**	3.53	**2.07**	3.55

Commodity prices

For the Quarter, the Company realized average combined petroleum and natural gas sales prices of $59.98 per boe, before hedging settlements, representing a two percent decline over the prior quarter, and a nine percent decline over the same quarter in the prior year. Light oil prices decreased 12 percent, heavy oil decreased four percent, and natural gas decreased 38 percent while NGLs prices remained consistent year over year.

Year to date, average combined petroleum and natural gas sales prices before hedging settlements, declined nine percent to $62.14 per boe over the same period in the prior year. A five percent increase in NGL prices was more than offset by a 10 percent decline in light oil prices and a 45 percent decline in natural gas prices over the same period.

Crude Oil Markets

WestFire's realized prices are closely correlated with West Texas Intermediate ("WTI") prices, which for the Quarter averaged US$92.22 per bbl, one percent lower than the prior quarter and three percent higher than the same period in 2011. Year to date, WTI has averaged US$96.21 per bbl slightly higher than the US$95.48 per bbl average recorded in the same period in 2011. The increase in WTI prices during the nine months ended September 30, 2012 was more than offset by a dramatic widening of the price differential for Edmonton Light Sweet. The differential between WTI and Edmonton Light Sweet ("MSW") widened from an average premium of US$1.29 per bbl in the first nine months of 2011 to an average discount of US$9.27 per bbl in the same period of 2012. For the Quarter, the WTI/MSW differential discount improved by 29 percent over the prior quarter averaging US$7.21/bbl but remained significantly wide by comparison to the average premium of US$4.21/bbl recorded in the same period in 2011. The ongoing volatility in the differential discount has been attributed to the continuing effects of reduced demand due to refinery turnarounds and export pipeline capacity limitations and outages.

Natural Gas Markets

For natural gas, the year to date AECO monthly gas index price averaged $2.07 per gigajoule ("GJ"), a 42 percent decline from the $3.55 per GJ recorded in the prior year. The decline over the prior year reflects the significant natural gas production capacity additions in the U.S. over the same period, coupled with the continued negative impact on market demand from the unseasonably warm 2011/2012 winter which has driven record high storage inventory levels in both the U.S. and Canada. AECO prices have rebounded somewhat for the Quarter with an average of $2.08 per GJ ($1.74 per GJ recorded in the prior quarter) due in part to hot weather in the U.S. and the resulting increase in coal-to-gas fuel switching to service this seasonal demand. As well, prices are slowly reacting to a flattening of U.S. gas production due to the dramatic reduction in gas-directed drilling activity which is driving a year-over-year steady decline in gas storage inventory levels.

Crown and other royalties

	Three Months Ended Sept 30,		**Nine Months Ended Sept 30,**	
($ thousands)	**2012**	2011	**2012**	2011
Crown	**2,100**	5,241	**6,146**	6,748
Freehold and overriding	**3,782**	2,704	**10,429**	4,164
Total Royalties	**5,882**	7,945	**16,575**	10,912
$ per boe	**5.87**	10.21	**5.80**	8.21
% of revenue	**9.8%**	15.4%	**9.3%**	12.6%

For the Quarter, total royalties decreased 26 percent as compared to the same period in 2011. On a per boe basis, royalties decreased 42 percent to $5.87 compared to $10.21 in the third quarter of 2011. The decrease in royalties is primarily attributed to prior period adjustments relating to gas cost allowance, offset by higher royalty burdens on the Orion assets acquired in 2011, increasing the freehold and overriding royalties.

Year to date, royalties have increased 52 percent as compared to the same period in 2011. On a per boe basis, royalties decreased 29 percent to $5.80 from $8.21 in the prior year. The decrease in royalties is primarily attributed to prior period adjustments relating to gas cost allowance, offset by higher royalty burdens on the Orion assets acquired in 2011, increasing the freehold and overriding royalties.

Operating expenses

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ thousands)	**2012**	2011	**2012**	2011
Total	**18,238**	12,898	**47,133**	21,427
$ per boe	**18.20**	16.57	**16.49**	16.12
% of revenue	**30.3%**	25.0%	**26.5%**	24.7%

Operating expenses for the Quarter increased 41 percent to $18,238 compared to $12,898 for the same period in 2011. On a per boe basis, operating expenses increased 10 percent to $18.20 compared to $16.57 for the third quarter of 2011 and 13 percent higher than the $16.12 recorded in the prior quarter. Operating expenses during the nine months ended September 30, 2012 increased 120 percent to $47,133 compared to $21,427 for the same period in 2011 while remaining relatively consistent on a per boe basis. Included in operating costs for the Quarter is approximately $1.9 million relating to site remediation costs for a pipeline spill which occurred in 2011, the majority of which will be recoverable through the Company's insurance providers. Higher than usual operating costs for the Quarter were also driven by increased turn around costs relating to the KA Plant at Kaybob in addition to seasonal workover and optimization projects undertaken during the summer months.

Transportation expenses

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ thousands)	**2012**	2011	**2012**	2011
Total	**2,048**	1,009	**5,501**	1,640
$ per boe	**2.04**	1.30	**1.92**	1.23
% of revenue	**3.4%**	2.0%	**3.1%**	1.9%

Transportation expenses increased 103 percent in the Quarter to $2,048 ($5,501 year to date) compared to $1,009 ($1,640 year to date) in the same period in 2011. On a per boe basis, transportation expenses for the Quarter increased 58 percent to $2.04 from $1.30 in the same quarter in 2011, and year to date, increased 56 percent to $1.92 from $1.23 in 2011. Increased transportation expenses per boe for the Quarter and year to date over the same periods in 2011 are due to increased oil volumes which are encumbered with higher average transportation rates related to infield trucking costs.

Operating netbacks [(1)]

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ per boe)	**2012**	2011	**2012**	2011
Sales price	**59.98**	66.26	**62.14**	65.18
Realized derivative gains (loss)	**1.36**	0.53	**0.29**	0.40
Royalties	**(5.87)**	(10.21)	**(5.80)**	(8.21)
Operating expenses	**(18.20)**	(16.57)	**(16.49)**	(16.12)
Transportation expenses	**(2.04)**	(1.30)	**(1.92)**	(1.23)
Netbacks	**35.23**	38.71	**38.22**	40.02

(1) The reader is referred to the section - "Non-IFRS Measurements".

For the Quarter, operating netbacks have decreased by 9 percent over the same period in 2011 due to a decline in commodity prices, higher operating and transportation expenses offset by lower royalties.

Year to date, operating netbacks have decreased by five percent over the same period in 2011 as a result of lower commodity prices and slightly higher operating and transportation expenses offset by lower royalties.

General and administration (“G&A”) expenses

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ thousands)	**2012**	2011	**2012**	2011
Salaries and benefits	**4,646**	1,593	**12,552**	3,654
Other G&A expenses	**4,511**	1,671	**8,315**	5,805
Gross G&A expenses	**9,157**	3,264	**20,867**	9,459
Capitalized G&A expenses	**(1,495)**	(442)	**(3,582)**	(1,017)
Overhead recoveries	**(508)**	(988)	**(2,450)**	(1,783)
Net G&A expenses	**7,154**	1,834	**14,835**	6,659
$ per boe	**7.14**	2.36	**5.19**	5.01

G&A expenses for the Quarter increased by 290 percent to $7,154 from $1,834 in the third quarter of 2011 while on a per boe basis, G&A increased 203 percent to $7.14 compared to $2.36 in 2011. Year to date, G&A expenses increased 123 percent to $14,835 compared to $6,659 for the same period in 2011 while on a per boe basis, G&A expenses increased four percent to $5.19 from $5.01 in 2011. Increased administrative costs in the Quarter and year to date are primarily attributed to the impending Arrangement with accrued costs to date of $3,585. Excluding these transaction costs G&A expenses for the Quarter were $3.56 per boe and $3.94 per boe year to date. As at September 30, 2012, WestFire employed 50 full-time office staff and 15 consultants, compared to 39 full-time office staff at the same time in 2011.

Finance charges

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ thousands)	**2012**	2011	**2012**	2011
Interest expense	**1,844**	788	**5,160**	1,583
Accretion expense	**282**	286	**993**	601
Finance charges	**2,126**	1,074	**6,153**	2,184

As at September 30, 2012, the Company’s net debt (comprised of bank debt and working capital deficit) totaled $178,001 compared to net debt of $88,031 at September 30, 2011. The average debt level for the nine months ended September 30, 2012 was $147,487 compared to $33,462 for the same period in 2011. The increased debt levels in the three and nine month periods ended September 30, 2012 account for the 134 percent and 226 percent increase respectively in interest expense during the comparative 2011 periods.

Accretion expense decreased by one percent and increased by 65 percent during the three and nine month periods ended September 30, 2012 respectively as compared to the same periods in 2011 due to the additional abandonment liabilities incurred from the Company’s 2011 and 2012 drilling program in addition to the acquired abandonment obligation from the Orion Acquisition, offset by dispositions.

Share-based compensation

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ thousands)	**2012**	2011	**2012**	2011
Gross share-based compensation	**722**	1,753	**3,248**	3,065
Less: capitalized	**(163)**	(480)	**(759)**	(663)
Net share-based compensation	**559**	1,273	**2,489**	2,402

The Company’s stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10 percent of the total issued and outstanding voting common shares of the Company. These options have a term of five years to expiry and have a three year vesting period from the date of grant. In accordance with the Company’s accounting policy, WestFire capitalizes share-based compensation expenses associated with exploration and development activities. No options were issued in the first nine months of 2012, 86,500 options were forfeited and none were exercised. As at September 30, 2012, there were 4,762,635 options outstanding compared to 4,991,635 options at September 30, 2011. For the Quarter, share-based compensation decreased 59 percent over the same period in 2011. For the first nine months of 2012, the Company’s share-based compensation increased six percent compared to the same period in 2011. Variances are due to an increase in the number of stock options outstanding and the related timing of the expense recognition.

The following tables summarize the stock option activity through to the end of Sept 30, 2012;

	Number Of Options	Weighted Average Exercise Prices
Balance, December 31, 2010	3,118,967	$ 6.22
Granted	1,977,500	7.57
Forfeited	(217,333)	7.42
Exercised	(29,999)	6.60
Balance, December 31, 2011	4,849,135	$ 6.70
Forfeited	(86,500)	7.67
Balance, September 30, 2012	4,762,635	$ 6.69

Depletion and depreciation

	Three Months Ended Sept 30,		**Nine Months Ended Sept 30,**	
($ thousands)	**2012**	2011	**2012**	2011
Depletion	**28,401**	17,871	**79,366**	29,794
Depreciation	**83**	26	**201**	75
Total	**28,484**	17,897	**79,567**	29,869
$ per boe	**28.43**	22.99	**27.84**	22.48

Depletion and depreciation ("D&D") expense for the Quarter increased 59 percent to $28,484 from $17,897 in the third quarter of 2011. For the nine months ended September 30, 2012, D&D expense increased 166 percent to $79,567 compared to $29,869 in the same period in 2011. The increase in depletion expense was due to the increased scale of operations as a result of corporate and asset acquisitions, combined with the Company's 2012 drilling program. The increase in depreciation expense related to the Company's furniture and fixtures is a result of leasehold improvements incurred during 2011. On a boe basis, D&D expense for the Quarter increased 24 percent to $28.43 from $22.99 in the third quarter of 2011 and 24 percent in first nine months of 2012 to $27.84 from $22.48 for the same period in 2011.

Impairment loss

At June 30, 2012, the recoverable amount for the Company's Cash Generating Unit ("CGUs") were estimated at their fair value based on the net present value of the after tax cash flows from oil and gas proved plus probable reserves as estimated by the Company's third party reserves evaluators discounted at rates between eight and ten percent. At June 30, 2012, it was determined that the net book value of two CGUs exceeded their recoverable amount which has resulted in the recognition of a $16,116 (2011 – nil) impairment loss in the Quarter. The impairment loss was attributed to the Company's natural gas weighted CGUs, Kaybob South and Alberta gas. As the recoverable amount of the CGUs are sensitive to decreases in commodity prices, further impairment losses could be recorded in future periods. Alternatively, an improvement of commodity prices or other economic factors could reverse a previously recognized impairment charge, net of related depletion charges.

Net earnings and comprehensive income

Net loss and comprehensive loss for the three months ended September 30, 2012 was $4,747 ($0.06 per diluted share) compared to a net earnings and comprehensive income for the same period in 2011 of $11,427 ($0.14 per diluted share). Net income and comprehensive income for the nine months ended September 30, 2012 was $13,938 ($0.17 per diluted share) compared to a net earnings and comprehensive earnings for the same period in 2011 of $13,945 ($0.25 per diluted share). Net earnings (loss) for both the three and nine month periods ended September 30, 2012 was impacted by the significant routine non-cash charge relating to depletion and depreciation of $28,484 and $79,567 respectively ($17,897 and $29,869 in 2011), an unrealized gain (loss) recorded on the change in fair value of the Company's financial derivative contracts totaling $(4,423) and $15,291 respectively ($8,461 and $8,673 in 2011), and a non-routine gain on a farmout agreement totaling $11,373 and a non-routine gain on disposition of oil and gas properties earned in the Quarter, offset by an impairment loss of $16,116.

LIQUIDITY AND CAPITAL RESOURCES

During the second quarter of 2012, the Company secured an increase in its banking facility to $250 million. The banking facility is led by the Alberta Treasury Branches and including Canadian Imperial Bank of Commerce, The Toronto-Dominion Bank, The Bank of Nova Scotia and Wells Fargo Bank N.A., London Branch and is comprised of a $240 million syndicated credit facility and a $10 million operating facility. Both are revolving facilities with term-out provisions with the initial revolving period ending June 27, 2013. If the credit facilities are not renewed they will convert to 365-day term loans. The credit facilities bear interest at the prime rate, bankers' acceptance rate or LIBOR plus a spread determined by WestFire's debt-to-EBITDA ratio. WestFire's next semi-annual borrowing base review is presently scheduled for October 31, 2012.

At September 30, 2012, $166,000 (December 31, 2011 - $124,000) was drawn on the syndicated credit facilities with unused amounts subject to standby fees. As at September 30, 2012 WestFire had a working capital deficit of $12.0 million for a total net debt of $178.0 million compared to a working capital deficit of $0.8 million and total net debt of $124.8 million as at December 31, 2011. At September 30, 2012, the value of outstanding letters of credit totaled $3,803 (December 31, 2011 – $3,497). The letters of credit reduce the amount of WestFire’s available credit facilities to $80,197 at September 30, 2012 (December 31, 2011 - $72,503)

In addition to debt and equity markets, the Company entered into a farmout agreement with an industry partner on WestFire lands in the west central area of Saskatchewan in the second quarter of 2011, whereby the partner committed to drill, complete and equip (or abandon) thirty horizontal wells, on or before December 31, 2012. The arrangement provided that the farmee would pay seventy-five percent of the costs of the wells to earn, and be entitled to, fifty percent of WestFire’s pre-farmout working interest in the farmout lands. The Company received $5.0 million as initial consideration under this agreement, which was recorded as deferred compensation on the statement of financial position until such time as the farmee satisfied its obligations under the farmout arrangement. During the second quarter of 2012, the farmee satisfied its obligations and as such, the deferred compensation was recognized in the income statement along with a non-cash gain of $11,373 relating to the disposition of WestFire’s 50 percent interest in the farmout lands. The farmout agreement also included the disposition by the Company of half of its interest in two producing wells in the same area as the farmout lands for proceeds of $1.25 million, resulting in a loss on disposition of oil and gas properties of $201 for the period ended December 31, 2011.

The Company’s investing activities for the Quarter and year to date consisted of expenditures on its capital program. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity and debt.

CAPITAL INVESTMENT

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ thousands)	**2012**	2011	**2012**	2011
Land	**1,171**	690	**8,351**	2,240
Geological and geophysical	**1,007**	2,168	**2,840**	3,186
Drilling and completions	**18,958**	45,939	**102,673**	82,448
Equipment and facilities	**10,218**	10,551	**31,880**	19,407
Office equipment	**25**	13	**142**	162
Total investing activities in oil and gas	**31,379**	59,361	**145,886**	107,443
PP&E additions from farmout	**-**	-	**6,574**	-
Corporate acquisitions	**-**	(2,362)	**(201)**	351,411
Capitalized share-based compensation	**163**	480	**759**	663
Capitalized non-cash deferred compensation	**164**	-	**517**	-
Additions to asset retirement obligations	**418**	2,896	**6,805**	7,933
Capital expenditures	**32,124**	60,375	**160,340**	467,450

For the first nine months of 2012, WestFire drilled a total of 100 (90.9 net) Viking horizontal oil wells; 51 (47.4 net) wells at Redwater, Alberta, 38 (38.0 net) at Plato, Saskatchewan and 11 (5.5 net) wells at Lucky Hills, Saskatchewan, all with 100 percent success. In addition to its Viking horizontal drilling program, WestFire drilled three (3.0 net) horizontal wells in the Ellerslie formation at Redwater, Alberta, with a 100 percent success.

WestFire's net capital expenditures were $31.4 million during the Quarter. Year to date, the Company has invested $145.9 million representing 94 percent of its budgeted annual capital program of $155 million. Year to date, a total of $129.1 million was invested into the development of the Viking with $77.9 million at Redwater, $43.3 million at Plato and $7.9 million Lucky Hills. Another $3.6 million was invested at Kaybob South, $8.3 million in non-core properties and $4.9 million into Crown land acquisitions at Plato.

SUMMARY OF QUARTERLY RESULTS

	2012			2011				2010
($ thousands, except per share amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales [1]	60,094	64,025	53,486	56,192	51,568	21,377	13,685	13,367
Net earnings (loss) [1]	(4,747)	17,506	1,179	(66,612)	11,427	4,387	(1,869)	(4,436)
Net earnings (loss) per share								
– basic	(0.06)	0.21	0.01	(0.80)	0.14	0.10	(0.05)	(0.11)
– diluted	(0.06)	0.21	0.01	(0.80)	0.14	0.10	(0.05)	(0.11)

(1) *Fourth quarter 2010* - Revenues for the fourth quarter of 2010 were significantly higher than the third quarter due to higher crude oil and NGL prices combined with higher volumes. The higher net loss was due to an increase in the loss on risk management contracts combined with higher depletion expense resulting from increased production.

First quarter 2011 - Revenues for the first quarter of 2011 were consistent with the fourth quarter of 2010. The lower net loss compared to third quarter of 2010 is due to the loss on risk management contracts and an increase in depletion and depreciation expense.

Second quarter 2011 – Revenue in the second quarter of 2011 was higher than the first quarter of 2011 due to increased production from an active drilling program. The higher revenue in the quarter resulted in net earnings as compared to a net loss in the prior quarter.

Third quarter 2011 – Revenues for the third quarter of 2011 increased over previous quarter due to acquisition of Orion and the addition of 5,146 boe per day of production. The increase in net earnings correlates with the increase in revenues for the same period.

Fourth quarter 2011 – Revenue for the fourth quarter of 2011 increased from the previous quarter as a result of higher production and higher crude oil and NGL prices. The net loss for the fourth quarter 2011 was the result of an unrealized loss on the risk management contracts and an impairment loss of $73,633 relating to two of the Company's CGUs.

First quarter 2012 - Revenue for the first quarter of 2012 was lower than the fourth quarter of 2011 as a result of an unscheduled shut-down of a third-party operated gas plant facility which resulted in the shut-in of approximately 2,650 boe of Kaybob production for 28 days.

Second quarter 2012 – Revenue for the second quarter of 2012 increased from the previous quarter as a result of higher production volumes which were offset slightly by declining prices. The net earnings for the Quarter include a $26,171 gain on risk management contracts, $11,373 gain from farmout agreement and an impairment loss of $16,116.

Third quarter 2012 – Revenue for the third quarter of 2012 decreased from the previous quarter as higher production volumes were offset by lower prices. The net earnings for the Quarter include a gain on sale of oil and gas assets of $2,469 and higher operating costs as a result of plant turnarounds, workovers and site remediation costs.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P) and internal controls over financial reporting ("ICOFR") as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

The DC&P have been designed to provide reasonable assurance that material information relating to WestFire is made known to the CEO and CFO by others and that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by WestFire under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company.

The CEO and CFO are required to cause the Company to disclose any change in the Company's ICOFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICOFR. No changes in ICOFR were identified during such period that have materially affected or are reasonably likely to materially affect, the Company's ICOFR.

It should be noted a control system, including the Company's DC&P and ICOFR, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system will be met and it should not be expected that DC&P and ICOFR will prevent all errors or fraud.

OUTLOOK

Subject to the successful closing of the Plan of Arrangement, the resulting company, Long Run Exploration Ltd. ("Long Run") will have a rich asset base in light oil focused resource areas, including Montney oil at Normandville and Girouxville in Alberta and Viking oil at Redwater, Alberta, and Plato, Saskatchewan as well as complementary low decline gas production in Boyer and Kaybob in Alberta. Long Run will have oil and natural gas liquids comprising 50% of its total production, greater than 1.8 million net acres of land, an extensive inventory of drilling opportunities in emerging resource areas and tax pools of approximately $1.3 million.

ADDITIONAL INFORMATION

Additional information regarding the Company and its business and operations, including the annual information form ("AIF") is available on the Company's profile at www.sedar.com. Copies of the AIF can also be obtained by contacting the Company at WestFire Energy Ltd. 1400, 440 – 2nd Avenue S.W., Calgary, Alberta, Canada T2P 5E9 or by e-mail at jholmgren@westfireenergy.com. This information is also accessible on the Company's web site at www.westfireenergy.com.

LEGAL ADVISORIES

Oil, Natural Gas Liquids ("NGL's), and Natural Gas - Conversions to Boe's

The calculation of barrels of oil equivalent ("boe") is based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil to estimate relative energy content and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation.

Non-IFRS measurements

Readers are cautioned that this MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with IFRS as an indicator of WestFire's performance. The reconciliation between funds flow from operations and cash provided by operating activities is as follows:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ thousands)	**2012**	2011	**2012**	2011
Cash provided by operating activities	**31,417**	47,251	**92,711**	58,039
Change in non-cash working capital	**(4,871)**	(19,803)	**(2,399)**	(13,269)
Funds flow from operations	**26,546**	27,448	**90,312**	44,770

WestFire also presents funds flow from operations per share, whereby funds flow from operations is divided by the weighted average number of shares outstanding to determine per share amounts. Netbacks are also presented, which represents WestFire's revenue per boe, less per boe royalties, operating expenses and transportation expenses, in order to determine the amount of funds generated by each boe produced. WestFire calculates net debt as current liabilities less current assets, excluding the current portion of future tax assets.

Forward-looking statements

In the interest of providing WestFire shareholders and potential investors with information regarding the Company, including management's assessment of WestFire's future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbor" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause WestFire's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks and uncertainties include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; product supply and demand; market competition; risks inherent in WestFire's marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids; WestFire's ability to replace and expand oil and gas reserves; risks associated with technology; its ability to generate sufficient cash from operations to meet its current and future obligations; WestFire's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; WestFire's ability to secure adequate product transportation; changes in environmental and other regulations or the interpretations of such regulations; political and economic conditions; terrorist threats; risks associated with potential future lawsuits and regulatory actions made against WestFire; WestFire's ability to utilize all of its tax pools and investment tax credits; other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by WestFire disclosure intentions with respect to strategic alternative review process and; the outcome of the Company's strategic alternatives process.

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although WestFire believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and WestFire does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.