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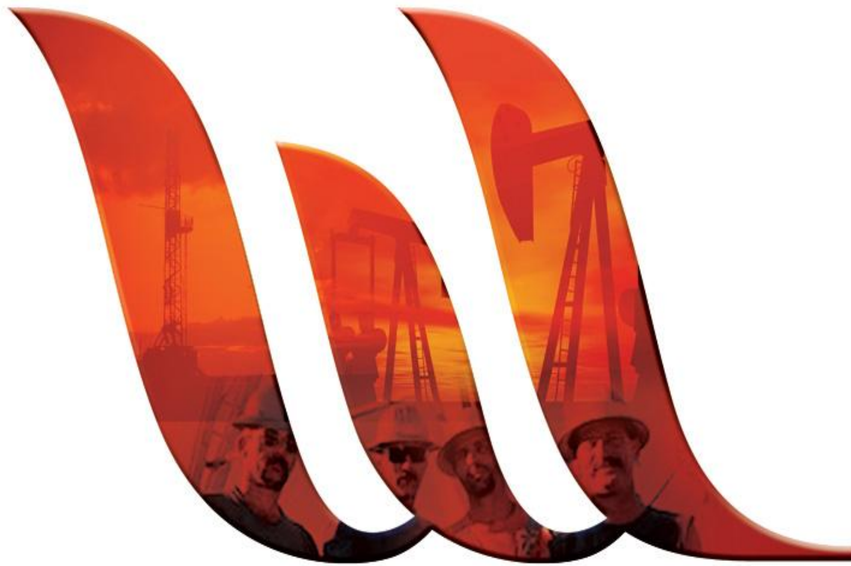

2011 Q1 Financial Statements

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Profile

WestFire Energy Ltd. is a public junior oil and gas company focused on building shareholder value by growing per share production and reserves. WestFire has built, and is now drilling, a large inventory of low risk Viking light oil horizontal locations in its core areas of Redwater and Provost, Alberta and West Central Saskatchewan. The Company also has the Lloydminster, Alberta Lloyd/Sparky heavy oil horizontal project and the Teepee Creek, Alberta light oil Doig project. WestFire is focused on exploiting its assets in each of its core areas by utilizing advanced technical and operational methods. Each of these core areas has the following key attributes:

(1) Significant undeveloped land with high working interests and operatorship,
(2) Capacity for large, repeatable, scalable reserves and/or multi-zone potential,
(3) Wholly-owned or available infrastructure, and
(4) All-season access.

Annual General Meeting

Shareholders are cordially invited to attend the Annual General Meeting of WestFire Energy Ltd., which will be held at 1:30 pm Mountain Daylight Time on Wednesday, May 25, 2011 at the Westwinds Meeting Room located on the second floor at 555 – 4th Avenue S.W., Calgary, Alberta, Canada. If unable to attend, shareholders are requested to complete and return the Proxy form to the Corporate Secretary of the Corporation.

Message to Our Shareholders

During the first quarter of 2011, WestFire Energy Ltd. ("WestFire" or “the Company”) achieved the highest quarterly revenues in its history. Despite a harsh winter, the Company was able to accomplish the following:

- Most active and successful quarter of drilling with 23 (23.0 net) oil wells drilled with no dry holes;
- Produced 2,773 boe per day during Q1 2011, compared to 2,436 boe per day during Q1 2010, an increase of 14%;
- Record quarterly funds flow from operations of $6,681 ($0.16 per share) in Q1 2011, an increase of 27% from $5,268 ($0.15 per share) in Q1 2010;
- Increased the mix of oil and NGL as a percentage of total production to a quarterly record of over 60 percent; and
- Maintained a strong financial position with net debt of $1.2 million at March 31, 2011 on a current bank line of $42 million

Operational Review

WestFire Energy Ltd. embarked on an aggressive drilling program focused entirely on oil projects during the first quarter. Initial production from fifteen of these wells was not realized until the latter part of the quarter, while the remaining eight wells are awaiting completion. Oil volumes continued to build as the new oil wells were brought on stream translating into a quarter over quarter increase of 5%. In the meantime, given current economics, gas volumes were allowed to drop from year end 2010 peaks. Production rates will continue to increase as the remaining wells are brought on stream.

On the Viking play 14 (14.0 net) horizontal wells were drilled in the first quarter. Two wells were drilled at Provost with the remainder being drilled at Redwater. The wells drilled at Provost were the initial test wells into this area. Production commenced from these wells the last week in March and rates after 30 days have stabilized at 80 and 40 barrels per day, respectively. At Redwater only nine wells were on production at the end of the quarter. After 30 days average rates of 60 barrels per day were recorded.

At Lloydminster, four (4.0 net) Lloydminster horizontal wells and five (5.0 net) Sparky horizontal wells were drilled. The horizontal wells were placed on stream in mid-March.

Drilling activities continued through breakup with a further nine (9.0 net) oil wells being drilled in April. Four horizontal oil wells were drilled at Lloydminster and five horizontal Viking oil wells at Redwater. At the same time, completion and tie-ins have continued. Current field reported production is in excess of 3,400 boe per day with oil making up 70 percent of the total. The nine wells drilled in April and four wells drilled in the first quarter will be brought on production over the next several weeks.

Outlook

The Company has now developed the Viking resource play to the “manufacturing” stage. Multiple wells are being drilled from padsites which decreases on-stream timelines and increases cost efficiencies. WestFire has two drilling rigs under contract which are currently stacked in the field awaiting the end of spring break up, and a third is contracted and scheduled to start drilling in early June. At Redwater, 13 padsites and 40 well locations are in various stages of preparation while Provost has 11 padsites and 22 well locations in various stages of preparation. Another 27 well locations are being prepared in west central Saskatchewan. Upon completion of the spring break up, the Company is poised to continue executing its capital program.

On behalf of the Board of Directors,

(signed)
Lowell E. Jackson, P.Eng.
President & Chief Executive Officer

Interim Financial Statements

Interim Balance Sheets

($ thousands) (unaudited)	**March 31, 2011**	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	**$ 12,584**	$ -	$ 274
Accounts receivable (Note 14)	**6,634**	8,188	6,455
Risk management contracts (Note 14)	**-**	184	-
Prepaid expenses and deposits	**421**	480	477
	19,639	8,852	7,206
Oil and gas properties (Note 5)	**196,010**	173,738	109,955
Deferred tax asset (Note 10)	**60,383**	58,927	63,539
Goodwill (Note 6)	**1,986**	1,986	-
	$ 278,018	$ 243,503	$ 180,700
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	**$ 20,837**	$ 22,586	$ 10,682
Bank debt (Note 7)	**-**	8,089	-
Risk management contracts (Note 14)	**3,028**	-	175
	23,865	30,675	10,857
Risk management contracts (Note 14)	**758**	465	-
Asset retirement obligations (Note 9)	**16,899**	17,098	13,880
	41,522	48,238	24,737
Shareholders' Equity			
Share capital (Note 11)	**224,815**	182,541	147,270
Contributed surplus	**6,562**	5,736	2,477
Retained earnings	**5,119**	6,988	6,216
	236,496	195,265	155,963
	$ 278,018	$ 243,503	$ 180,700

Commitments and contingencies (Note 13)

See accompanying notes to interim financial statements.

Interim Statement of Net Income (Loss) and Comprehensive Income (Loss)

($ thousands, except per share data)	**Three Months Ended**	**March 31,**
(unaudited)	**2011**	2010
Revenue		
Oil and natural gas	**$ 13,685**	$ 10,818
Interest and other revenue	**3**	24
Crown and other royalties	**(1,389)**	(1,250)
	12,299	9,592
Expenses		
Operating	**4,348**	3,406
Transportation	**284**	247
Finance costs (Note 8)	**303**	179
General and administrative	**1,030**	764
Stock-based compensation (Note 11)	**700**	260
Loss (gain) on risk management contracts	**3,250**	(2,191)
Depletion and depreciation	**5,006**	3,102
	14,921	5,767
Net income (loss) before taxes	**(2,622)**	3,825
Provision for (recovery of) income taxes		
Capital and current income taxes (Note 10)	**56**	73
Deferred income tax expense (recovery) (Note 10)	**(809)**	1,334
	(753)	1,407
Net income (loss) and comprehensive income (loss)	**$ (1,869)**	$ 2,418
Net income (loss) per share (Note 11d)		
Basic and diluted	**$ (0.05)**	$ 0.07

See accompanying notes to interim financial statements.

Interim Statements of Cash Flows

($ thousands) (unaudited)	Three Months Ended March 31, 2011	2010
Cash provided by (used in):		
Operating activities		
Net income (loss) for the period	**$ (1,869)**	$ 2,418
Add (deduct) items not affecting cash:		
Depletion and depreciation	**5,006**	3,102
Accretion of asset retirement obligations	**149**	140
Unrealized loss (gain) on risk management contracts	**3,504**	(1,985)
Deferred income taxes (recovery)	**(809)**	1,334
Stock-based compensation	**700**	259
	6,681	5,268
Change in non-cash working capital	**(135)**	7,379
	6,546	12,647
Financing activities		
Increase (decrease) in bank debt	**(8,089)**	4,303
Proceeds of share issue net of issue costs	**41,605**	178
	33,516	4,481
Investing activities		
Oil and gas properties	**(27,539)**	(17,402)
Proceeds from the sale of assets	**61**	-
	(27,478)	(17,402)
Net increase (decrease) in cash and cash equivalents during the period	**12,584**	(274)
Cash and cash equivalents, beginning of the period	**-**	274
Cash and cash equivalents, end of the period	**$ 12,584**	$ -
Supplementary disclosure		
Cash interest paid	**$ 154**	$ 40
Cash taxes paid	**$ 56**	$ 73

See accompanying notes to interim financial statements.

Statement of Changes in Equity
($ thousands)
(unaudited)

	Share Capital (Note 11)	Contributed Surplus	Retained Earnings	Total Equity
Balance at January 1, 2011	$ 182,541	5,736	6,988	$ 195,265
Comprehensive loss			(1,869)	(1,869)
Issued for cash	44,001			44,001
Issued on exercise of options	64			64
Share issue costs - net of taxes	(1,813)			(1,813)
Transfer from contributed surplus on exercise of stock options	22	(22)		-
Stock-based compensation		848		848
Balance at March 31, 2011	$ 224,815	6,562	5,119	$ 236,496
Balance at January 1, 2010	$ 147,270	2,477	6,216	$ 155,963
Comprehensive income			2,418	2,418
Issued pursuant to the 2009 Employee Stock Purchase Plan	198			198
Issued on exercise of options	155			155
Transfer from contributed surplus on exercise of stock options	54	(54)		-
Share issues expenses - net of taxes	(57)			(57)
Stock-based compensation		342		342
Balance at March 31, 2010	$ 147,620	2,765	8,634	$ 159,019

See accompanying notes to interim financial statements.

1. Corporate information:

WestFire Energy Ltd. ("the Company" or "WestFire") is a public company in the business of exploration and production of crude oil, natural gas and natural gas liquids. The address of its registered office is 810, 555 4th Avenue S.W. Calgary, Alberta, Canada, T2P 3E7.

These interim Financial Statements were approved and authorized for issuance by the Board of Directors on May 12, 2011.

2. Basis of presentation

In conjunction with the Company's annual audited Financial Statements to be issued under International Financial reporting Standards ("IFRS") for the year ending December 31, 2011, these interim Financial Statements present WestFire's initial financial results of operations and financial position under IFRS as at and for the three months ended March 31, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim Financial Statements do not include all the necessary disclosure in accordance with IFRS. Previously, the Company prepared its interim and annual Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

The preparation of these interim Financial Statements resulted in selected changes to WestFire's accounting policies as compared to those disclosed in the Company's annual Financial Statements for the period ended December 31, 2010 issued under previous GAAP. A summary of the significant changes to WestFire's accounting polices is disclosed in Note 16 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the three months ended March 31, 2010, and as at and for the twelve months ended December 31, 2010.

A summary of WestFire's significant accounting policies under IFRS is presented in Note 3. These polices have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 16.

These interim 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 are discounted using a risk free rate.

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

3. Significant accounting policies

(a) Significant accounting estimates and judgements

The timely preparation of the interim Financial Statements requires that Management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the interim Financial Statements and the reported amounts of revenue and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the interim Financial Statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgements made by Management in the preparation of these interim Financial Statements are outlined below.

Estimation of recoverable quantities of proven and probable reserves includes estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets and goodwill, the asset retirement obligations, and the amounts reported for depletion, depreciation and depreciation of oil and gas properties.

In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant assumptions.

3. Significant accounting policies (continued)

Upstream assets are aggregated into cash-generating units based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to Management's judgement.

Amounts recorded for asset retirement obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation and related cash flows, as well as the selection of a risk free discount rate. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

The estimated fair values of derivative instruments resulting in financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Compensation costs accrued for long-term stock-based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by Management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

(b) Oil and gas properties

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any asset retirement obligations, and borrowing costs for qualifying assets, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within oil and gas properties.

Exchanges of assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Unless the fair value of the asset received is more clearly evident, the cost of the acquired asset is measured at the fair value of the asset given up. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on derecognition of the asset given up is recognized in profit or loss.

Depletion of oil and natural gas assets and depreciation of production equipment are calculated using the unit-of-production method, based on volumes of total proved and probable oil and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. The depletable base includes all capitalized costs, estimated future development costs of proved and probable undeveloped reserves, and future estimated asset restoration costs. Computer and office equipment are recorded at cost and amortized on a declining basis using a rate of 30% per annum. Leasehold improvements are recorded at cost and amortized over the remaining term of the office lease or the estimated useful life, if shorter.

An asset within oil and gas properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognized.

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the "cash-generating unit" or "CGU").

A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and its assets are written down to the CGU's recoverable amount. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

3. Significant accounting policies (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been objective evidence of a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(c) Intangible exploration assets

Exploration license and leasehold property acquisition costs, geological and geophysical costs and costs directly associated with an exploration well and appraisal activities are capitalized within intangible exploration assets. Such intangible exploration costs do not include general prospecting or other evaluation costs incurred prior to receiving the legal rights to explore an area, which are expensed when incurred.

Intangible exploration costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the associated oil and gas interests. If no future activity is planned, the capitalized costs are expensed. Upon commercial viability, technical feasibility and internal approval for development, the related capitalized costs are first tested for impairment and then reclassified to oil and gas properties.

(d) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities and contingent liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. At the acquisition date, any goodwill is allocated to a CGU or a group of CGUs expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is assessed for impairment annually at year end or more frequently if events occur that indicate a possible impairment. Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the cash-generating unit or units with allocated goodwill is less than the carrying amount, an impairment loss of goodwill is recognized.

(e) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairment recognized in net earnings in the period measured. Non- current assets held for sale are presented in current assets and liabilities within the Balance Sheet. Assets held for sale are not depreciated, depleted or amortized.

Significant accounting policies (continued)

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Provisions are not recognized for future operating losses.

Asset retirement obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of asset retirement and capitalized in the relevant asset category. Asset retirement obligations are Management's best estimate of the future costs associated with removal, site restoration and asset retirement. The fair value of the liability for the Company's asset retirement obligations is recorded in the period in which it is incurred, discounted to its present value using a risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of oil and gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is recognized as a finance cost in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the provision. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent of the liability recorded.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(g) Deferred income taxes

The Company uses the balance sheet method for calculating deferred income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate deferred income tax assets or liabilities. Deferred income tax assets or liabilities are calculated using the currently enacted, or substantively enacted, tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is recorded against any deferred income tax assets if it is probable that the asset will not be realized. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in the period that the change occurs.

(h) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through shares are renounced to investors in accordance with tax legislation. Share capital is stated at the market value of shares without the flow-through feature at the time of issue, with a liability recognized representing the difference between cash received and market value. The premium paid for flow through shares in excess of that market value of the shares is drawn down and deferred tax is recognised at the time the qualifying exploration and development expenditures are renounced and incurred.

(i) Revenue recognition

Oil and natural gas revenues are recognized when the title and risks pass to the purchaser and the collectability is reasonably assured.

(j) Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

3. Significant accounting policies (continued)

(k) Finance charges

Finance charges comprise interest expense on borrowings and accretion of the discount on the asset retirement obligation.

(l) Per share amounts

Basic per share information is computed by using the weighted average number of common shares outstanding for the period. The treasury stock method is used to determine the diluted per share amounts, whereby any proceeds from stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(m) Stock-based compensation plan

The Company has a stock-based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 11). Under this method, stock-based compensation is recorded as an expense or capitalized over the vesting period of the option, with a corresponding increase in contributed surplus. Stock-based compensation is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the consideration paid to the Company, along with amounts previously credited to contributed surplus, is credited to share capital. Stock-based compensation for employees that are directly related to exploration for and development of oil and natural gas reserves are capitalized.

(n) Financial instruments

Non-derivative financial assets and liabilities

Non-derivative financial instruments consist of cash and cash equivalents, accounts receivable, bank debt and accounts payable. Non-derivative financial instruments are recognized initially at fair value plus any direct attributable transaction costs unless the non-derivative financial instrument is designated at fair value through profit or loss. Subsequent to initial recognition cash and cash equivalents, accounts receivable, bank debt and accounts payable are measured at amortized cost using the effective interest rate method less any impairment losses.

Derivative financial instruments

The Company frequently uses non-financial derivative instruments to manage market risk associated with volatile commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its derivative contracts as effective accounting hedges and all contracts are therefore classified as fair value through profit or loss. These instruments are recorded at their fair value on each balance sheet date and related gains and losses are recorded as gains and losses on risk management contracts in the consolidated statement of comprehensive income in the period they occur.

(o) New pronouncements adopted

March 31, 2011 is WestFire's first reporting period under IFRS. Accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

3. Significant accounting policies (continued)

(p) New standards and interpretations not yet adopted

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Company:

In November 2009, the IASB issued IFRS 9 Financial Instruments which deals with the classification and measurement of financial assets and liabilities. This new standard represents the first phase of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted and with transitional arrangements depending upon the date of initial application. The Company is currently evaluating the effect of this new standard.

4. Corporate acquisitions

(a) Corporate acquisitions

On April 30, 2010, the Company acquired all of the issued and outstanding shares of three unrelated private companies for cash totaling $8,018. These unrelated companies were grouped for disclosure purposes as they were all acquired on the same date and owned similar assets. These acquisitions have been accounted for using the acquisition method. The goodwill recorded upon acquisition is attributed to the Viking oil resources unrecognized in the fair value of the assets and liabilities acquired. The Statement of Net Income and Comprehensive Income for the year ended December 31, 2010 includes $382 of revenues net of royalties and operating expenses for properties associated with this acquisition.

The purchase price allocation has been determined on the basis of the fair value of assets and liabilities as follows:

Net assets acquired:	
Cash	$ 389
Accounts receivable and prepaid expenses	185
Oil and gas properties	9,776
Goodwill	1,986
Accounts payable	(56)
Deferred tax liability	(1,925)
Asset retirement obligations	(2,337)
Total purchase price	$ 8,018
Consideration given:	
Cash	$ 8,018

5. **Oil and gas properties**

	Oil and Gas Interests	Corporate Assets	Total
At January 1, 2010:			
Cost (Note 16)	$ 130,526	176	$ 130,702
Accumulated depletion and depreciation	(20,683)	(64)	(20,747)
Net book value	$ 109,843	112	$ 109,955
Year ended December 31, 2010:			
Opening net book amount	$ 109,843	112	$ 109,955
Acquisition through business combinations	9,776	-	9,776
Additions	74,429	49	74,478
Disposals	(4,598)	-	(4,598)
Depletion and depreciation	(15,837)	(36)	(15,873)
Closing net book value	$ 173,613	125	$ 173,738
At December 31, 2010:			
Cost	$ 209,277	225	$ 209,502
Accumulated depletion and depreciation	(35,664)	(100)	(35,764)
Net book value	$ 173,613	125	$ 173,738
Period ended March 31, 2011:			
Opening net book amount	$ 173,613	125	$ 173,738
Additions	27,212	127	27,339
Disposals	(61)	-	(61)
Depletion and depreciation	(4,981)	(25)	(5,006)
Closing net book value	$ 195,783	227	$ 196,010
At March 31, 2011:			
Cost	$ 236,428	351	$ 236,779
Accumulated depletion and depreciation	(40,645)	(124)	(40,769)
Net book value	$ 195,783	227	$ 196,010

During the three months ended March 31, 2011, the Company capitalized general and administrative expenses in the amount of $275 (March 31, 2010 - $204) related to acquisition and development activities.

Future development costs on proved and probable undeveloped reserves of $148,274 (March 31, 2010 - $66,275) are included in the depletion calculation for the 2011 period.

6. **Goodwill**

At January 1, 2010	
Net book value (Note 15)	$ -
Year ended December 31, 2010	
Opening net book amount	-
Acquisition through business combinations	1,986
Closing net book value	1,986
Period ended March 31, 2011	
Opening and closing net book value	$ 1,986

7. **Bank debt**

At March 31, 2011 the Company had a revolving credit facility in the amount of $42,000 (December 31, 2010 - $42,000) with a Canadian financial institution. The interest rate charged on the bank facility ranges from the bank's prime plus 0.875% to prime plus 1.875% and is dependent on the ratio of the Company's net debt to trailing cash flow. The authorized limit of the facility will be reviewed by May 31, 2011. This facility is secured by the assets of the Company. No amount was drawn as at March 31, 2011.

8. Finance costs

	March 31, 2011	March 31, 2010
Bank debt interest	**$ 154**	$ 40
Accretion of asset retirement obligation	**149**	139
Finance costs	**$ 303**	$ 179

9. Asset retirement obligations

The total future asset retirement obligations were estimated by Management based on the expected cost to abandon and restore 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 March 31, 2011 was $22,421 (December 31, 2010 - $22,591) which will be incurred between 2011 and 2020. The Company used a risk free rate of 3.75% to calculate the present value of the asset retirement obligations and an inflation rate of 2% was used to inflate the costs. Changes to the asset retirement obligation were as follows:

	March 31, 2011	December 31, 2010
Balance, beginning of period	**$ 17,098**	$ 13,880
Liabilities incurred	**311**	1,349
Liabilities acquired	**-**	2,337
Accretion	**149**	609
Abandonment costs incurred	**-**	(369)
Dispositions	**(48)**	(1,170)
Revision to estimates	**(612)**	462
Balance, end of period	**$ 16,899**	$ 17,098

10. Income taxes

(a) Income tax provision:

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial tax rate to the Company's earnings before income taxes. This difference results from the following items:

	March 31, 2011	March 31, 2010
Net income (loss) before taxes	**$ (2,622)**	$ 3,825
Combined federal and provincial rate	**27.5%**	29.0%
Computed "expected" income tax expense (recovery)	**$ (721)**	$ 1,109
Increase (decrease) resulting from:		
Saskatchewan capital tax	**56**	73
Capital taxes deducted from income tax	**(15)**	(21)
Stock-based compensation	**192**	75
Other	**(265)**	79
Flow-through share renouncements	**-**	92
Income tax expense (recovery)	**$ (753)**	$ 1,407

10. Income taxes (continued)

(b) The components of the Company's deferred tax asset are as follows:

	March 31, 2011	December 31, 2010
Scientific research and experimental development	**$ 17,442**	$ 19,056
Temporary differences related to oil and gas properties	**18,587**	17,047
Investment tax credits	**15,434**	15,434
Non-capital losses	**1,428**	1,313
Asset retirement obligations	**4,444**	4,497
Share issuance expenses	**1,993**	1,496
Risk management contracts	**1,041**	82
Attributed Canadian royalty income	**14**	2
Deferred tax asset	**$ 60,383**	$ 58,927

(c) Changes in temporary differences in the period are as follows:

	March 31, 2011	December 31, 2010
Balance, beginning of period	**$ 58,927**	$ 63,539
Oil and gas properties	**1,540**	(2,503)
Scientific research and experimental development	**(1,614)**	(1,354)
Risk management contracts	**959**	31
Share issuance costs	**497**	24
Non-capital losses	**115**	(1,502)
Asset retirement obligations	**(53)**	749
Attributed Canadian royalty income	**12**	(23)
Investment tax credits	**-**	(34)
Balance, end of period	**$ 60,383**	$ 58,927

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized. Non-capital loss carry forward balances expire as follows: December 31, 2014 - $90, December 31, 2015 - $568, December 31, 2016 - $537, December 31, 2027 and later - $4,234.

Investment tax credit balances expire as follows: December 31, 2019 – $1,101, December 31, 2020 – $2,589, December 31, 2021 – $3,201, December 31, 2022 – $2,602, December 31, 2023 – $2,934, December 31, 2024 – $3,007.

11. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of non-voting common shares.

(b) Common shares, issued and outstanding

	Number of shares
Balance, January 1, 2010	35,157,959
Issued pursuant to the 2009 Employee Stock Purchase Plan	52,357
Issued on option exercise	79,999
Issued for cash	4,645,000
Balance, December 31, 2010	39,935,315
Issued for cash	4,862,000
Issued on option exercise	13,332
Balance, March 31, 2011	44,810,647

(c) Stock options

The Company's stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding 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, January 1, 2010	1,912,300	$ 5.12
Granted	1,519,000	$ 7.62
Forfeited	(232,334)	$ 6.68
Exercised	(79,999)	$ 4.73
Balance, December 31, 2010	3,118,967	$ 6.22
Granted	4,500	$ 9.17
Forfeited	(17,000)	$ 5.37
Exercised	(13,332)	$ 4.81
Balance, March 31, 2011	3,093,135	$ 6.23

	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	449,400	1.8	$3.75	429,400	$3.75
$5.00	492,068	2.1	$5.00	323,586	$5.00
$5.13	51,500	4.5	$5.13	-	-
$5.29	175,000	4.5	$5.29	-	-
$5.62	12,000	4.6	$5.62	-	-
$6.00	734,167	2.7	$6.00	483,321	$6.00
$6.39	8,500	4.6	$6.39	-	-
$8.03	1,166,000	4.0	$8.03	388,662	$8.03
$9.17	4,500	4.9	$9.17	-	-
	3,093,135	3.1	$6.23	1,624,969	$5.69

11. **Share capital (continued)**

(d) Per share information

The following table summarizes the weighted average shares used in calculating the net income (loss) per share:

	March 31, 2011	March 31, 2010
Weighted average common shares		
Basic	**41,130,248**	35,190,593
Diluted	**41,818,987**	35,498,791

(e) Stock-based compensation

Compensation costs attributable to share options granted to employees or directors are measured at fair value at the grant date and expensed or capitalized over the expected vesting time frame with a corresponding increase to contributed surplus. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions used for both 2011 and 2010: dividend yield – nil, expected volatility 70%, risk-free interest rate 2.31%, and weighted average life of 5.0 years. A forfeiture rate of 8.5% (2010 – 8.5 %) is used when recording stock compensation expense. This estimate is adjusted to the actual forfeiture rate. The weighted average fair value of stock options granted for the three months ended March 31, 2011 was $5.44 (March 31, 2010 -$5.29) per option.

In October 2010, the Company implemented a cash-settled performance plan based on the share price of the Company. Each employee and director received rights to receive a portion of a performance pool when the Company's share price reaches price levels of $12.00, $15.00 and $18.00 per share. The performance pool to be paid out to employees and directors was established at $4 million at the $12 share price, an additional $5 million at the $15 share price, and a further $6 million at the $18 share price. All unexercised rights granted under the plan expire on July 14, 2014. The liability for the performance plan is measured at fair value each reporting period using a binomial lattice model and recognized over the vesting period. At March 31, 2011 no compensation expense or liability has been recognized.

12. **Related party transactions**

The following transactions with related parties were recorded at fair value:

(a) A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the three months ended March 31, 2011, included in general and administrative expenses and share issue expenses are amounts totaling $16 (2010 - $0) and $0 (2010 - $64), respectively, charged to the Company by BDP. At March 31, 2011, $16 (March 31, 2010 - $64) was included in accounts payable.

13. **Commitments and contingencies**

(a) The Company has a commitment to lease office space for $27 per month until November 30, 2013. In addition as part of a corporate acquisition, the Company assumed a commitment for an office lease at $11 per month until December 31, 2012. The Company has sublet this space for the balance of the lease.

Future lease payments are:

Year ending December 31 ($)	Gross lease payments	Sublease recovery	Net lease payments
2011	342	(51)	291
2012	456	(68)	388
2013	297	-	297

(b) At March 31, 2011, the Company had committed to vehicle leases for the purposes of field operations. Future minimum lease payments relating to the vehicle leases are:

Year ending December 31 ($)	
2011	107
2012	104
2013	14

(c) Capital commitments

WestFire has committed to drill a minimum of two horizontal wells in west central Saskatchewan. The commitment is pursuant to a lease option agreement with an industry partner. The Company expects to satisfy this drilling commitment at an estimated cost of $2,800. There will be a penalty of $750 per horizontal well if not drilled by October 2011.

13. Commitments and contingencies (continued)

(d) Legal claims

WestFire is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material adverse impact on WestFire's financial position or results of operations.

(e) Income and other tax uncertainties

The Company files income, goods and service tax and other tax returns with various provincial and federal taxation authorities in Canada. These tax authorities are currently examining these income and other tax returns. There can be differing interpretations of applicable tax laws and regulations. The resolution of these tax positions through negotiations or litigation with tax authorities can take several years to complete. The Company does not anticipate that there will be any material impact from filed tax positions upon the results of operations, financial position or liquidity although in some cases it is difficult to predict the ultimate outcome of a tax position.

14. Financial instruments and risk management

(a) Fair value of financial instruments

March 31,2011	Carrying value	Fair value
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ 12,584	$ 12,584
Accounts receivable	6,634	6,634
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	$ 20,837	$ 20,837
Risk management contracts	3,786	3,786

December 31, 2010	Carrying value	Fair value
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ -	$ -
Accounts receivable	7,822	7,822
Risk management contracts	1,422	1,422
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	$ 19,231	$ 19,231
Bank debt	4,303	4,303

All of WestFire's cash and cash equivalents and risk management contracts, are transacted in active markets. WestFire classifies the fair value of these transactions according to a hierarchy based on the amount of observable inputs used to value the instrument. Level 1 fair value measurements are based on unadjusted quoted market prices.
Level 2 fair value measurements of risk management contracts are estimated using published forward price curves, option model inputs and discount rates specific to the remaining contracted volumes.

The Company has exposure to credit risk, liquidity risk and market risk arising from its financial assets and liabilities. Financial risks include credit risk, liquidity risk and market risks such as commodity prices, interest and foreign exchange rates. Net earnings, cash flows and the fair value of financial assets may fluctuate due to movement in market prices or as a result of the Company' exposure to credit and liquidity risks.

The Board of Directors oversees Managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to: (i) Identify and analyze the risks faced by the Company; (ii) Set appropriate risk limits and controls; and (iii) Monitor risks and consider the implications of market conditions in relation to the Company's activities.

14. **Financial instruments and risk management (continued)**

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The Company's receivables consisted of the following:

	March 31, 2011	December 31, 2010
Oil and natural gas marketers	**$ 5,308**	$ 5,440
Joint venture partners	**1,007**	981
Other trade receivables	**319**	1,767
Balance, end of period	**$ 6,634**	$ 8,188

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following the month of production. The Company attempts to mitigate credit risk by establishing marketing relationships with a variety of purchasers. The Company markets its production to customers with investment grade credit ratings, if available in the area of production, or seeks parental guarantees and letters of credit. At March 31, 2011, WestFire had receivables from nine different marketing companies. One of these marketing companies owed WestFire $2,014 or 30% of the total. During the first quarter of 2011, this marketing company marketed oil and gas volumes representing approximately 27 % of total oil and gas revenues. Another marketing company owed WestFire $1,506 or 23% of the total at March 31, 2011. This marketing company marketed oil and gas volumes representing approximately 24% of total oil and gas revenues. A third marketing company owed WestFire $1,018 or 15% of the total at March 31, 2011. This marketing company marketed oil and gas volumes representing approximately 18% of total oil and gas revenues.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure being incurred. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements may arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint venture partners. As the operator of properties, WestFire has the ability to not allocate production to joint venture partners who are in default of amounts owing.

The carrying amount of accounts receivable represents the maximum credit exposure. As at March 31, 2011 and 2010, the Company's receivables were aged as follows:

	March 31, 2011	December 31, 2010
Ageing	**2011**	2010
Not past due (less than 90 days)	**$ 6,402**	$ 7,986
Past due (90 days to one year)	**232**	202
	$ 6,634	$ 8,188

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the funding of the capital expenditure program, the Company has a revolving reserve based credit facility, as outlined in Note 7.

WestFire's financial liabilities on the balance sheet consist of accounts payable, risk management contracts and bank debt. The Company expects to satisfy obligations under accounts payable in less than one year. WestFire has a revolving reserve based credit facility as outlined in Note 7. The credit facility is available on a revolving basis and is reviewed annually by the bank. The next review by the bank is scheduled for May 2011.

14. Financial instruments and risk management (continued)

(d) Market risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The use of these risk management contracts is governed by a formal policy and is subject to maximum limits established by the Board of Directors. The Company has entered into several financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital.

(e) Commodity price risk

At March 31, 2011, the Company had outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel or GJ (Cdn $)	Commencement date	Termination date
Oil				
Swap (WTI)	200 barrels per day	$85.40	January 2011	June 2011
Swap (WTI)	100 barrels per day	$89.00	January 2011	June 2011
Costless Collar (WTI)	200 barrels per day	Floor $75.00 Ceiling $95.00	January 2011	June 2011
Costless Collar (WTI)	100 barrels per day	Floor $80.00 Ceiling $96.80	January 2011	June 2011
Swap (WTI)	150 barrels per day	$84.50	July 2011	September 2011
Swap (WTI)	150 barrels per day	$86.40	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $92.20	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $95.10	July 2011	September 2011
Swap (WTI)	100 barrels per day	$88.65	January 2011	December 2011
Costless Collar (WTI)	100 barrels per day	Floor $85.00 Ceiling $102.00	February 2011	December 2011
Costless Collar (WTI)(1)	100 barrels per day	Floor $95.00 Ceiling $121.80	May 2011	December 2011
Swap (WTI)	300 barrels per day	$88.20	October 2011	December 2011
Costless Collar (WTI)	300 barrels per day	Floor $80.00 Ceiling $95.25	October 2011	December 2011
Swap (WTI)	350 barrels per day	$90.70	January 2012	March 2012
Costless Collar (WTI)	350 barrels per day	Floor $80.00 Ceiling $99.00	January 2012	March 2012
Swap (WTI)	350 barrels per day	$91.10	April 2012	June 2012
Costless Collar (WTI)	350 barrels per day	Floor $80.00 Ceiling $100.45	April 2012	June 2012
Costless Collar (WTI)(1)	200 barrels per day	Floor $95.00 Ceiling $115.85	January 2012	December 2012
Natural Gas				
Swap (AECO)	500 GJ's per day	$5.76	November 2010	October 2011
Swap (AECO)	2,000 GJ's per day	$5.48	April 2011	October 2011

(2) Entered into subsequent to March 31, 2011

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the three months ended March 31, 2011 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL ($/bbl)	$1.00	$ 136
Natural gas ($/Mcf)	$0.10	$ 524

(f) 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 quarter ended March 31, 2011 of approximately $4 million would have increased or decreased net earnings by $10 for the quarter ended March 31, 2010.

14. Financial instruments and risk management (continued)

(g) 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 three months ended March 31, 2011 and the year ended December 31, 2010.

15. Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholder's equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Company monitors capital based primarily on the non-GAAP financial metric of net debt to funds from operations. In calculating this ratio, net debt is defined as outstanding bank debt plus or minus working capital, divided by funds from operations for the most recent calendar quarter, multiplied by four. Funds from operations are defined as cash flow from operating activities before changes in non-cash working capital. The Company's strategy is to maintain a prudent debt to funds from operations ratio. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, actual capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company's share capital is not subject to external restrictions, however the bank debt facility is based on oil and natural gas reserves and contains a working capital and trailing cash flow covenant (see Note 7). The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the next twelve months. There were no changes in the Company's approach to capital management during the period.

16. Explanation of transition to IFRSs

As disclosed in Note 2, these interim Financial Statements represent WestFire's initial presentation of the financial results of operations and financial position under IFRS for the period ended March 31, 2011 in conjunction with the Company's annual audited Financial Statements to be issued under IFRS as at and for the year ending December 31, 2011. As a result, these interim Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously the Company prepared its interim and annual Financial Statements in accordance with previous GAAP.

IFRS 1 requires the presentation of comparative information as at January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's Balance Sheets as at January 1, 2010, March 31, 2010 and December 31, 2010, and Statement of Net Income and Comprehensive Income and Changes in Shareholders' Equity for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010.

16. Explanation of transition to IFRSs (continued)

IFRS Opening Balance Sheets
As at January 1, 2010
($ thousands)
(unaudited)

		IFRS Adjustments				
	Previous GAAP	Provisions	Share-based Payments	Flow-through Shares	Reclass	IFRSs
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16e)	
Assets						
Current assets						
Cash and cash equivalents	$ 274	$ -	$ -	$ -	$ -	$ 274
Accounts receivable	6,455					6,455
Deferred tax asset	9,971				(9,971)	-
Prepaid expenses and deposits	477					477
	17,177	-	-	-	(9,971)	7,206
Oil and gas properties	109,955					109,955
Deferred tax asset	52,795	773			9,971	63,539
	$ 179,927	$ 773	$ -	$ -	-	$ 180,700
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	$ 10,410	$ -	$ -	$ 272	$ -	$ 10,682
Risk management contracts	175					175
	10,585	-	-	272	-	10,857
Asset retirement obligations	11,018	2,862				13,880
	21,603	2,862	-	-	-	24,737
Shareholders' Equity						
Share capital	146,361			909		147,270
Contributed surplus	1,685		792			2,477
Retained earnings	10,278	(2,089)	(792)	(1,181)		6,216
	158,324	(2,089)	-	(272)	-	155,963
	$ 179,927	$ 773	$ -	$ -	$ -	$ 180,700

16. Explanation of transition to IFRSs (continued)
Balance Sheets
As at March 31, 2010
($ thousands)
(unaudited)

		IFRS Adjustments					
	Previous GAAP	Provisions	Share-based Payments	Flow-through Shares	O&G Properties	Reclass	IFRSs
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	(Note 16e)	
Assets							
Current assets							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts receivable	7,822						7,822
Risk management contracts	1,422						1,422
Oil and gas properties held for sale	-					484	484
Current deferred tax asset	9,302					(9,302)	-
Prepaid expenses and deposits	550						550
	19,096	-	-	-	-	(8,818)	10,278
Oil and gas properties	122,399	14	15		1,875	(484)	123,819
Deferred tax asset	52,375	769		153	(544)	9,302	62,055
Risk management contracts	387						387
	$ 194,257	$ 783	$ 15	$ 153	$ 1,331	$ -	$ 196,539
Liabilities							
Current liabilities							
Accounts payable accrued liabilities	$ 19,130	$ -	$ -	$ 101	$ -	$ -	$ 19,231
Provision on oil and gas properties held for sale	-					25	25
Bank debt	4,303						4,303
	23,433	-	-	101	-	25	23,559
Asset retirement obligations	11,114	2,872				(25)	13,961
	34,547	2,872	-	101	-	-	37,520
Shareholders' Equity							
Share capital	146,296		(1)	1,325			147,620
Contributed surplus	1,909		856				2,765
Retained earnings	11,505	(2,089)	(840)	(1,273)	1,331		8,634
	159,710	(2,089)	15	52	1,331	-	159,019
	$ 194,257	$ 783	$ 15	$ 153	$ 1,331	$ -	$ 196,539

16. Explanation of transition to IFRSs (continued)
Balance Sheets
As at December 31, 2010
($ thousands)
(unaudited)

	Previous GAAP	Provisions	Share-based Payments	Flow-through Shares	O&G Properties	Reclass	IFRSs
		IFRS Adjustments					
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	(Note 16e)	
Assets							
Current assets							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts receivable	8,188						8,188
Risk management contracts	184						184
Deferred tax asset	17,522					(17,522)	-
Prepaid expenses and deposits	480						480
	26,374	-	-	-	-	(17,522)	8,852
Oil and gas properties	162,509	664	(88)		10,653		173,738
Deferred tax asset	43,081	959	346		(2,981)	17,522	58,927
Goodwill	1,489	497					1,986
	$ 233,453	$ 2,120	$ 258	$ -	$ 7,672	-	$ 243,503
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	$ 21,333	$ -	$ -	$ 1,253	$ -	$ -	$ 22,586
Bank debt	8,089						8,089
	29,422	-	-	1,253	-	-	30,675
Risk management contracts	465	-	-	-	-	-	465
Asset retirement obligations	12,937	4,161					17,098
	42,824	4,161	-	-	-	-	48,238
Shareholders' Equity							
Share capital	182,472		(3)	72			182,541
Contributed surplus	4,234		1,502				5,736
Retained earnings	3,923	(2,041)	(1,241)	(1,325)	7,672		6,988
	190,629	(2,041)	258	(1,253)	7,672	-	195,265
	$ 233,453	$ 2,120	$ 258	$ -	$ 7,672	$ -	$ 243,503

16. Explanation of transition to IFRSs (continued)

Statement of Net Income (Loss) and Comprehensive Income (Loss)

Three months ended March 31, 2010

($ thousands)

(unaudited)

		IFRS Adjustments				
	Previous GAAP	**Provisions**	**Share-based Payments**	**Flow-through Shares**	**O&G Properties**	**IFRSs**
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	
Revenue						
Oil and natural gas	$ 10,818	$ -	$ -	$ -	$ -	$ 10,818
Interest and other revenue	24					24
Crown and other royalties	(1,250)					(1,250)
	9,592	-	-	-	-	9,592
Expenses						
Operating	3,406					3,406
Transportation	247					247
Finance costs	40	139				179
General and administrative	764					764
Stock-based compensation	212		48			260
Gain on risk management contracts	(2,191)					(2,191)
Depletion and depreciation	5,120	(139)			(1,879)	3,102
	7,598	-	48	-	(1,879)	5,767
Income (loss) before taxes	1,994	-	(48)	-	1,879	3,825
Provision for income taxes						
Capital and current income taxes	73		-	-	-	73
Deferred income tax expense	694		-	92	548	1,334
	767	-	-	92	548	1,407
Net income (loss) and comprehensive income (loss)	$ 1,227	$ -	$ (48)	$ (92)	$ 1,331	$ 2,418
Net income per share:						
Per share basic and diluted	$ 0.03					$ 0.07
Weighted average common shares						
Basic	35,191					35,191
Diluted	35,521					35,521

16. Explanation of transition to IFRSs (continued)

Statement of Net Income (Loss) and Comprehensive Income (Loss)

Twelve months ended December 31, 2010

($ thousands)

(unaudited)

		IFRS Adjustments				
	Previous GAAP	**Provisions**	**Share-based Payments**	**Flow-through Shares**	**O&G Properties**	**IFRSs**
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	
Revenue						
Oil and natural gas	$ 43,432	$ -	$ -	$ -	$ -	$ 43,432
Interest and other revenue	82					82
Crown and other royalties	(4,736)					(4,736)
	38,778	-	-	-	-	38,778
Expenses						
Operating	16,277					16,277
Transportation	1,017					1,017
Finance costs	540	610				1,150
General and administrative	2,931					2,931
Gain on disposition of oil and gas assets	-				(2,859)	(2,859)
Stock-based compensation	2,020		449			2,469
Gain on risk management contracts	(2,150)					(2,150)
Depletion and depreciation	24,325	(658)			(7,794)	15,873
	44,960	(48)	449	-	(10,653)	34,708
Income (loss) before taxes	(6,182)	48	(449)	-	10,653	4,070
Provision for (recovery of) income taxes						
Capital and current income taxes	251					251
Deferred income tax expense (recovery)	(78)			144	2,981	3,047
	173	-	-	(144)	2,981	3,298
Net income (loss) and comprehensive income (loss)	$ (6,355)	$ 48	$ (449)	$ (144)	$ 7,672	$ 772
Net income (loss) per share:						
Per share basic and diluted	$ (0.17)					$ 0.02
Weighted average common shares						
Basic	37,575					37,575
Diluted	37,814					37,814

16. Explanation of transition to IFRSs (continued)
Statement of Changes in Shareholders' Equity
Three months ended March 31, 2010
($ thousands)
(unaudited)

		IFRS Adjustments				
	Previous GAAP	**Provisions**	**Share-based Payments**	**Flow-through Shares**	**O&G Properties**	**IFRSs**
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	
Share capital						
Balance, beginning of year	$ 146,361	$ -	$ -	$ 909	$ -	$ 147,270
Issued pursuant to the 2009 Employee Stock Purchase Plan	198					198
Issued on option exercise	155					155
Tax effect on flow-through shares	(416)			416		-
Transfer from contributed surplus on exercise of stock options	54					54
Share issue expenses – net of taxes	(57)					(57)
Balance, end of period	$ 146,295	$ -	$ -	$ 1,325	$ -	$ 147,620
Contributed surplus						
Balance, beginning of year	$ 1,685		792			$ 2,477
Transfer from contributed surplus on exercise of stock options	(54)					(54)
Stock based compensation	278		64			342
Balance, end of period	$ 1,909	$ -	$ 856	$ -	$ -	$ 2,765
Retained earnings						
Balance, beginning of year	$ 10,278	$ (2,089)	$ (792)	$ (1,181)		$ 6,216
Net income and comprehensive income	1,227		(48)	(92)	1,331	2,418
Balance, end of period	$ 11,505	$ (2,089)	$ (840)	$ (1,273)	$ 1,331	$ 8,634
Total Shareholders' Equity	$ 159,709	$ (2,089)	$ 16	$ 52	$ 1,331	$ 159,019

16. **Explanation of transition to IFRSs (continued)**
Statement of Changes in Shareholders' Equity
Twelve months ended December 31, 2010
($ thousands)
(unaudited)

		IFRS Adjustments				
	Previous GAAP	**Provisions**	**Share-based Payments**	**Flow-through Shares**	**Oil &Gas Properties**	**IFRSs**
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	
Share capital						
Balance, beginning of year	$ 146,361	$ -	$ -	$ 909	$ -	$ 147,270
Issued pursuant to the 2009 Employee Stock Purchase Plan	198					198
Issued on option exercise	380					380
Tax effect on flow-through shares	(416)			416		-
Issued for cash	37,518					37,518
Premium on flow-through shares	-			(1,253)		(1,253)
Transfer from contributed surplus						-
on exercise of stock options	143		(3)			140
Share issue expenses – net of taxes	(1,712)					(1,712)
Balance, end of period	$ 182,472	$ -	$ (3)	$ 72	-	$ 182,541
Contributed surplus						
Balance, beginning of year	$ 1,685		792			$ 2,477
Transfer from contributed surplus						-
on exercise of stock options	(142)					(142)
Stock based compensation	2,691		710			3,401
Balance, end of period	$ 4,234	$ -	$ 1,502	$ -	-	$ 5,736
Retained earnings						
Balance, beginning of year	$ 10,278	$ (2,089)	$ (792)	$ (1,181)		$ 6,216
Net income and comprehensive income	(6,355)	48	(449)	(144)	7,672	772
Balance, end of period	$ 3,923	$ (2,041)	$ (1,241)	$ (1,325)	$ 7,672	$ 6,988
Total Shareholders' Equity	$ 190,629	$ (2,041)	$ 258	$ 1,253	$ 7,672	$ 195,265

The following discussion explains the difference between WestFire's previous GAAP accounting policies and those applied by the Company under IFRS. IFRS polices have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

16. Explanation of transition to IFRSs (continued)

IFRS Adjustments

(a) Oil and gas properties and intangible exploration assets

The Company elected an IFRS 1 exemption whereby the Canadian geographic cost centre was measured upon transition to IFRS by allocating the Canadian geographic cost centre to the producing and development assets and components pro rata using proved and probable reserve values. This election resulted in no change in oil and gas properties.

Depletion

The depletion policy under previous GAAP was based on units of production over proved reserves and was calculated on the Canadian geographic cost centre under previous GAAP. IFRS requires depletion and depreciation to be calculated based on individual components or groupings of components. Upon transition to IFRS, the Company adopted a policy of depleting its oil and natural gas interests, grouped into units of account, on a unit of production basis over proved plus probable reserves.

Depleting at a unit of account level using proved plus probable reserves under IFRS resulted in a $7,794 decrease to WestFire's depletion and depreciation for the twelve months ended December 31, 2010. WestFire's net earnings increased $4,813, compared to previous GAAP for the twelve months ended December 31, 2010 as a result of depleting at a unit of account level and using proved plus probable reserves and the recognition of a gain on sale of oil and gas properties, as discussed below.

Divestitures

Unlike previous GAAP, IFRS recognizes gains and losses on all dispositions of oil and gas properties and as a result a pre-tax gain of $2.9 million was recognized in net income for the twelve months ended December 31, 2010. Oil and gas properties forming a disposal group held for sale are required to be classified as current assets and their associated provision as a current liability.

(b) Provisions

Under previous GAAP asset retirement obligations were discounted at a credit adjusted risk fee rate of 7% - 8%. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted therefore the provision is discounted at a risk free rate in the range of 3.25% to 3.75%. Under previous GAAP, the accretion expense was included in the depletion and depreciation expense whereas under IFRS it is included in finance costs. As a result of its IFRS 1 exemption taken in (a), upon transition to IFRS, the Company revalued its asset retirement obligations applying the IFRS requirement and charged the revaluation amount to retained earnings. The application of this exemption resulted in a $2,862 increase to the asset retirement obligations on the balance sheet of the Company as at January 1, 2010 and a corresponding after-tax charge to retained earnings of $2,089. As at December 31, 2010, excluding the January 1, 2010 adjustment the Company's asset retirement obligations increased by $616 which primarily reflects the remeasurement of the obligations using the Company's discount rate of 3.5%.

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. The only impact on the business combinations that occurred in 2010 was the requirement to revalue the asset retirement obligations under IFRS. The revaluation resulted in an increase in the asset retirement obligations acquired of $497, which caused an increase to the goodwill acquired of the same amount.

(c) Share-based payments

Under previous GAAP, the Company recognized an expense related to their share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate. As provided in IFRS 1, the Company elected not to apply IFRS 2 - Share-based payments for share-based payments which vested before January 1, 2010. Accordingly, upon transition to IFRS WestFire recorded an increase to contributed surplus $792 with a corresponding charge to retained earnings.

(d) Flow-through shares

Under previous GAAP, the premium paid for flow through shares in excess of the market value of the shares without the flow through features at the time of issue is credited to share capital. IFRS provides no specific guidance for the accounting treatment of flow-through shares. The Company's policy is to state share capital at the market value of shares without the flow-through feature at the time of issue, with a liability recognized representing the difference between cash received and market value. The premium paid for flow through shares in excess of that market value of the shares is drawn down and deferred tax is recognised at the time the qualifying exploration and development expenditures are renounced and incurred.

16. Explanation of transition to IFRSs (continued)

(e) Reclassification

Deferred tax asset

Previous GAAP allowed for the classification on the balance sheet of a current portion of the deferred tax asset as a current asset. IFRS does not have this provision and therefore the amount of the deferred tax asset previously classified as current was required to be reclassified as long term. This change had no impact on retained earnings.

Interest income and finance costs

Under previous GAAP, the accretion of the asset retirement obligations was included with depletion and depreciation on the Statements of net income and comprehensive income. Under IFRS this amount had been reclassified to finance costs.

Gains/losses on risk management contracts

Under previous GAAP, gains and losses from oil and natural gas commodity price risk management activities were recorded in gross revenues. Under IFRS, these activities do not meet the definition of revenue and therefore have been reclassified to (gain) loss on risk management contracts in the Statements of net income and comprehensive income.

Assets and liabilities classified as held for sale

Under previous GAAP, assets held for sale and liabilities related to assets held for sale were included as part of non-current assets and liabilities. Under IFRS, non-current assets that meet the definition of held for sale are required to be classified as current.

(f) Business combinations

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010.

(g) Cash flow statement

The transition from previous GAAP to IFRS has had no material effect upon the reported cash flows generated by the Company. The reconciling items between the previous GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

17. Subsequent event

On May 11, 2011, the Company announced that it will acquire all of the issued and outstanding shares of Orion Oil & Gas Corporation (“Orion”). Orion shareholders will, for each common share of Orion held, receive at their election, either 0.125 of a WestFire common share or 0.125 of a non-listed, non-voting convertible share, which may be converted into a WestFire common share on a one for one basis under certain circumstances. WestFire is expecting to have approximately 82.9 million common shares outstanding including approximately 15.2 million non-voting shares. Closing of this transaction is expected to occur in late June or early July, 2011. WestFire has assembled a large inventory of prospective drilling locations on the Viking light oil resource play and has been seeking non-dilutive opportunities to accelerate the development of this inventory. Orion possesses a predictable, long reserve life, highly focused asset base including key strategic processing infrastructure which will produce surplus cash flow allowing WestFire to achieve this acceleration. As the initial accounting for the business combination is incomplete, the Company is not able to quantify the fair values of the assets acquired and the liabilities assumed at this time.

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Banker
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