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2012 Q3 Interim Financial Statements

WestFire
ENERGY LTD

Interim Statements of Financial Position

($ thousands) (unaudited)	**September 30, 2012**	December 31, 2011
Assets		
Cash	**$ 2,607**	$ 7,581
Accounts receivable	**22,416**	27,458
Risk management contracts (Note 13)	**7,234**	-
Prepaid expenses and deposits	**3,352**	2,378
Total current assets	**35,609**	37,417
Oil and gas properties (Note 4)	**650,482**	585,826
Deferred tax asset	**36,521**	40,582
Risk management contracts (Note 13)	**1,316**	-
Goodwill	**1,986**	1,986
Total non-current assets	**690,305**	628,394
Total assets	**$ 725,914**	$ 665,811
Liabilities		
Accounts payable and accrued liabilities	**$ 40,376**	$ 38,170
Risk management contracts (Note 13)	**-**	5,607
Total current liabilities	**40,376**	43,777
Bank debt (Note 6)	**166,000**	124,000
Risk management contracts (Note 13)	**-**	305
Deferred compensation on farmout agreement (Note 4)	**-**	5,000
Deferred compensation (Note 11)	**2,034**	64
Asset retirement obligations (Note 8)	**49,824**	42,171
Total non-current liabilities	**217,858**	171,540
Total liabilities	**258,234**	215,317
Equity		
Share capital (Note 9)	**485,727**	485,727
Contributed surplus	**13,694**	10,446
Deficit	**(31,741)**	(45,679)
Total equity	**467,680**	450,494
Total liabilities and equity	**$ 725,914**	$ 665,811
Commitments and contingencies (Note 12)		

See accompanying notes to the financial statements.

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

($ thousands, except per share data)	**Three months ended September 30,**		**Nine months ended September 30,**	
(unaudited)	**2012**	2011	**2012**	2011
Petroleum and natural gas sales	**$ 60,094**	$ 51,568	**$ 177,605**	$ 86,630
Royalties	**(5,882)**	(7,945)	**(16,575)**	(10,912)
Revenue, net of royalties	**54,212**	43,623	**161,030**	75,718
Gain (loss) on risk management contracts (Note 13)	**(4,423)**	8,461	**15,291**	8,673
	49,789	52,084	**176,321**	84,391
Operating expenses	**18,238**	12,898	**47,133**	21,427
Transportation expenses	**2,048**	1,009	**5,501**	1,640
General and administrative expenses	**7,154**	1,834	**14,835**	6,659
Share-based compensation (Note 9)	**559**	1,273	**2,489**	2,402
Loss (gain) on dispositions of oil and gas properties (Note 4)	**(2,469)**	(8)	**(2,469)**	183
Gain on farmout (Note 4)	**-**	-	**(11,373)**	-
Impairment loss (Note 5)	**-**	-	**16,116**	-
Depletion and depreciation	**28,484**	17,897	**79,567**	29,869
Expenses	**54,014**	34,903	**151,799**	62,180
Earnings (loss) from operating activities	**(4,225)**	17,181	**24,522**	22,211
Finance income	**-**	7	**19**	14
Finance charges (Note 7)	**(2,126)**	(1,074)	**(6,153)**	(2,184)
Net finance expense	**(2,126)**	(1,067)	**(6,134)**	(2,170)
Earnings before taxes	**(6,351)**	16,114	**18,388**	20,041
Current income taxes	**202**	68	**389**	183
Deferred income tax expense (recovery)	**(1,806)**	4,619	**4,061**	5,913
Income taxes (recovery)	**(1,604)**	4,687	**4,450**	6,096
Net earnings (loss) and comprehensive income (loss)	**$ (4,747)**	$ 11,427	**$ 13,938**	$ 13,945
Net earnings (loss) per share (Note 9d)				
Basic	**$ (0.06)**	$ 0.14	**$ 0.17**	$ 0.25
Diluted	**$ (0.06)**	$ 0.14	**$ 0.17**	$ 0.25

See accompanying notes to the financial statements.

Interim Statements of Cash Flows

($ thousands)	Three months ended	September 30,	Nine months ended	September 30,
(unaudited)	**2012**	2011	**2012**	2011
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	**$ (4,747)**	$ 11,427	**$ 13,938**	$ 13,945
Add (deduct) items not affecting cash:				
Depletion and depreciation	**28,484**	17,897	**79,567**	29,869
Accretion of asset retirement obligations (Note 8)	**282**	286	**993**	601
Unrealized loss (gain) on risk management contracts (Note 13)	**5,785**	(8,046)	**(14,462)**	(8,143)
Loss (gain) on dispositions of oil and gas properties (Note 4)	**(2,469)**	(8)	**(2,469)**	183
Gain on farmout (Note 4)	**-**	-	**(11,373)**	-
Impairment loss (Note 5)	**-**	-	**16,116**	-
Deferred income tax expense (recovery)	**(1,806)**	4,619	**4,061**	5,913
Deferred compensation (Note 11)	**458**	-	**1,452**	-
Share-based compensation (Note 9)	**559**	1,273	**2,489**	2,402
	26,546	27,448	**90,312**	44,770
Change in non-cash working capital (Note 3)	**4,871**	19,803	**2,399**	13,269
Cash flow from operating activities	**31,417**	47,251	**92,711**	58,039
Financing activities				
Increase (decrease) in bank debt	**(9,000)**	15,500	**42,000**	7,414
Proceeds from issuance of shares, net of issue costs	**-**	(197)	**-**	40,960
Cash flow from financing activities	**(9,000)**	(15,303)	**42,000**	48,374
Investing activities				
Oil and gas properties	**(31,379)**	(59,361)	**(145,886)**	(107,443)
Proceeds from the disposition of oil and gas properties	**2,325**	52	**2,325**	1,817
Deferred compensation on farmout agreement (Note 4)	**-**	-	**-**	5,000
Corporate acquisitions	**-**	-	**-**	3,679
Change in non-cash working capital (Note 3)	**8,313**	-	**3,876**	-
Cash used in investing activities	**(20,741)**	(59,309)	**(139,685)**	(96,947)
Net increase (decrease) in cash and cash equivalents				
during the period	**1,676**	3,245	**(4,974)**	9,466
Cash, beginning of the period	**931**	6,221	**7,581**	-
Cash, end of the period	**$ 2,607**	$ 9,466	**$ 2,607**	$ 9,466
Supplementary disclosure				
Cash interest paid	**$ 1,844**	$ 788	**$ 5,160**	$ 1,583
Cash taxes paid	**$ 203**	$ 68	**$ 389**	$ 183

See accompanying notes to the financial statements.

Interim Statements of Changes in Equity

($ thousands) (unaudited)	Share Capital (Note 9)	Contributed Surplus	Retained Earnings (deficit)	Total Equity
Balance at December 31, 2011	**$ 485,727**	**$ 10,446**	**$ (45,679)**	**$ 450,494**
Net earnings for the period	-	-	13,938	13,938
Share-based compensation	-	3,248	-	3,248
Balance at September 30, 2012	**$ 485,727**	**$ 13,694**	**$ (31,741)**	**$ 467,680**
Balance at December 31, 2010	$ 182,541	$ 5,736	$ 6,988	$ 195,265
Net earnings for the period	-	-	13,945	13,945
Shares issued for cash	44,001	-	-	44,001
Shares issued for corporate acquisition	261,270	-	-	261,270
Shares issued on exercise of options	198	-	-	198
Share issue costs - net of taxes of $852	(2,387)	-	-	(2,387)
Transfer from contributed surplus on exercise of options	103	(103)	-	-
Share-based compensation	-	3,064	-	3,064
Balance at September 30, 2011	$ 485,726	$ 8,697	$ 20,933	$ 515,356

See accompanying notes to the financial statements.

Notes to the Interim Financial Statements

For the three and nine month periods ended September 30, 2012 and 2011

($ thousands except for share and per share amounts)

(unaudited)

1. Corporate information:

WestFire Energy Ltd. (the "Company" or "WestFire") is a Calgary based energy company primarily focused on light oil and natural gas development and production in Alberta and west central Saskatchewan and is incorporated in Canada. The Company's principal place of business is located at 1400, 440 2nd Avenue S.W. Calgary, Alberta, Canada, T2P 5E9.

These Financial Statements were approved and authorized for issuance by the Board of Directors on October 19, 2012.

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.

2. Basis of presentation

These interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2011. As a result they have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the IASB. These interim Financial Statements do not include all the necessary disclosure in accordance with IFRS for annual financial statements and therefore should be read in conjunction with the financial statements and notes thereto in the Company's financial statements for the year ended December 31, 2011.

These Financial Statements have been prepared on a historical cost basis, except for the risk management contracts, share-based payment transactions and the asset retirement obligations. The risk management contracts and share-based payment transactions are measured at fair value and the asset retirement obligations is discounted using a risk free discount rate.

The Financial Statements are presented in Canadian dollars which is the Company's functional currency.

3. Change in non-cash working capital

The net change in working capital is comprised of:

September 30,	**2012**			2011
	Change in working capital	Change in 2011	Working capital acquired	Change in working capital
Accounts receivable	**$ 5,043**	(15,472)	14,835	$ (637)
Prepaid expenses and deposits	**(974)**	(2,269)	1,867	(402)
Accounts payable and accrued liabilities	**2,206**	33,480	(19,172)	14,308
Change in non-cash working capital	**$ 6,275**	15,739	(2,470)	$ 13,269
Related to operating activities	**$ 2,399**	15,739	(2,470)	$ 13,269
Related to investing activities	**3,876**	-	-	-
	$ 6,275	15,739	(2,470)	$ 13,269

4. Oil and gas properties

Cost or deemed cost	Oil and Gas Interests	Corporate Assets	Total
Balance, December 31, 2010	$ 209,277	$ 225	$ 209,502
Additions	134,855	393	135,248
Acquisition through business combinations	389,517	-	389,517
Disposals	(2,460)	-	(2,460)
Change in asset retirement obligation	12,509	-	12,509
Capitalized general and administrative costs	4,115	-	4,115
Capitalized share-based compensation	1,086	-	1,086
Balance, December 31, 2011	$ 748,899	$ 618	$ 749,517
Additions	146,956	142	147,098
Disposals	(345)	-	(345)
Change in asset retirement obligation	6,795	-	6,795
Capitalized general and administrative costs	6,032	-	6,032
Capitalized share-based compensation	759	-	759
Balance, September 30, 2012	**$ 909,096**	**$ 760**	**$ 909,856**

Accumulated depletion and depreciation			
Balance, December 31, 2010	$ 35,664	$ 100	$ 35,764
Depletion and depreciation	54,179	115	54,294
Impairment loss	73,633	-	73,633
Balance, December 31, 2011	163,476	215	163,691
Depletion and depreciation	79,366	201	79,567
Impairment loss	16,116	-	16,116
Balance, September 30, 2012	**$ 258,958**	**$ 416**	**$ 259,374**

Net book value			
Balance, December 31, 2010	$ 173,613	$ 125	$ 173,738
Balance, December 31, 2011	$ 585,423	$ 403	$ 585,826
Balance, September 30, 2012	**$ 650,138**	**$ 344**	**$ 650,482**

During the nine months ended September 30, 2012, the Company capitalized general and administrative expenses in the amount of $6,032 (September 30, 2011 - $860) related to development activities.

Future development costs associated with proved and probable undeveloped reserves of $416,614 (September 30, 2011 - $207,378) are included in the depletion calculation for the nine months ended September 30, 2012.

Gain on farmout

During 2011, the Company entered into a farmout agreement with an industry partner on WestFire lands in the west central area of Saskatchewan whereby the partner had committed to drill, complete and equip or abandon on, or before December 31, 2012, thirty horizontal wells. The farmee was obligated to pay seventy-five percent of the costs of the wells to earn a fifty percent working interest in the farmout lands. The farmee completed the commitment during the second quarter of 2012, at which time, WestFire recognized a gain on the farmout of $11,373, representing fifty percent of the difference between the original cost of the farmout lands prior to the farmout arrangement and the accumulated costs during the earning period, net of the $5 million of initial consideration received.

Dispositions of oil and gas properties

During the first nine months of 2012, the Company disposed of other oil and gas properties for gross proceeds of $2,325, resulting in a net gain on disposition of oil and gas properties $2,469.

5. **Loss impairment**

At June 30, 2012, due to declining forward natural gas prices, the Company tested certain natural gas CGUs for impairment. The recoverable amounts of the Company's CGUs were estimated as the fair value less costs to sell based on the net present value of the after tax cash flows from oil and gas proved and probable reserves estimated by the Company's third party reserve evaluators, as at December 31, 2011 updated for pricing and production from January to June 2012, discounted at rates between eight and ten percent.

The following assumptions were used in determining whether an impairment to the carrying value of the CGUs existed at June 30, 2012:

	WTI Oil (US$/bbl)	WCS (at Hardisty) ($Cdn/bbl)	Natural Gas Liquids (Pentanes) ($Cdn/bbl)	AECO Gas ($Cdn/mmbtu)	$Cdn/$US
2012 Q3-Q4	85.00	65.94	89.76	2.87	0.98
2013	90.00	70.99	95.41	3.44	0.98
2014	95.00	78.47	99.76	3.90	0.98
2015	100.00	82.63	105.06	4.36	0.98
2016	100.00	82.63	105.06	4.82	0.98
2017	100.00	82.63	105.06	5.28	0.98
2018	101.35	83.75	106.49	5.68	0.98
2019	103.38	85.44	108.65	5.80	0.98
2020	105.45	87.16	110.84	5.91	0.98
2021	107.56	88.92	113.08	6.03	0.98
Remainder	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.98 thereafter

At June 30, 2012 it was determined that the net book value of two CGUs exceeded the recoverable amount, resulting in the recognition of an impairment charge of $16,116. The impairment loss was attributed to the Company's natural gas weighted CGUs, Kaybob South and Alberta gas.

A one percent increase in the assumed discount rate would result in an additional impairment of $19,385 while a ten percent decrease in future planned cash flows would have increased the impairment loss by $37,671.

6. **Bank debt**

At September 30, 2012 the Company had borrowing capacity through an arrangement of credit facilities totaling $250,000 (September 30, 2011 - $200,000) with a syndicate of five financial institutions. A demand debenture on all the assets of the Company has been provided as security for these facilities. The credit facilities are comprised of a $240,000 syndicated facility and a $10,000 operating facility. Both are revolving facilities with term-out provisions with the initial revolving period ending June 27, 2013 with the provision for an annual extension at the option of the lenders and upon notice from WestFire's management. Should the credit facilities not be renewed, they convert to a one year non-revolving term loan at the end of the 364 day period. Repayment would not be required until the end of the non-revolving term, and as such, these facilities have been classified as long term debt. Repayments of principal are not required provided that the borrowings under the facilities do not exceed the authorized amount and the Company is in compliance with all covenants, representations and warranties. Covenants include a debt to EBITDA ratio test, a working capital ratio test (current assets excluding risk management contracts plus the available credit facility divided by current liabilities), reporting requirements, permitted indebtedness, permitted dispositions, permitted hedging, permitted encumbrances and other standard business operating covenants. As at September 30, 2012 the Company is in compliance with all covenants.

Interest rates fluctuate under the syndicated facilities with Canadian prime and US base rates plus an applicable margin between 100 basis points and 250 basis points as well as with Canadian banker's acceptance and LIBOR rates plus an applicable margin between 200 basis points and 350 basis points. This basis spread is determined by WestFire's debt-to-EBITDA ratio, where EBITDA is calculated on the last two quarters annualized. 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. In the normal course of operations WestFire enters into various letters of credit. 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).

The facilities will be reviewed semi-annually on October 31, 2012 and on May 31, 2013.

7. Finance charges

	Nine months ended September 30,	
	2012	2011
Interest charges on bank debt	**$ 5,160**	$ 1,583
Accretion of asset retirement obligations	**993**	601
Finance charges	**$ 6,153**	$ 2,184

8. Asset retirement obligations

The total future asset retirement obligations were estimated by management based on the expected cost to abandon and restore its net ownership interest in the well sites and the facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated that the total undiscounted amount of cash flows required to settle its asset retirement obligations at September 30, 2012 was $67,006 (December 31, 2011 - $58,355) which will be incurred over the next 25 years with the majority of costs incurred between 2013 and 2020. The Company used a risk free rate of 2.50% (2011 – 3.00%) to calculate the present value of the asset retirement obligations and an inflation rate of 2.00% (2011 – 2.00%) was used to inflate the estimated costs. Changes to the asset retirement obligations during the periods were as follows:

	September 30, 2012	December 31, 2011
Balance, beginning of period	**$ 42,171**	$ 17,098
Liabilities incurred	**7,479**	2,421
Liabilities acquired	**38**	12,433
Accretion	**993**	884
Liabilities settled	**-**	(446)
Liabilities disposed	**(173)**	(307)
Revision to estimates	**(684)**	10,088
Balance, end of period	**$ 49,824**	$ 42,171

9. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of voting and non-voting common shares. The non-voting common shares have the same dividend rights as the voting common shares. The holders of the non-voting common shares can attend shareholder's meetings but cannot vote. In the event that WestFire elects to liquidate, the non-voting common shareholders are paid out in advance of the voting common shareholders. The non-voting common shares cannot be transferred to a control person, which is defined as any person or company holding 20% or more of the voting common shares of the Company. Each non-voting common share can be converted into one voting common share of the Company. This conversion can be forced by WestFire after June 30, 2014.

(b) Common shares, issued and outstanding

	Number of shares			
	Voting	Non-Voting	Total	Amount
Balance, December 31, 2010	39,935,315	-	39,935,315	$ 182,541
Issued for cash (i)	4,862,000	-	4,862,000	44,001
Issued on option exercise	29,999	-	29,999	198
Issued for shares of Orion	22,527,938	15,613,689	38,141,627	261,270
Share issue costs – net of taxes of $852	-	-	-	(2,386)
Transferred from contributed surplus	-	-	-	103
Conversion of non-voting shares	125	(125)	-	-
Balance, December 31, 2011	67,355,377	15,613,564	82,968,941	$ 485,727
Conversion of non-voting shares	100,706	(100,706)	-	-
Balance, September 30, 2012	67,456,083	15,512,858	82,968,941	$ 485,727

(i) On March 9, 2011 the Company issued 4,862,000 common shares on a bought deal basis at a price of $9.05 per common share for gross proceeds of $44,001.

9. **Share capital (continued)**

(c) Share-based payments

The Company has an equity settled stock option plan which provides for the granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding voting common shares of the Company. The maximum number of common shares granted to any one optionee during a twelve month period shall not exceed 5% of the outstanding common shares of the Company at the time of granting. These options have a term of five years to expiry and have a three year vesting period from the date of grant. The exercise price of each option is determined by market value on the date the option is granted.

	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

	Outstanding options			Exercisable options	
Exercise price ($/share)	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price ($/share)	Number of options exercisable	Weighted average exercise price ($/share)
$3.75 - $4.99	456,900	0.5	$ 3.76	439,400	$ 3.75
$5.00 - $5.99	725,568	1.4	$ 5.09	585,401	$ 5.04
$6.00 - $6.99	770,167	1.3	$ 6.01	746,163	$ 6.00
$7.00 - $7.99	1,694,500	3.8	$ 7.58	564,822	$ 7.58
$8.00 - $9.25	1,115,500	2.5	$ 8.04	737,157	$ 8.03
	4,762,635	2.4	$ 6.69	3,072,943	$ 6.27

(d) Per share information

The following table summarizes the weighted average shares used in calculating net earnings per share:

	Three months ended September 30,		**Nine months ended September 30,**	
	2012	2011	**2012**	2011
Weighted average common shares				
Basic	**82,968,941**	82,968,941	**82,968,941**	56,460,380
Diluted	**83,016,077**	83,315,174	**83,061,348**	56,993,180

10. **Related party transactions**

A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). For the nine months ended September 30, 2012, included in general and administrative expenses and share issue expenses are amounts of $1,397 (September 30, 2011 - $203) and nil (September 30, 2011 - $669), respectively, charged to the Company by BDP. At September 30, 2012, $1,275 (September 30, 2011 - $699) was included in accounts payable.

11. Deferred compensation

(a) Employee indemnification agreements

In December 2011, resulting from the Company's restriction to grant stock options to new employees due to a self-imposed trading blackout, the Company agreed to indemnify those employees by a one-time cash payment equal to the number of options to which the employee was entitled, multiplied by the difference between the market price of WestFire's shares at the time of indemnification ("Closing Price") and the market price at such time that the Company is able to grant options in accordance with applicable securities law, to the extent that the exercise price of the options granted under the plan is greater than the Closing Price. This cash payment will be payable at the time the options granted are exercised and will be grossed up to take into account the difference in the applicable tax treatment between an option exercise and a cash payment. The fair value of the cash payment was estimated using the Black-Scholes options pricing model with the following assumptions: dividend yield – nil, expected volatility - 75.7%, risk free interest rate – 1.31% and a weighted average life of 5.0 years. The Company has recorded a liability of $999 at September 30, 2012 (December 31, 2011 – $64). Compensation expense for this arrangement for the nine months ended September 30, 2012 was $935 (2011 – nil) of which $192 (2011 – nil) was capitalized.

	Number Indemnified	Weighted Average Closing price
Balance, December 31, 2011	1,114,000	$ 4.80
Issued	118,500	5.12
Balance, September 30, 2012	1,232,500	$ 4.83

(b) Employee long term incentive

In January 2012, the Company's allocated up to $3.5 million in long term cash settled incentives to employees holding common share options at $7.59 or higher, issued in 2011. The incentive will provide for a cash payment of up to $2.28 per common share option to be paid to the share option holder at the time of exercise of the related option. The incentive will expire in concert with the expiry of the related common share options. As the incentive is to be paid in cash, the Company has recorded a deferred compensation liability on the statement of financial position which is accruing on a straight line basis over the remaining life of the related options. The Company has recorded a liability of $1,035 at September 30, 2012 (2011 – nil). Compensation expense for this arrangement for the nine months ended September 30, 2012 was $1,035 (2011 – nil) of which $325 (2011 – nil) was capitalized.

12. Commitments and contingencies

The Company has a commitment for two office leases for $28 per month until November 30, 2013 and $11 per month until December 31, 2012. The Company has sublease agreements in place for both offices for the balance of the leases. In addition, the Company assumed a commitment for an office lease for its head office at $75 per month until July 31, 2015.

On December 7, 2011 WestFire entered into a drilling rig commitment for a term of 215 days at a rate of $17 per day. The remaining commitment at September 30, 2012 is $578.

	Total	2012	2013	2014	2015	2016
Office leases (net of sublease agreements)	$ 3,346	$ 1,003	$ 915	$ 902	$ 526	$ -
Vehicle leases	358	245	113	-	-	-
Drilling rig	578	578	-	-	-	-
	$ 4,282	$ 1,826	$ 1,028	$ 902	$ 526	$ -

13. Financial instruments and risk management

The Company is exposed to risks related to the volatility of commodity prices, foreign exchange rates and interest rates. In certain instances, the Company uses derivative instruments to manage the Company's exposure to these risks. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels.

(a) Commodity price risk

At September 30, 2012, the Company had outstanding crude oil derivative contracts as follows:

	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

At September 30, 2012, a current asset of \$7,234 and long term asset of \$1,316 (December 31, 2011 – a long term liability of \$305 and a current liability of \$5,607, for a total liability of \$5,912) was recorded on the Company's statement of financial position. The resulting gain (loss) on risk management contracts during the periods are as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2012	2011	**2012**	2011
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

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

		2012	2011
Commodity	Price Change	Net earnings change	
Oil and NGL (\$/bbl)	\$1.00	**\$ 1,747**	\$ 753
Natural gas (\$/Mcf)	\$0.10	**\$ 494**	\$ 240

(b) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. Assuming all other variables remain constant, an increase or decrease of one percent to the effective interest rate for the Company, given average bank debt for the nine months ended September 30, 2012 of approximately \$147,000 (September 30, 2011 - nil) would have increased or decreased net earnings by \$1,107 (September 30, 2011 - nil) for the nine months ended September 30, 2012.

(c) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. As the effects of foreign exchange fluctuations are embedded in the Company's results, the total effect of foreign exchange fluctuations is not separately identifiable. The Company had no forward exchange rate contracts in place as at or during the nine months ended September 30, 2012 and September 30, 2011.

Corporate Information

Directors
Ed Chwyl [(2) (3)]
Victoria, British Columbia

John A. Brussa, LL.B [(3)]
Calgary, Alberta

Raymond T. Chan, CA [(1)]
Calgary, Alberta

Christopher L. Fong, P.Eng. [(1)(2)]
Calgary, Alberta

Lowell E. Jackson, P.Eng.
Calgary, Alberta

Michael McGovern [(1)(3)]
Houston, Texas

Roger D. Thomas [(2)(3)]
Calgary, Alberta

(1) Member of the Audit Committee
(2) Member of the Reserves Committee
(3) Member of the Compensation Committee

Auditors
PricewaterhouseCoopers LLP

Evaluation Engineers
GLJ Petroleum Consultants

Bankers
ATB Financial
Canadian Imperial Bank of Commerce
The Toronto Dominion Bank
The Bank of Nova Scotia
Wells Fargo Bank

Legal Counsel
Burnet, Duckworth and Palmer LLP

Transfer Agent
Valiant Trust Company

Officers
Lowell E. Jackson, P.Eng.
President and CEO

Frank P. Muller, P.Geol.
Senior Vice President, Exploration

Jeffrey W. Holmgren, CA
Vice President, Finance and CFO

Darrin R. Drall, P.Eng.
Vice President, Engineering

Christopher J. Bennett, LLB
Vice President, Land and Legal

Cameron King, P.l.Eng., MBA
Vice President, Operations

A. Caroline Banks, CA
Controller

Alan T. Pettie, LL.B
Corporate Secretary

Corporate Office
1400, 440 – 2nd Avenue SW
Calgary, Alberta T2P 5E9
Phone: (403) 261-6955
Fax: (403) 261-9658

Website: www.westfireenergy.com

Contact: Lowell E. Jackson
Email: ljackson@westfireenergy.com

Contact: Jeffrey W. Holmgren
Email: jholmgren@westfireenergy.com