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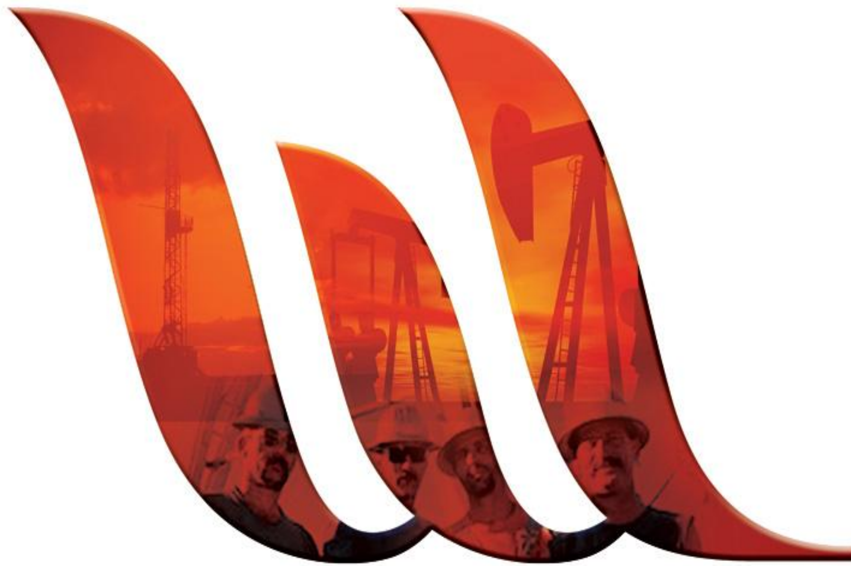

2011 Q2 MD&A

WestFire ENERGY LTD

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Profile

WestFire Energy Ltd. is a public intermediate 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 large working interests in the liquids rich Kaybob South Beaverhill Lake Gas Unit #1 and the Lloydminster, Alberta Lloyd/Sparky heavy oil horizontal 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.

Message to Our Shareholders

During the second quarter of 2011, WestFire Energy Ltd. ("WestFire" or "the Company") accomplished the following:

- Produced a quarterly record of 3,308 barrels of oil equivalent per day (boepd) for Q2 2011, compared to 2,374 boepd during Q2 2010, an increase of 39%. This also represents an increase of 19% over the Q1 2011 average volumes of 2,773 boepd. Production per share increased 14% from Q2 2010 and 10% from Q1 2011 in spite of abnormally wet weather during the quarter;
- Oil production averaged 2,243 barrels of oil per day ("bopd") during Q2 2011 (an increase of 121% from Q2 2010 and an increase of 34% from Q1 2011. Oil production per share in Q2 2011 increased 81% over Q2 2010 and 23% over Q1 2011;
- Generated a record quarterly funds flow from operations ("FFO") of $10.6 million ($0.24 per share basic) in Q2 2011, despite $3.3 million of one-time general and administration and finance charges associated with the merger with Orion and the new bank facilities. Excluding these one-time items, FFO would have been $13.9 million or $0.31 per share basic;
- Reduced operating and transportation costs from $16.69 per boe in Q2 2010 to $15.04 per boe in Q2 2011, a 10% decrease. Operating and transportation costs in Q2 2011 were $13.89 per boe and $1.15 per boe respectively;
- Increased bank line to $200 million; and
- Drilled 17 (16.5 net) wells in the second quarter of 2011, all successful oil wells;
- On June 30, 2011, the Company closed the strategic merger with Orion Oil & Gas Corporation ("Orion"). The merger was transformational for WestFire as it significantly enhances and accelerates the Company's ability to develop its Viking light oil resource play at Redwater and Provost in Alberta and at Dodsland and Plato in west central Saskatchewan. Orion adds an important attribute of low decline, liquids rich natural gas and light oil production that provides a strategic fit at Redwater and significant free cash flow to deploy toward WestFire's large Viking drilling inventory.

Orion Oil & Gas Corporation

Through the merger with Orion, WestFire added a significant operating interest in the giant Kaybob South Beaverhill Lake pool which contained 3.7 trillion cubic feet of original gas-in-place ("OGIP") with associated liquids of 1.1 billion barrels (both figures from published ERCB estimates). The field was discovered in 1961 and was developed through vertical drilling in the 1960's and 1970's. In the early life of the pool, it was operated as a gas cycling project to recover natural gas liquids before being placed into concurrent natural gas and liquids production. Over the last fifteen years, the pool has exhibited a low and stable production decline rate of approximately 10% per annum. WestFire believes that employing modern reservoir management techniques could lead to higher recovery factors from this substantial resource.

Orion's other core area is the Redwater Viking and Ellerslie light oil property. This asset is synergistic to the Company's existing production and further solidifies WestFire's Redwater position. WestFire estimates that there are upwards of 60 light oil drilling locations on the Orion Redwater lands.

Operational Review

WestFire continued its aggressive drilling program focusing entirely on oil projects. This resulted in record oil volumes in the second quarter which will continue to grow as only 11 (11.0 net) wells of the 17 (16.5 net) wells drilled in the quarter commenced production in June 2011.

On the Viking play, 13 (12.5 net) horizontal wells were drilled in the second quarter. Twelve (12.0 net) of these wells were drilled at Redwater while one (0.5 net) well was drilled in the Lucky Hills area of west central Saskatchewan. A total of 24 (24.0 net) wells have been drilled at Redwater since the start of 2011. Initial 30 day production rates have averaged 76 boepd (91% oil) on 19 wells, with 60 day rates averaging 64 boepd (92% oil) on 16 wells and 90 day rates averaging 62 boepd (92% oil) on 14 wells. These production results are exceeding the type curve utilized by our independent engineers.

At Lloydminster, four (4.0 net) Lloydminster horizontal oil wells were drilled. These wells were placed on stream near the end of June.

Drilling activities continued in July with six rigs operating. Five rigs are drilling Viking horizontal wells and one rig is operating at Kaybob.

Outlook

WestFire has increased its 2011 capital expenditure budget to $133 million as a result of the merger with Orion. As a result of the increased capital, WestFire now expects to drill 99 (87.7 net) wells of which 80 (69.0 net) wells will be on the Viking light oil resource play. The Company is uniquely positioned as an intermediate oil focused company with the free funds flow from operations and expanded credit facilities that allow for the acceleration of drilling activities on its large Viking drilling inventory.

The strategy going forward will be to target annual production growth at 15 to 20% per share, based on capital expenditures within free funds flow. We look forward to reporting on our progress.

On behalf of the Board of Directors,

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

Management's Discussion and Analysis

WestFire Energy Ltd. ("WestFire" or "the Company") is a public company engaged in the exploration for, and the development and production of, petroleum and natural gas in Western Canada, and has a fiscal year end of December 31.

This Management's Discussion & Analysis ("MD&A") is a review of how WestFire performed during the period covered by the financial statements, and of WestFire's financial condition and future prospects. The MD&A complements and supplements the financial statements of WestFire, and should be read in conjunction with the accompanying unaudited interim financial statements and the related notes for the period ended June 30, 2011 of WestFire and the audited financial statements and the related notes for the year ended December 31, 2010. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in Canadian dollars, which are also generally accepted accounting principles ("GAAP") for publically accountable enterprises in Canada. For all periods up to and including the year ended December 31, 2010, we prepared our Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP" or "CGAAP"). In accordance with the standard related to the first time adoption of IFRS, our transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been prepared in accordance with our IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared following previous GAAP and, as allowed by the standard related to the first time adoption of IFRS ("IFRS 1"), has not been re-presented on an IFRS basis. Production volumes are presented on a before royalties basis. Certain amounts in prior years been reclassified to conform to the current year's IFRS presentation format. Readers should read the Legal Advisories section at the end of this MD&A. WestFire's Board of Directors has reviewed and, on the recommendation of the Audit Committee, has approved the financial statements and MD&A. All dollar amounts are quoted in thousands of dollars with the exception of share amounts, production and well information. This MD&A is effective August 11, 2011.

Financial	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
($ thousands except share and production information)	**2011**	2010	**2011**	2010
Oil and gas revenues	**21,377**	9,290	**35,062**	20,108
Cash provided by operating activities	**4,242**	(1,409)	**10,788**	11,238
Funds flow from operations [(1)]	**10,641**	4,546	**17,322**	9,814
Per share – basic and diluted[(1)]	**0.24**	0.12	**0.40**	0.28
Net income	**4,387**	222	**2,518**	2,640
Per share – basic and diluted	**0.10**	0.01	**0.06**	0.07
Capital expenditures (including non-cash)	**379,736**	22,711	**407,075**	40,132
Common and convertible non-voting shares				
Outstanding – basic	**82,968,941**	39,035,315	**82,968,941**	39,035,315
Outstanding – diluted	**83,534,442**	39,035,315	**83,582,100**	39,437,501
Weighted average– basic	**44,822,186**	36,758,831	**42,986,415**	35,979,044
Weighted average– diluted	**45,387,687**	37,171,070	**43,599,574**	36,381,230
Sales Volumes				
Oil and NGL (bbls per day)	**2,243**	1,018	**1,961**	1,046
Natural gas (Mcf per day)	**6,392**	8,138	**6,485**	8,149
Barrels of oil equivalent (boe per day) [(2)]	**3,308**	2,374	**3,042**	2,405

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

Overview

On June 30, 2011, WestFire completed a strategic merger with Orion Oil & Gas Corporation. The resulting company has combined production of approximately 9,000 boe per day of which 60% is oil and liquids. As a result of the merger, WestFire was also able to increase its credit facilities to $200 million. The Company is well positioned with a large inventory of low risk light oil drilling opportunities. WestFire is focused on developing its Viking light oil prone land holdings in Redwater, Alberta, west central Saskatchewan and Provost, Alberta. The Company plans to spend $133 million in capital in 2011, focusing on the drilling of Viking horizontal light oil wells and has set a target to achieve an average production rate for 2011 of 6,450 boe per day, and a 2011 exit rate of 10,500 boe per day (70% oil and liquids).

Oil and gas production

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Sales Volumes				
Oil and NGL (bbls per day)	**2,243**	1,018	**1,961**	1,046
Natural gas (Mcf per day)	**6,392**	8,138	**6,485**	8,149
Barrels of oil equivalent (boe per day)	**3,308**	2,374	**3,042**	2,405
Oil and NGL volumes as a percentage of total	**67.8%**	42.8%	**64.5%**	43.5%

WestFire's production for the three months ended June 30, 2011 averaged 3,308 boe per day and consisted of 6,392 Mcf per day of natural gas, 1,658 bbls per day of light oil, 495 bbls per day of heavy oil and 90 bbls per day of natural gas liquids. Oil and natural gas volumes during the second quarter of 2011 were 39% higher than the second quarter of 2010. Volumes have increased as a result of new production from acquisitions and the most active drilling program in the Company's history. WestFire drilled a total of 40 (39.5net) wells in the first half of 2011, making this the most active drilling program in WestFire's history. All of the wells drilled in the first half of2011, with the exception of one non-operated well, were brought on stream by the third week in July.

Natural gas production decreased 21% to 6,392 Mcf per day for the quarter compared to 8,138 Mcf per day for the same period in 2010 as a result of natural reservoir declines.

WestFire's production for the six months ended June 30, 2011 averaged 3,042 boe per day, and consisted of 6,485 Mcf per day of natural gas, 1,304 bbls per day of light oil, 560 bbls per day of heavy oil and 97 bbls per day of natural gas liquids. This production was 26% higher than the same period in 2010 of 2,405 boe per day. Volumes have increased as a result of new production from acquisitions and the Company's drilling program.

WestFire's current production, based on field estimates, is approximately 9,000 boe per day, with oil and liquids representing 60% of the total production. With the Orion merger and second half of the year's capital program, the Company's projected production for the second half of 2011 is 9,750 boe per day, yielding 6,450 boe per day for the year and an exit rate of 10,500 boe per day, with oil and liquids representing 70% of total production.

Petroleum and natural gas revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands)	**2011**	2010	**2011**	2010
Light oil and NGLs revenue	**15,748**	4,618	**23,745**	9,526
Per barrel before hedging	**$ 99.01**	$ 70.27	**$96.51**	$ 69.04
Heavy oil	**3,230**	1,578	**6,544**	3,551
Per barrel before hedging	**$ 71.72**	$ 58,67	**$ 64.51**	$ 62.29
Natural gas	**2,399**	3,095	**4,773**	7,032
Per Mcf before hedging	**$4.12**	$4.18	**$4.07**	$ 4.77

Light and heavy oil revenues increased 203% in the second quarter of 2011 over the same period of 2010. The increase is primarily a result of a 120% volume increase combined with a 37% increase in oil prices from the second quarter of 2010. The West Texas Intermediate price averaged $98.33US per bbl in the first six months of 2011 compared with $78.37US per bbl in the first six months of 2010 and averaged $102.56US per bbl in the second quarter of 2011 compared with $78.03US per bbl in the second quarter of 2010.

A portion of WestFire's oil production is classified as heavy crude oil, which trades at a discount to light crude oil. In the second quarter of 2011, 22% of WestFire's oil and liquids production was heavy oil compared to 29% in the second quarter of 2010. The light/heavy crude oil differential averaged $17.89US per bbl or 17% of WTI in the second quarter of 2011 compared with $14.34US per bbl or 18% of WTI in the second quarter of 2010. In the first six months of 2011, 29% of WestFire's oil and liquids production was heavy oil compared to 30% in the same period of 2010. The light/heavy crude oil differential averaged $20.50US per bbl or 21% of WTI in the first six months of 2011 compared with $11.82US per bbl or 15% of WTI in the first six months of 2010.

Gas revenues decreased 23% in the second quarter of 2011 over the same period of 2010. The decrease is a result of volume decreases of 21% and a decrease of gas prices of 1% from the average price received during Q2 2010. The average AECO daily reference price of $3.88 per GJ for Q2 2011 is virtually unchanged from the Q2 2010 price of $3.89 per GJ. The market for natural gas continues to be soft. For the first six months of 2011 gas revenue decreased 32% compared to the first six months of 2010. The decrease can be attributed to a volume decrease of 21% combined with a decrease of gas prices of 15% year over year. The average AECO daily reference price of $3.81 per GJ for the first six months of 2011 represents a 24% decrease from the price for the first six months of 2010 of $4.19 per GL. Most of WestFire's gas volumes receive a premium to the AECO reference price due to their high heat content.

Price risk management

In order to protect cash flow WestFire's policy is to hedge a maximum 50% of budgeted net after royalty volumes using a combination of fixed swaps and price collars, limiting the term to no longer than 24 months. The Company's policy is to enter into contracts with only investment grade counterparties.

WestFire has entered into crude oil and natural gas derivatives contracts to manage the volatility of commodity prices. For Q2 2011, the Company had a net gain on risk management contracts of $3,462 (Q2 2010 – gain of $1,179). The Company has used a combination of fixed price swaps and costless collars.

At June 30, 2011, a long term asset of $185 and a current liability of $2,098 (for a net liability of $1,913) (June 30, 2010 – current asset of $2,111 and a long term asset of $262) was recorded on the Company's balance sheet resulting in a risk management contracts gain of $212 for the six months ended June 30, 2011 (June 30, 2010 – gain of $3,369).

At June 30, 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)	100 barrels per day	$88.65	January 2011	December 2011
Swap (WTI)	1,500 barrels per day	$87.35	January 2011	December 2011
Costless Collar (WTI)	100 barrels per day	Floor $85.00 Ceiling $102.00	February 2011	December 2011
Costless Collar (WTI)	100 barrels per day	Floor $95.00 Ceiling $121.80	May 2011	December 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)	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)[(1)]	750 barrels per day	$97.45	January 2012	June 2012
Costless Collar (WTI)[(1)]	750 barrels per day	Floor $90.00 Ceiling $102.00	January 2012	June 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)	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

(1) Entered into subsequent to June 30, 2011

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the six months ended June 30, 2011 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL ($/bbl)	+/- $1.00	$ 325
Natural gas ($/Mcf)	+/- $0.10	$ 104

Crown and other royalties

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands)	**2011**	2010	**2011**	2010
Total	**1,577**	776	**2,967**	2,026
Per boe	**5.24**	3.59	**5.39**	4.65
% of revenue	**7.4%**	8.3%	**8.5%**	10.0%

Total royalties in the second quarter of 2011 increased 103% from the same period in 2010 largely due to the increased oil volumes and prices. For the three months ended June 30, 2011, royalties increased on a per boe basis but decreased as a percentage of revenue as a result of higher commodity prices compared to the same period in 2010. Royalties for the six months ended June 30, 2011 have also increased on a per boe basis from the same period in 2010 largely due to the increase in commodity prices. These increases were partially offset by recoveries resulting from a gas cost allowance adjustment relating to prior periods. Crown royalties have decreased slightly as a percent of revenue for the first half of 2011 compared to the same period in 2010.

Operating costs

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands)	**2011**	2010	**2011**	2010
Total	**4,181**	3,352	**8,529**	6,758
Per boe	**13.89**	15.52	**15.49**	15.53
% of revenue	**19.6%**	35.8%	**24.3%**	33.5%

Operating costs during the second quarter of 2011 increased 25% to $4,181 from $3,352 for the same period in 2010. On a per boe basis, operating costs for the quarter decreased 10% to $13.89 from $15.52 in the same period in 2010 primarily as a result of efficiencies realized from new low operating cost production coming on in Redwater, Provost and Lloydminster combined with the sale of high operating cost assets in 2010.

For the six months ended June 30, 2011 operating costs increased 26% to $8,529 compared to $6,759 for the same period in 2010. On a per boe basis, year-to-date operating expenses decreased 1% to $15.49 compared to $15.53 for the same period in 2010 as a result of new production in low operating costs areas and the sale of high operating cost assets in 2010. This decline was offset by the higher operating costs in the early part of 2011 as a result of the difficult operating conditions that were created by the harsh winter experienced in both Alberta and Saskatchewan.

Transportation expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands)	**2011**	2010	**2011**	2010
Total	**347**	261	**631**	508
Per boe	**1.15**	1.17	**1.15**	1.17
% of revenue	**1.8%**	2.5%	**1.8%**	2.5%

Transportation expenses are incurred for services related to moving production to sales points, including oil hauling, and pipeline tariffs. Transportation expenses for the quarter of $347 were 33% higher than the same period in 2010 of $261 due to higher production volumes. For the six months ended June 30, 2011 transportation expenses increased 24% to $631 compared to $508 for the same period in 2010 due to higher production. On a per boe basis transportation costs were fairly consistent while on a percentage of revenue basis, transportation costs have declined slightly, as volume and price have increased.

Netbacks [(1)]

	Three Months Ended June 30,		Six Months Ended June 30,	
($ per boe)	**2011**	2010	**2011**	2010
Revenue	**71.01**	43.00	**63.68**	46.20
Realized derivative gains (loss)	**(0.46)**	2.85	**0.21**	1.89
Royalties	**(5.24)**	(3.59)	**(5.39)**	(4.65)
Operating costs	**(13.89)**	(15.52)	**(15.49)**	(15.53)
Transportation expenses	**(1.15)**	(1.21)	**(1.15)**	(1.17)
Netbacks	**50.27**	25.53	**41.86**	26.74

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

Netbacks have increased by 97% during the second quarter of 2011 over the same period in 2010 as a result of increased oil and NGL production and higher oil prices and lower operating costs. Netbacks have improved in the first six months of 2011 by 57% over the same period in 2010 as a result of higher oil prices, which have more than offset the impact of an 89% decrease in the realized derivative gains.

General and administration ("G&A") expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands)	**2011**	2010	**2011**	2010
Gross G&A expenses	**4,354**	1,117	**6,195**	2,286
Less: Capitalized	**(559)**	(401)	**(1,370)**	(806)
Net G&A expenses	**3,795**	716	**4,825**	1,480
Per boe	**12.61**	3.31	**8.76**	3.40
Net G&A expenses	**3,795**	716	**4,825**	1,480
Less: One-time costs	**(2,754)**	-	**(2,754)**	-
Normalized G&A expense	**1,041**	716	**2,071**	1,480
Per boe	**3.46**	3.31	**3.76**	3.40

For the quarter, G&A expenses increased 430% to $3,795 compared to $716 for the same period in 2010 due to the one-time administrative costs associated with the merger with Orion and the new credit facility. Removing these one-time costs gives a normalized G&A of $1,041 compared to $716 for the same period in 2010, for a percentage increase of 45%. This increase is a result of the increase in both production and drilling activity. At the end of June 2011, WestFire had 24 office staff (June 30, 2010 – 21). For the six months ended June 30, 2011 G&A expenses increased 226% to $4,825compared to $1,480 for the same period in 2010 due to the one-time costs associated with the merger with Orion and the new credit facility. Removing these one-time costs gives a normalized G&A of $2,071 compared to $1,480 for the same period in 2010, for a percentage increase of 40%. These additional administrative costs associated are directly related to the increase in both production and drilling activity. On a per boe basis normalized G&A for the six months ended June 30, 2011 increased 11% to $3.76 per boe from $3.40 per boe for the same period of 2010 as a result of increased production volumes being more than offset by higher G&A expenses.

Finance costs

($ thousands)	Three Months Ended June 30, **2011**	2010	Six Months Ended June 30, **2011**	2010
Interest expense	**641**	211	**795**	250
Accretion expense	**166**	158	**315**	298
	807	369	**1,110**	548

In conjunction with the acquisition of Orion, WestFire secured an increase of $158 million in its credit facilities. WestFire's previous credit facility was replaced with a new syndicated credit facility and an operating facility with an aggregate principal amount of $200 million. This resulted in a one-time fee of $503.

Under previous GAAP, the accretion of the asset retirement was included with depletion and depreciation in both the Statements of Net Income and Comprehensive Income and the analysis within the MD&A. The accretion expense has increased year over year as a result of the increase in the abandonment obligation which results from the Company's drilling activity.

Stock-based compensation

($ thousands)	Three Months Ended June 30, **2011**	2010	Six Months Ended June 30, **2011**	2010
Gross stock-based compensation	**463**	1,070	**1,312**	1,441
Less: capitalized	**(34)**	(249)	**(183)**	(361)
Net stock-based compensation	**429**	821	**1,129**	1,080

Stock-based compensation is a non-cash expense, which represents the estimated fair value of stock-based compensation granted to employees as part of WestFire's incentive package. Compensation costs attributable to the common share stock options granted to employees or directors are measured at fair value at the grant date and expensed to stock-based compensation or capitalized to oil and gas properties over the expected vesting time frame with a corresponding increase to contributed surplus. 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. These options have a term of five years to expiry and have a three year vesting period from the date of grant. In accordance with its accounting policy, WestFire capitalizes stock-based compensation expenses associated with exploration and development activities. During the second quarter of 2011, the Company issued 62,500 options at an average exercise price of $7.51, 43,333 options were forfeited and 16,667 options were exercised, at an exercise price of $8.03. For the six months ended June 30, 2011, the Company issued 82,000 at an average exercise price of $7.60, 60,333 options were forfeited and 29,999 options were exercised, at an average exercise price of $7.11. As at June 30, 2011, there were 3,110,635 options outstanding compared with 3,065,967 options outstanding as at June 30, 2010. The net stock based compensation for the six month ended June 30, 2011 decreased by 48% as a result of the issuance of a 1,257,000 options at the end of the first quarter of 2010. Stock based compensation expense is highest in the first 12 months after grant due to the recognition of expense for one third of the granted options that vest after one year, plus a half of the expense of options granted that vest in year two, plus one third of the expense for options granted that vest in year three.

Depletion and depreciation (Depletion)

($ thousands)	Three Months Ended June 30, **2011**	2010	Six Months Ended June 30, **2011**	2010
Depletion	**6,942**	3,453	**11,923**	6,546
Depreciation	**24**	9	**49**	17
Total	**6,966**	3,462	**11,972**	6,563
Per boe	**23.14**	16.02	**21.74**	15.08

Depletion is calculated based on the percentage of proved and probable reserves produced during the period multiplied by the adjusted book value. The adjusted book value includes future development costs and salvage value of equipment. For the second quarter of 2011, depletion of oil and gas assets increased 101% compared to the same period in 2010. The increase in depletion expense was due to increased production and the increase in the future development costs from June 30, 2010 to June 30, 2011, combined with the addition of the capital from the Company's active drilling program to June 30, 2011. The future development capital at June 30, 2011 was $133,599, an increase of 120% over 2010. The increase in the depreciation is a result of leasehold improvements incurred during the first quarter of 2011.

Income taxes

The provision for deferred income taxes for the quarter ended June 30, 2011 was an expense of $2,103 compared to an expense of $446 for the same period in 2010. The higher income taxes were a result of a higher pretax income as compared to the same period in 2010 as a result of increased oil and gas revenues and an increased gain on risk management contracts, offset by acquisition costs. For the six months ended June 30, 2011 the provision for deferred income taxes was an expense of $1,294 compared to an expense of $1,780 for the same period in 2010 due to a higher pretax income, primarily as a result of increased oil and gas revenues.

Current taxes of $59 and $56 for the three months ended June 30, 2011 and 2010, respectively, were related to Saskatchewan capital taxes and the related resource royalty surcharge. The current taxes of $115 and $130 for the six months ended June 30, 2011 and 2010, respectively, were also related to Saskatchewan capital taxes and the related resource royalty surcharge.

Income tax provision

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands)	**2011**	2010	**2011**	2010
Current tax expense	**59**	56	**115**	130
Deferred income tax expense	**2,103**	446	**1,294**	1,780
Income tax expense	**2,162**	502	**1,409**	1,910

Net income and comprehensive income

The net income and comprehensive income for the three months ended June 30, 2011 was $4,387which was higher than the net income of $222 for the same period in 2010. The higher net income was a result of increased oil and natural gas revenues and a higher gain on risk management contracts, all offset by the one-time general and administrative costs associated with the Orion acquisition of $2,754, bank fees to set up the new syndicated credit facilities of $503 and increased depletion expense. The basic and diluted net income for quarter ended June 30, 2011 was $0.10 per share and for the same period in 2010 the basic and diluted net income was $0.01 per share.

Net income and comprehensive income for the six months ended June 30, 2011 was $2,518 compared to a net income and comprehensive income for the same period in 2010 of $2,640. The basic and diluted net income per share for the six months ended June 30, 2011 was $0.06, compared to basic and diluted net income per share of $0.07 per share for the same period in 2010.

Liquidity and capital resources

On March 9, 2011, the Company issued 4,862,000 common shares at $9.05 per common share for gross proceeds of $44,001. These funds were used to expand WestFire's capital program.

On June 30, 2011 the Company secured an increase of $158 million to its credit facilities. WestFire's previous credit facility was replaced with a new syndicated credit facility with an aggregate principal amount of $200 million. The new credit facility is comprised of a $190 million syndicated credit facility and a $10 million operating facility. Both are revolving facilities with term-out provisions with the initial revolving period ending June 28, 2012. If the credit facilities are not renewed they will convert to 365-day term loans. The credit facilities will bear interest at the prime rate, bankers' acceptance rate or LIBOR plus a spread determined by WestFire's debt-to-EBITDA ratio. As at June 30, 2011, these facilities were undrawn by $147.2 million.

During the second quarter of 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 has committed to drill, complete and equip or abandon on, or before December 31, 2012, thirty horizontal wells. The farmee shall pay seventy-five percent of the costs of the wells to earn, and be entitled to, fifty percent of WestFire's pre-farmout working interest in the farmout lands. The agreement further stipulates that the farmee must drill, complete, and equip or abandon fifteen of the commitment wells on or before December 31, 2011 in order to retain the lands under this agreement. The Company received $5.0 million as initial consideration under this agreement. This payment has been recorded as deferred compensation on the balance sheet. This deferred compensation will be recognized in the income statement on the date when the farmee has completed all commitments under the agreement or December 31, 2012.

The farmout agreement also included the disposition by the Company of half its interest in two producing wells in the same area as the farmout lands. The Company received $1.25 million in proceeds, resulting in a loss on disposition of oil and gas properties of $201 for the period ended June 30, 2011.

At June 30, 2011, the bank line was drawn by $52.8 million. The accounts payable exceeded current assets by $5,404, resulting in total net debt at the end of the second quarter of 2011 of $58,204.

WestFire's 2011 capital budget for the second half of 2011 has been established at $85,000 resulting in a full year budget of $133,000 which will be funded by a combination of free cash flow generated from the operations and WestFire's recently expanded credit facility.

Capital expenditures

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands)	**2011**	2010	**2011**	2010
Land	**984**	20	**1,550**	1,424
Geological and geophysical	**650**	250	**1,018**	619
Drilling and completions	**14,173**	9,014	**36,510**	24,626
Equipment and facilities	**4,714**	2,330	**8,855**	3,391
Office equipment	**22**	-	**149**	10
Exploration and development capital	**20,543**	12,386	**48,082**	30,070
Corporate acquisitions	**353,773**	7,468	**353,773**	7,186
Capitalized stock-based compensation	**34**	-	**183**	-
Additions to asset retirement obligations	**5,386**	-	**5,037**	-
Total investing activities	**379,736**	19,854	**407,075**	37,256

Capital program for 2011

During Q2 2011, WestFire participated in the drilling of 17 (16.5 net) wells. WestFire operated all but one of these wells. Of the wells drilled during the second quarter of 2011, 12 (12.0 net) wells were horizontally drilled for Viking oil in the Redwater area. Another four (4.0 net) horizontal wells were drilled at Lloydminster targeting the Lloyd formation and one (0.5 net) horizontal wells was drilled in west central Saskatchewan for Viking oil.

For the first six months of 2011, WestFire drilled a total of 40 (39.5 net) wells. All but one of these wells were operated by WestFire. Of the wells drilled during the first half of 2011, 27 (26.5 net) wells were horizontally drilled for Viking oil, consisting of 24 (24.0 net) in Redwater, two (2.0 net) in the Provost area and one (0.5 net) in west central Saskatchewan. Another 13 (13.0 net) wells were drilled at Lloydminster which included four (4.0 net) horizontal wells targeting the Lloyd formation and five (5.0 net) vertical wells targeting the Sparky/GP formation.

WestFire expects to drill 59 (48.2 net) wells including 53 (42.5 net) Viking horizontal light oil wells in the second half of 2011.

On March 3, 2009, the Alberta government introduced a drilling royalty credit for new conventional oil and gas wells up to two hundred dollars per meter drilled. This program expired on March 31, 2011. As at June 30, 2011, approximately $4,713 in Alberta drilling credits have been earned and recognized as a reduction to capital spending.

Economic environment

The Company's investing activities for the six months ended June 30, 2011 consisted of expenditures on its capital program, completion of a strategic merger, completion of a farmout agreement and several minor divestitures. Despite the economic down turn and financial market volatility dating back to 2009, WestFire continued to have access to the equity market in 2009, 2010 and into 2011. Management anticipates that the Company will be able to generate sufficient cash flow and have sufficient bank credit facilities to fund budgeted capital investments for the foreseeable future.

Off-balance sheet obligations and financial instruments

The Company has not entered into any off-balance sheet transactions.

Summary of quarterly results

	IFRS2011		IFRS 2010				CGAAP 2009	
($000, except per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and gas sales	21,377	13,685	13,367	9,957	9,290	10,818	6,957	4,271
Net income (loss) and comprehensive income (loss)	4,387	(1,869)	(4,436)	(2,304)	(842)	1,227	11,829	(1,812)
Net income (loss) per share – basic and diluted	0.10	(0.05)	(0.11)	(0.06)	(0.02)	0.03	0.43	(0.07)
Cash flow from operating activities	4,242	6,546	(2,566)	13,056	(1,410)	12,647	2,585	1,671
Cash flow from operating activities per share – basic and diluted	0.09	(0.08)	(0.07)	0.33	(0.04)	0.36	0.09	0.06
Funds flow from operations[1]	10,641	6,681	5,820	4,017	4,546	5,268	2,674	681
Funds flow from operations per share – basic and diluted	0.24	0.16	0.15	0.10	0.12	0.15	0.10	0.03
Working capital deficiency[2]	5,404	1,198	12,481	13,841	1,855	10,375	3,379	3,137
Net debt[2]	58,204	1,198	20,570	21,801	1,855	4,303	3.379	4,732
Total assets	626,286	278,018	243,503	235,334	219,968	196,539	179,927	117,938
Long-term debt, net of working capital	60,302	4,226	21,823	(740)	16,750	13,256	(6,592)	2,562
Total liabilities	125,457	41,522	48,239	46,216	30,656	37,520	21,604	17,553
Weighted average shares – basic (thousands)	44,822	41,130	39,254	39,036	36,759	35,191	27,734	26,513
Weighted average shares – diluted (thousands)	45,388	41,819	39,489	39,130	37,171	35,499	27,734	26,513
Capital expenditures (including non-cash)	404,653	27,278	11,883	24,206	22,711	17,421	32,998	6,750

[1] The reader is referred to the section - "Non-GAAP Measurements".
[2] Working capital is calculated as current assets less current liabilities and does not include the current portion of the risk management contracts.
[3] Net debt includes bank indebtedness and working capital deficiency.

Accounting policies and estimates
Adoption of International Financial Reporting Standards
WestFire's transition date to IFRS was January 1, 2010 and this quarter represents the second reporting period using its IFRS accounting policies. Accordingly, the comparative information for 2010 has been prepared in accordance with WestFire's IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared following previous GAAP and has not been re-stated.

WestFire included updates on the status of its IFRS conversion project, as well as detailed information on its IFRS accounting policies and elections, including the estimated impact of adopting the accounting policies, in each of its MD&As throughout 2010, as well as in its MD&A for the year ended December 31, 2010. The information below summarizes the significant accounting policies that the Company adopted under IFRS as well as the actual impact of adopting the policies.

WestFire concluded that the adoption of IFRS did not have a significant impact on any of its internal control processes.

Accounting policies
WestFire has prepared its Interim Financial Statements for the three and six months ended June 30, 2011 using the IFRS standards that are expected to be effective at the end of 2011. However, WestFire's IFRS accounting policies will only be finalized when its first annual IFRS financial statements are prepared for the year ending December 31, 2011 and IFRS standards are potentially subject to change in 2011. Therefore, certain accounting policies that WestFire currently expects to follow under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified. As a result, the Interim Financial Statements for the three and six months ended June 30, 2011 are subject to change.

WestFire's Interim Financial Statements for the three and six months ended June 30, 2011 provide reconciliations from previous GAAP to IFRS for equity as at June 30, 2010, and December 31, 2010. Reconciliations are also provided for net earnings and comprehensive income for the three and six months ended June 30, 2010 and for the year ended December 31, 2010.

WestFire's significant accounting policies adopted in its transition from previous GAAP to IFRS, including the significant elections and exemptions that are allowed upon first time adoption of IFRS, as well as the significant impacts on its net earnings for the three and six months ended June 30, 2010 and the year ended December 31, 2010 are summarized in the following.

Pre-exploration expense
Under IFRS, costs incurred prior to obtaining the legal right to explore must be expensed whereas under previous GAAP these costs were capitalized in the full cost pool. The adoption of this policy did not impact WestFire's net earnings for the three and six months ended June 30, 2010 or for the year ended December 31, 2010.

Intangible exploration assets
Exploration and evaluation costs are incurred when the legal right to explore has been obtained but before technical feasibility and commercial viability have been determined. These costs are capitalized under IFRS as they were under previous GAAP, however, they are separately disclosed on the balance sheet as intangible exploration assets. These assets are not depreciated and are carried forward until technical feasibility and commercial viability of the field, area or project is determined. If it is determined that the field, area or project is not technically feasible, commercially viable or if WestFire decided not to continue the exploration and evaluation activity, then the accumulated costs are expensed to exploration expense in the period in which the determination is made. Once technical feasibility and commercial viability is established, intangible exploration assets are tested for impairment and transferred to oil and gas properties, net of any impairment loss. As WestFire had no intangible exploration assets on date of transition to IFRS and has acquired none since, there was no impact to its net earnings for the three and six month period ended June 30, 2010 or the year ended December 31, 2010 due to the adoption of this policy.

Opening Balance Sheet – full cost pool
Under previous GAAP, WestFire accounted for its oil and gas properties in one country level cost centre using full cost accounting. IFRS has no equivalent treatment. IFRS 1 permits full cost accounting companies to allocate their existing upstream oil and gas properties net book value (full cost pool) to the unit of account level upon transition to IFRS using reserve information. Applying this exemption, WestFire's full cost pool was allocated to its IFRS areas within oil and gas properties using the estimated proved and probable reserve values discounted at 10 percent at the transition date. The IFRS allocation process did not affect the net book value of WestFire's oil and gas properties at the date of transition as no IFRS impairments were recognized.

Oil and gas assets - depletion
Under both IFRS and previous GAAP the depletion and depreciation on the Company's oil and gas assets is calculated using the unit-of production method based on estimated reserves. However, under previous GAAP, WestFire calculated its depletion rate using estimated proved reserves and IFRS uses proved and probable reserves. Additionally under previous GAAP WestFire calculated its depletion rate at the country cost centre level whereas under IFRS, its depletion rates are calculated at the area level. The adoption of this policy resulted in a $1,823 and $3,701 decrease in depletion for the three and six months ended June 30, 2010 respectively and a $7,794 decrease in depletion for the year ended December 31, 2010.

Asset impairments
Under previous GAAP, PP&E and goodwill were tested for impairment at the country cost centre level. Under IFRS, PP&E assets are tested for impairment at a much more granular level referred to as a cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets capable of generating cash inflows that are largely independent of cash inflows from other assets.

Under IFRS, assets and CGUs are tested for impairment when facts and circumstances suggest that the carrying amount of an asset or CGU may exceed its recoverable amount. An annual test is performed for a CGU or group of CGUs if the CGU has been allocated goodwill. Intangible exploration assets are also tested for impairment immediately before they are transferred to PP&E. Under previous GAAP, long-lived assets were subject to a two part impairment test. Firstly, a loss was recognized if the carrying value exceeded the undiscounted future cash flows. If a loss was recognized, it was measured as the amount by which the carrying value exceeded its fair value. Under IFRS, an impairment loss is recognized if an asset's or CGU's net book value exceeds its recoverable amount. Recoverable amount is determined as the greater of an asset's or CGU's value-in-use ("VIU") and fair value less costs to sell ("FVLCTS"). VIU is estimated as the discounted present value of the future cash flows expected to arise from the continuing use of an asset or CGU. FVLCTS is estimated as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, which generally reflects current market prices for similar assets or CGUs.

Previous GAAP did not allow for the reversal of impairment losses. Under IFRS, impairment losses recognized in prior periods are assessed at each reporting date for any indicators that the impairment losses may no longer exist or may have decreased, except for goodwill impairments, which are never reversed. In the event that an impairment loss reverses, the carrying amount of the

asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the amount that would have been determined had no impairment loss been recognized on the asset or CGU in prior periods.

Under IFRS 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. This is unchanged from previous GAAP. Under IFRS 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. Under previous GAAP goodwill impairment was tested at the corporate level.

The adoption of these IFRS impairment testing policies had no impact on WestFire's opening balance sheet or net income for the three and six months ended June 30, 2010 or for the year ended December 31, 2010.

Divestitures of assets

Under previous GAAP, gains or losses on divestitures of oil and gas assets were not recognized unless the divestiture would affect WestFire's depletion rate by 20 percent or more, and if not, proceeds were credited to the full cost pool. Under IFRS, all gains and losses on divestiture of assets are recognized. The adoption of this policy had no impact on WestFire's net earnings for the three and six month periods ended June 30, 2010, however for the year ended December 31, 2010 WestFire recognized gains of $2,859.

Exchanges of assets

Under previous GAAP, exchanges of oil and gas assets were typically measured at the book value of the asset given up. Under IFRS, these exchanges are measured at fair value and any resulting gains or losses are recognized in net earnings. However, if the transaction lacks commercial substance or the fair value of the asset received or the asset given up is not reliably measurable, the carrying amount of the asset given up is used as the cost of the asset acquired. The adoption of this policy did not impact WestFire's net earnings for the three and six month periods ended June 30, 2010 or the year ended December 31, 2010.

Asset retirement obligations

Under previous GAAP, the historical credit-adjusted risk-free discount rates used to estimate WestFire asset retirement obligations were not updated to current market discount rates, while under IFRS, the risk-free discount rate is updated each reporting period. On the date of transition, WestFire's discount rate under this IFRS policy was 4% and resulted in a $2,862 increase to the asset retirement obligations, an increase to deferred tax assets of $773 and a charge to retained earnings of $2,089. There was no significant impact on WestFire's net earnings for the three and six month periods ended June 30, 2010 or to the liability at June 30, 2010 as a result of this IFRS policy. At December 31, 2010, the liability increased a further $3,478 with an offsetting increase to PP&E primarily as a result of a change in market discount rates to 3.5%. The unwinding of the discount recorded as an accretion expense in finance charges decreased by $610 for the year ended December 31, 2010.

Compensation plans

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 payment 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. The adoption of this policy did not have a significant impact for the three and six month periods ended June 30, 2010 and resulted in an increase to compensation expense of $449 for the year ended December 31, 2010.

Income taxes

Under IFRS, the term future income taxes has been changed to deferred income taxes. IFRS does not permit the use of current deferred taxes and the balances were reclassified to long term. The carrying amounts of WestFire's tax balances have been directly impacted by the tax effects resulting from the adoption of its IFRS accounting policies. The deferred income tax assets on the Company's IFRS opening balance sheet was increased by $773 due to the change in discount rate used in the calculation of its asset retirement obligations. For the three and six months ended June 30, 2010 and year ended December 31, 2010, the Company's deferred income tax expense increased by $584, $1,224 and $3,125 respectively, primarily as a result of the reduction in depletion expense.

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 guidance and the Company adopted a policy in which it records the premium to accounts payable and accrued liabilities and included in income at the time the qualifying exploration and development expenditures are made. The application of this policy caused an increase to share capital at January 1, 2010 of $909 with an offsetting charge to retained earnings of $1,181 and increase in accounts payable and accrued liabilities of $272. There was no significant impact of the adoption of this policy to the net earnings for the three and six month periods ended June 30, 2010 or the year ended December 31, 2010.

Business combinations
Under IFRS 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 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. As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, there was no goodwill recognized under the Company's previous GAAP. The acquisition of three companies in 2010 required the restatement of their asset retirement obligations using IFRS which resulted in an increase in the asset retirement obligations of $683. This increase was offset by an increase of goodwill of $497 and an increase to deferred taxes of $186.

Critical accounting policies and estimates
WestFire is required to make judgments, assumptions and estimates in the application of accounting policies that could have a significant impact on its financial results. Actual results may differ from those estimates, and those differences may be material. The basis of presentation and WestFire's significant accounting policies can be found in the notes to the Interim Financial Statements. The following discussion highlights significant changes to WestFire's critical accounting policies and estimates from those disclosed in its MD&A for the year ended December 31, 2010, as a result of the adoption of IFRS.

Opening Balance Sheet – full cost pool
On transition to IFRS, WestFire's full cost pool under previous GAAP was allocated to its IFRS areas based on estimated proved and probable reserve values. The estimate of proved and probable reserve values required a number of assumptions and estimates, including quantities of reserves, expected production volumes, future commodity prices, discount rates as well as future development and operating costs. The resulting fair value estimates may not necessarily be indicative of the amounts that may be realized or settled in a current market transaction, nor do they represent costs historically spent.

Oil and gas assets – depletion
Under IFRS, estimates of reserves at the area level, rather than the country cost centre level, can have a significant impact on net earnings, as they are a key component in the calculation of depletion. A downward revision in WestFire's estimate of reserve quantities could result in a higher depletion charge to earnings.

Asset impairments
For impairment testing, the assessment of facts and circumstances is a subjective process that often involves a number of estimates and is subject to interpretation. Also, the testing of assets or CGUs for impairment, as well as the assessment of potential impairment reversals, requires that WestFire estimate an asset's or CGU's recoverable amount. The estimate of a recoverable amount requires a number of assumptions and estimates, including quantities of reserves, expected production volumes, future commodity prices, discount rates as well as future development and operating costs. These assumptions and estimates are subject to change as new information becomes available and changes in any of the assumptions, such as a downward revision in reserves, a decrease in commodity prices or an increase in costs, could result in an impairment of an asset's or CGU's carrying value.

Exchanges of assets
The estimate of fair value, which is used to recognize gains or losses on asset exchanges, requires a number of assumptions and estimates, including quantities of reserves, future commodity prices, discount rates as well as future development and operating costs. The resulting fair value estimates may not necessarily be indicative of the amounts that may be realized or settled in a current market transaction and these differences may be material.

Asset retirement obligations
Since the discount rate used to estimate WestFire's decommissioning liabilities is updated each reporting period under IFRS, changes in the risk-free rate can change the amount of the liability, and these changes could potentially be material in the future.

Future changes in accounting policies
IFRS Accounting Policies
As described in this MD&A, WestFire's IFRS financial statements for the year ending December 31, 2011 must use the standards that are in effect on December 31, 2011, and therefore WestFire's financial statements under IFRS for the three and six month periods ended June 30, 2011 are subject to change. Changes to the accounting policies used may result in material changes to WestFire's reported financial position, results of operations and cash flows.

Financial Instruments
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 on its financial statements.

In May 2011 the IASB issued IFRS11. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 divides all joint arrangements into two categories: joint operation where the jointly controlling parties have rights to the assets and obligations for the liabilities relating to the arrangements, and joint ventures where the jointly controlling parties have rights to the net assets of the arrangement. Joint operations would be accounted for using the proportionate consolidation method where WestFire's proportionate interest in the revenues, expenses, assets and liabilities would be disclosed, consistent with WestFIre's current accounting for joint operations. Joint ventures would be accounted for using the equity method of accounting, where the investment in the joint venture would be adjusted for WestFire's proportion of the net income or loss of the joint venture. IFRS 11 is required to be adopted for years beginning on or after January 1, 2013, although earlier adoption is allowed. The Company is currently evaluating the effect of this new standard.

In May 2011 the IASB issued IFRS 12 Disclosure of Interest in Other Entities which establishes the requirements for disclosure of ownership interest in subsidiaries, joint arrangements, associates and other entities. IFRS 12 requires disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is required to be adopted for years beginning on or after January 1, 2013. The Company is currently evaluating the effect of this new standard.

In May 2011 the IASB issued IFRS 13 Fair Value Measurements which defines fair value, sets out a framework for measuring fair value and requires disclosures about fair values. IFRS 13 applies to all other IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The definition of fair value emphasizes a market-based measurement, not an entity-specific measurement. IFRS 13 is required to be adopted for years beginning on or after January 1, 2013. Earlier adoption is allowed. The Company is currently evaluating the effect of this new standard

Disclosure controls and procedures

WestFire's disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109"*Certification of Disclosure in Issuers' Annual and Interim Filings*"("NI 52-109"), have been designed by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), or caused to be designed under their supervision, to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by WestFire in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. Additionally, pursuant to NI 52-109, the Company's CEO and CFO are responsible for designing and evaluating the internal controls over financial reporting ("ICOFR") or causing them to be designed or evaluated under their supervision. ICOFR is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information resulting in the preparation of financial statements for external purposes which are in accordance with IFRS. Because of their inherent limitations, ICOFR may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well designed, have inherent limitations. Moreover, any control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the control system are met. WestFire's CEO and CFO have concluded that the Company's ICOFR are not effectively designed and operating as intended due to the inherent, identified ICOFR weaknesses. Specifically, due to the limited number of finance and accounting personnel at WestFire as a result of its relatively small organization structure, the Company does not have comprehensive segregation of incompatible duties whereby numerous personnel possess the technical knowledge to address and review complex accounting matters relating to corporate taxation or any non-routine accounting transactions that may arise. As a result of these identified weaknesses in WestFire's ICOFR, there is a more than remote likelihood that a material misstatement would not be prevented or detected in a timely manner. WestFire's Management has processes in-place to mitigate, but not fully compensate, the financial reporting risks arising from the identified weakness, including CEO and CFO oversight of all material transactions and related accounting records and daily oversight by the senior personnel of the Company. In addition, WestFire's Audit Committee reviews on a quarterly and annual basis the financial statements and key risks of the Company and queries Management about significant transactions.

In order to remediate the identified weaknesses in the Company's ICOFR, commensurate with future growth of the Company, it may expand the number of skilled and learned individuals involved in the accounting function to enhance segregation of duties. Third-party expert advisors may be consulted in connection with complex accounting matters or any non-routine accounting transactions that may arise.

There have been no significant changes to the Company's ICOFR during the quarter ended June 30, 2011, which have materially affected, or are reasonably likely to materially affect, the Company's ICOFR.

Additional information

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

Outlook

WestFire has increased its 2011 capital expenditure budget to $133 million as a result of the merger with Orion. As a result of the increased capital, WestFire now expects to drill 99 (87.7 net) wells of which 80 (69.0 net) wells will be on the Viking light oil resource play. The Company is uniquely positioned as an intermediate oil focused company with the free funds flow from operations and expanded credit facilities that allow for the acceleration of drilling activities on its large Viking drilling inventory.

The strategy going forward will be to target annual production growth at 15 to 20% per share, based on capital expenditures within free funds flow. We look forward to reporting on our progress.

Legal advisories

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

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

Non-GAAP measurements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands)	**2011**	2010	**2011**	2010
Cash provided by operating activities	**4,242**	(1,409)	**10,788**	11,238
Change in non-cash working capital	**6,399**	5,955	**6,534**	(1,424)
Funds flow from operations	**10,641**	4,546	**17,322**	9,814

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

Forward-looking statements

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

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

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

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

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