



## 2008 Annual Report

---

## Contents

Profile.....	2
Annual General Meeting.....	2
Message to Our Shareholders.....	3
Reserves.....	4
Land Holdings.....	8
Net Asset Value.....	8
Operations.....	9
Management’s Discussion and Analysis.....	11
Management’s Report.....	28
Auditors Report.....	28
Financial Statements.....	29
Corporate Information.....	50

## Profile

WestFire Energy Ltd. is a private junior oil and gas company focused on building shareholder value by growing per share production and reserves. WestFire is developing an inventory of low risk drilling locations in three core areas: West Central Saskatchewan, Bashaw, Alberta, and Redwater, Alberta. The Company is exploiting under-developed assets in these areas through a focused exploration and development plan.

The areas are characterized by:

- (1) Significant undeveloped land with high working interests and operatorship;
- (2) Multi-zone potential and/or capacity for large, scalable reserves;
- (3) 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 10:00 am Mountain Daylight Time on Wednesday, May 27, 2009 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

The year 2008 marked a time of dramatic change for WestFire Energy Ltd. Through the successful implementation of our strategy to acquire and enhance oil and gas reserves through technical, operational and financial activities, the growth has been substantial. The company's achievements in the year include the following:

- 2008 production averaged 899 barrels of oil equivalent per day ("boepd"), compared with the 2007 average of 14 boepd. Year over year production per share growth exceeds 900 percent;
- Cash flow per share for 2008 was \$0.63, a substantial increase over \$0.05 per share for 2007;
- Increased proved plus probable reserves to 5.14 million barrels of oil equivalent ("MMboe") at year-end 2008 from 0.3 MMboe at year-end 2007, a per share growth of 244 percent;
- Increased WestFire's net undeveloped land base to 102,000 acres at year-end 2008. A large portion of these lands are focused on the highly prospective Viking oil resource play located in West-Central Saskatchewan;
- The company successfully drilled 17 (14.7 net) wells for an overall success rate of 76 percent.

### Outlook

The year 2008 started with oil and natural gas prices at or near historic highs; therefore cash flows were at record highs for the industry. By mid-year, the prices for both commodities had strengthened even further. In general, the balance sheets for most in the industry were robust and bank lines were established for all, based on the commodity prices of the time. Then the global economic chaos hit and commodity prices started to free fall, ending the year about 75 percent lower than mid-year. WestFire adjusted its capital budget late in the summer in order to maintain a strong balance sheet. In addition, our bank line has been reviewed recently and is now set at \$20 million until May 2010. Strong reserve growth has more than offset the severe drop in commodity prices. The Company is in the enviable position of having the balance sheet and debt capacity to take advantage of opportunities to acquire oil and gas reserves and or corporations created by the weakness in oil and natural gas prices. Therefore the continuation of our acquisition strategy will serve us well. In addition, our anticipation is that the cost of supplies and services will be significantly lower than experienced in recent years. This will allow us to do more exploitation for less capital. Our efforts will be focused on the evolving Viking oil resource plays in both West Central Saskatchewan and Redwater Alberta plus our multi-zone gas prospects in the Bashaw area.

Management received approval for a capital expenditure program of approximately \$10.7 million for its 2009 exploration and development activities. We are mindful of maintaining balance sheet strength; therefore the capital program reflects our anticipated cash flow for the year.

This program allows for the drilling of 9 (9.0 net) wells in 2009. This program will sustain production at about 1,500 boepd. Higher cash flows will allow us to expand the capital budget, whereas balance sheet will enable us to pursue acquisition opportunities.

### Acknowledgements

In closing, I want to express my appreciation to our Board of Directors for their wisdom and guidance, to our staff for their efforts and special thanks to our many shareholders for their support.

On behalf of the Board of Directors,

(signed)

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

## Reserves

GLJ Petroleum Consultants (“GLJ”) has completed an independent reserves assessment and evaluation of the oil and gas properties of WestFire Energy Ltd. with an effective date of December 31, 2008. (“GLJ Report”). The evaluation has been prepared in accordance with reserves definitions, standards and procedures contained as set out by NI51-101 and contained in the Canadian Oil and Gas Evaluation Handbook (“COGEH”). Reserves included herein are stated on a company interest basis (before royalty burdens and including royalty interests) unless otherwise noted. The recovery and reserve estimates provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

WestFire has a reserves committee comprised of board members which reviews the qualifications and appointment of the independent reserve evaluators and reviews the process for providing information to the evaluators. The committee is chaired by an independent board member. The GLJ Report was reviewed by the reserves committee of WestFire on March 6, 2009 and was approved by the Board of Directors on March 27, 2009.

Proved plus probable reserves were 5.14 million barrels of oil equivalent while total proved were 2.98 million barrels of oil equivalent at December 31, 2008. On a proved plus probable basis, the Company's current mix of reserves are 50% light/medium crude and natural gas liquids, 9% heavy crude and 41% natural gas.

Proved developed producing reserves represent 80 per cent of total proved reserves and 46 per cent of proved plus probable reserves; total proved reserves account for 58 per cent of proved plus probable reserves.

Reserve additions, on a proved plus probable basis, came primarily through acquisitions of 4.30 million barrels of oil equivalent, and exploration and development activities of 0.85 million barrels of oil equivalent.

### Breakdown of Reserves (Forecast Prices and Costs) <sup>(1) (2)</sup>

	Light and Medium Crude Oil (Mbbbl)	Heavy Crude Oil (Mbbbl)	Natural Gas (MMcf)	Natural Gas Liquids (Mbbbl)	Barrels of Oil Equivalent (Mboe)
Company Working Interest Reserves					
Proved Developed Producing	1,116	258	5,768	39	2,375
Proved Developed Non-producing	0	0	2,578	22	452
Proved Undeveloped	148	0	40	0	155
Total Proved	1,264	258	8,385	61	2,981
Total Probable	1,210	183	4,371	35	2,157
Total Proved Plus Probable	2,474	442	12,756	96	5,138

<sup>(1)</sup> Oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

<sup>(2)</sup> Numbers in this table are subject to round off error.

### Reserves Life Index (“RLI”)

WestFire's proved plus probable RLI was 9.9 years at year-end 2008 while the proved RLI was 5.7 years based upon the GLJ reserves and a December average production rate of 1,423 boepd.

### Net Present Value of Future Net Revenue (Forecast Prices and Costs) <sup>(1) (2)</sup>

GLJ's January 2009 price forecasts have been utilized in the analysis. Values are presented prior to provision for interest, debt service charges, and general and administrative expenses. The Company increased the net present value of proved plus probable reserves, discounted at 10% before tax, to \$86.46 million, up over 1500% from \$5.22 million at December 31, 2007. At a 10 per cent discount factor, proved developed producing reserves represent 85 per cent of total proved reserves and 52 per cent of proved plus probable reserves; total proved reserves account for 61 per cent of proved plus probable reserves on a value basis.

	0%	5%	10%	15%	20%
Future Net Revenue Before Income Tax	M\$	M\$	M\$	M\$	M\$
Proved Developed Producing	65,223	52,820	44,625	38,857	34,582
Proved Developed Non-producing	11,889	7,438	5,019	3,603	2,717
Proved Undeveloped	5,946	3,977	2,724	1,880	1,285
Total Proved	83,058	64,235	52,268	44,340	38,584
Total Probable	72,524	47,960	34,092	25,402	19,504
Total Proved Plus Probable	155,582	112,194	86,460	69,742	58,088

(1) Net present value of future net revenue does not represent fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.

(2) Numbers in this table are subject to round off error.

#### Additional Information Concerning Future Net Revenue (Forecast Prices and Costs) <sup>(1)</sup>

(\$000's)						Future Net
	Revenue	Royalties	Operating costs	Development costs	Abandonment costs	Revenue Before Income Tax
Total Proved	209,922	33,000	82,777	4,911	6,176	83,058
Total Proved Plus Probable	379,632	66,882	124,233	25,651	7,283	155,582

(1) Numbers in this table are subject to round off error.

#### Crude Oil and Natural Gas Liquids Price Forecast <sup>(1) (2) (7)</sup>

Year	Inflation %	Bank of Canada Average Noon Exchange Rate \$US/\$Cdn	WTI\$US/bbl <sup>(3)</sup>	Edmonton \$Cdn/bbl <sup>(4)</sup>	Heavy	Medium	Edmonton Propane \$Cdn/bbl	Edmonton Butane \$Cdn/bbl	Edmonton Pentanes Plus \$Cdn/bbl
					Crude at Hardisty \$Cdn/bbl <sup>(5)</sup>	Crude at Cromer \$Cdn/bbl <sup>(6)</sup>			
2009	2.0	0.825	57.50	68.61	43.10	59.00	43.22	52.14	69.98
2010	2.0	0.850	68.00	78.94	49.76	68.68	49.73	61.57	80.52
2011	2.0	0.875	74.00	83.54	54.35	73.52	52.63	65.16	85.21
2012	2.0	0.925	85.00	90.92	59.32	80.01	57.28	70.92	92.74
2013	2.0	0.950	92.01	95.91	62.54	84.40	60.42	74.81	97.82
2014	2.0	0.950	93.85	97.84	63.82	86.10	61.64	76.32	99.80
2015	2.0	0.950	95.73	99.82	65.13	87.84	62.89	77.86	101.81
2016	2.0	0.950	97.64	101.83	66.46	89.61	64.15	79.43	103.87
2017	2.0	0.950	99.59	103.89	67.83	91.42	65.45	81.03	105.97
2018	2.0	0.950	101.59	105.99	69.22	93.27	66.77	82.67	108.10
2019+	2.0	0.950	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

(1) Effective January 1, 2009

(2) Then Current Dollars

(3) NYMEX WTI Near Month Futures Contract Crude Oil at Cushing Oklahoma

(4) Light, Sweet Crude Oil (40 API, 0.3%S) at Edmonton

(5) Heavy Crude Oil Proxy (12 API) at Hardisty

(6) Medium Crude Oil (29 API, 2.0%S) at Cromer

(7) Historical futures contract price is an average of the daily settlement price of the near month contract over the calendar month.

## Natural Gas Price Forecast <sup>(1) (2) (3) (4)</sup>

Year	Alberta Plant Gate				Saskatchewan Plant Gate		
	NYMEX		AECO/		Aggregator	Sask Energy	Spot
	Contract Last	NIT Spot	Spot	ARP			
3 Day Price	\$/MMBtu <sup>(5)</sup>	\$/MMBtu	\$/MMBtu	\$/MMBtu	\$/MMBtu	S/MMBtu	
2009	7.00	7.58	7.34	7.26	7.00	7.39	7.49
2010	7.50	7.94	7.70	7.63	7.43	7.76	7.85
2011	8.00	8.34	8.10	8.03	7.81	8.16	8.25
2012	8.75	8.70	8.46	8.38	8.16	8.51	8.61
2013	9.20	8.95	8.70	8.62	8.39	8.75	8.86
2014	9.38	9.14	8.89	8.81	8.57	8.94	9.05
2015	9.57	9.34	9.09	9.00	8.76	9.13	9.25
2016	9.76	9.54	9.28	9.20	8.96	9.33	9.45
2017	9.96	9.75	9.49	9.40	9.15	9.53	9.66
2018	10.16	9.95	9.70	9.61	9.35	9.74	9.86
2019+	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

(1) Effective January 1, 2009

(2) Then Current Dollars

(3) Unless otherwise stated, the gas price reference point is the receipt point on the applicable provincial gas transmission system known as the plant gate.

(4) The plant gate price represents the price before raw gas gathering and processing charges are deducted.

(5) AECO-C Spot refers to the one month price averaged for the year.

GLJ Petroleum Consultants has prepared its January 1, 2009, price and market forecasts as summarized in the Tables above after a comprehensive review of information. Information sources include numerous government agencies, industry publications, Canadian oil refiners and natural gas marketers. The forecasts presented herein are based on an informed interpretation of currently available data. While these forecasts are considered reasonable at this time, users of these forecasts should understand the inherent high uncertainty in forecasting any commodity or market. These forecasts will be revised periodically as market, economic and political conditions change. These future revisions may be significant.

### Alberta New Royalty Framework

The Alberta Government introduced its New Royalty Framework effective January 1, 2009. The GLJ Report incorporates all of the proposed changes. The Alberta Government has also recently introduced a "Transitional Royalty" as well as a Royalty Incentive Program. Both of these programs have not been incorporated into the report. WestFire will evaluate the merit of each of these programs on a project by project basis and compare it to other projects in its portfolio.

### Reserve Reconciliation Table

The following table provides detailed calculations relating to FD&A costs and recycle ratios for 2007:

	Oil/NGLs		Gas		Combined	
	Total	Proved	Total	Proved	Total	Proved
	Proved	Plus	Proved	Plus	Proved	Plus
	(Mbbbls)	(Mbbbls)	(MMcf)	(MMcf)	(Mboe)	(Mboe)
Balance, December 31, 2007	75	130	388	759	139	256
Discoveries	28	38	2,781	3,805	491	672
Extensions	145	178	15	19	147	181
Technical Revisions	(10)	(41)	474	612	71	61
Acquisitions	1,502	2,864	5,763	8,598	2,462	4,297
Production	(156)	(156)	(1,036)	(1,036)	(329)	(329)
Balance, December 31, 2008	1,584	3,012	8,385	12,756	2,981	5,138

### Finding, Development and Acquisition (“FD&A”) Costs

Under NI 51-101, the methodology used to calculate FD&A costs requires incorporating changes in future development capital (“FDC”) required to bring the proved undeveloped and probable reserves to production. WestFire has chosen to present FD&A costs calculated by both excluding and including FDC. As WestFire is a new start up, acquiring land makes up a significant portion of the capital expenditures. FD&A costs have also been presented excluding land costs. The following table provides detailed calculations relating to FD&A costs and recycle ratios for 2008:

	Total Proved	Proved Plus Probable
Capital Expenditures excluding Land (\$000)	45,850	45,850
Capital Expenditures including Land (\$000)	71,450	71,450
Change in FDC Required to Develop Reserves (\$000)	4,797	25,098
Total Capital Costs ((\$000)	76,247	96,548
Reserve Additions (Mboe)	3,173	5,211
FD&A Costs before Land & FDC (\$/boe)	14.45	8.80
FD&A Costs before FDC (\$/boe)	22.52	13.71
FD&A Costs Including FDC (\$/boe)	24.03	18.52
Operating Netback (\$/boe)	32.88	32.88
Recycle Ratio before Land & FDC	2.3	3.7
Recycle Ratio before FDC	1.5	2.4
Recycle Ratio including FDC	1.4	1.8

### Production Replacement

WestFire’s 2008 capital investment program replaced 2008 production by a factor of 7.5 times on a proved basis and 14.8 times on a proved plus probable basis. The following table summarizes production replacement for 2008:

	Total Proved			Proved Plus Probable		
	Oil/NGLs (Mbbbls)	Gas (MMcf)	Combined (Mboe)	Oil/NGLs (Mbbbls)	Gas (MMcf)	Combined (Mboe)
Reserve additions, including revisions	1,509	7,997	2,842	2,882	11,997	4,882
2008 production	156	1,036	329	156	1,036	329
Production replacement ratio	9.7	7.7	8.6	18.5	11.6	14.8

## Land Holdings

WestFire had undeveloped land at December 31, 2008 of approximately 102,000 net acres with an average working interest of 84%. Approximately 66,000 net acres (65 percent) of the undeveloped lands are in West Central Saskatchewan and approximately 36,000 net acres (35 percent) are in Alberta.

In 2008, WestFire incurred \$0.5 million at Saskatchewan Crown land sales acquiring 4,600 net acres of petroleum and natural gas rights at an average cost of \$110 per acre; compared to an industry average of \$591 per acre. In Alberta, WestFire incurred \$0.1 million at Alberta Crown land sales acquiring 986 net acres of petroleum and natural gas rights at an average cost of \$97 per acre; compared to an industry average of \$477 per acre for the Plains Region.

Over 70% of WestFire's 2008 land expenditures were directed towards expanding the Company's acreage position at West Central Saskatchewan with a primary focus on the acquisition of highly prospective Viking rights. Since inception, WestFire's land acquisition strategy has been to build a significant land base of high working interest prospects. During the past year, WestFire has been successful with this strategy at West Central Saskatchewan, where the Company has an average working interest of 96% in approximately 42,000 acres of developed and undeveloped lands.

Looking ahead to 2009, WestFire will continue its internally generated, prospect-driven land acquisition strategy. This strategy will be complemented by third party farm-in arrangements and acquisitions in core exploration areas. In the first quarter, WestFire entered into two significant farm-in deals with two major Canadian resource companies. One deal adds an additional 20 sections of Viking prone land in West Central Saskatchewan and the other provides WestFire access to 80 gross sections of land in Bashaw, Alberta with 3D seismic coverage. Over the next twelve months, 10 percent of WestFire's net undeveloped acreage will be subject to expiry.

The table below summarizes WestFire's undeveloped land holdings as at December 31, 2008 and 2007.

	2008		2007	
	Gross acres	Net acres	Gross acres	Net acres
Alberta	48,000	36,000	9,795	5,407
Saskatchewan	74,000	66,000	-	-
Total undeveloped land	122,000	102,000	9,795	5,407

## Net Asset Value

WestFire's net asset value at December 31, 2008, discounting the present value of reserves at 10% before tax, increased to \$112.1million, up 363% from \$24.2 million at December 31, 2007. On a per share basis, net asset value increased by 9% to \$5.24 per share. The value of excess tax pools was determined by multiplying surplus tax pools by \$0.10 per dollar and by valuing the investment tax credit pool at \$0.43 per dollar. The present value of proved plus probable petroleum and natural gas ("P&NG") reserves were determined by GLJ in their year-end evaluation report. Undeveloped land at December 31, 2008 was valued at an average price of \$165 per acre (2007 - \$100 per acre). The components of net asset value are summarized in the following table:

Forecast Prices at December 31, (\$000s)		
Present value of P&NG reserves, discounted at 10% before tax	2008	2007
Undeveloped land	\$ 16,830	\$ 541
Working capital (deficiency)	(7,444)	1,936
Value of excess tax pools	11,995	16,500
P&NG reserves	86,460	5,216
Proceeds from exercise of stock options	4,300	-
Net asset value	\$ 112,141	\$24,193
Diluted common shares outstanding (000s)	21,410	5,015
Net asset value per share (\$/Share)	\$5.24	\$4.82

## Operations

### Review of Operations

In 2008, WestFire increased proved plus probable reserves to 5.14 from 0.3 MMboe and December 2008 production to 1,423 boepd from December 2007 rates of 14 boepd, primarily through a series of acquisitions supplemented by a relatively low-risk drilling program. This rapid growth demonstrates the ongoing success of the Company's business plan. WestFire maintained a split of 59 percent oil and natural gas liquids to 41 percent gas on a proved plus probable reserve basis and 40 percent oil to 60 percent gas on a daily production basis as at year-end 2008.

WestFire currently has three core operating areas which include West Central Saskatchewan plus the Bashaw and Redwater projects in Central Alberta. The primary focus of the Company remains firmly fixed on exploiting the emerging shallow Viking Formation horizontal light oil resource play in West Central Saskatchewan and at Redwater. The Bashaw multi-zone Mannville gas project has evolved into a self-sustaining cash flow generating asset which will ultimately assist in funding the Viking oil resource play development.

The acquisition component of our business plan resulted in WestFire acquiring K-Town Energy Ltd., Voyager Energy's Bashaw assets, five small private companies with assets in West Central Saskatchewan and Racing Resources Ltd. During 2008, WestFire recognized that each of these acquisitions provide the opportunity for additional value creation by doubling reserves, production, cash flow and net asset value through various technical, operating and financial activities.

WestFire has diligently enhanced each of its three core areas throughout 2008. The Company drilled 17 wells with an average working interest of 87 percent and maintained a 76 percent success rate. We prefer to emphasize hands-on management, operating 13 of the 17 wells. Development drilling represented 47 percent of our activity, while exploration represented 53 percent. Moving forward, WestFire anticipates a more development drilling oriented approach to fuel our near-term as well as long-term growth.

The Company continued to consolidate and add to its land position in all three core areas. This was achieved through the combination of corporate and asset acquisitions, two significant freehold lease deals and modest participation at Crown land sales. WestFire's net undeveloped acreage position has increased substantially to approximately 102,000 acres as at year-end 2008 (approximately 155,000 acres as at March 31, 2009) with an average working interest of 84 percent.

### West Central Saskatchewan

The West Central Saskatchewan core area is located near the town of Kindersley, Saskatchewan. As at December 31, 2008, WestFire held an average 89 % working interest in approximately 74,000 gross acres (66,000 net acres) of undeveloped land in the greater West Central Saskatchewan area.

WestFire initially established its position in West Central Saskatchewan through the acquisition of K-Town Energy in March of 2008. With this transaction the Company purchased approximately 700 barrels of oil equivalent per day in a combination of light oil, heavy oil and natural gas from a large number of wells and an extensive undeveloped acreage position. Early in the second quarter, the Company began development of the K-Town assets by drilling four Bakken heavy oil development wells with mixed results.

In the third quarter, WestFire's technical attention turned to analyzing the potential of the large, relatively unexploited Viking Formation light oil resource play that underlies the majority of its undeveloped acreage position. This high quality resource oil play is encountered at a depth of only 700m and consists of interbedded silts and sands that yield 30 to 36 degrees API oil. The vertical, fracture-stimulated Viking oil wells in the area produce at initial rates of 10 to 30 barrels of oil per day and have cumulative production in the range of 25 to 50 thousand barrels of oil.

During the fourth quarter of 2008, WestFire drilled four horizontal Viking oil wells and cased three for multi-stage fracturing completions while the fourth well was abandoned due to operational problems. At the time of this report, the three horizontal oil wells are below Company expectations and area-wide averages. Further technical review and analysis is currently ongoing to better understand the reservoir heterogeneity and ideal completion techniques.

The Viking Formation on WestFire's land position throughout West Central Saskatchewan continues to represent an excellent zone on which to carry out horizontal single-legged drilling and multi-stage fracture completion operations in order to achieve higher productivity and recovery rates. At year-end 2008, the Company's independent reserves evaluation firm had calculated that 91 horizontal Viking oil wells at 4 wells per section could be drilled to tap into this light oil resource play on Company lands.

Eleven area operators have already drilled and placed on production 34 horizontal Viking oil wells with initial rates ranging from 25 to 100 barrels of oil per day and averaging 60 barrels of oil per day. Cumulative production from the first 34 horizontal wells has reached 183 thousand barrels since the initial well was drilled in December of 2007.

Along with the Racing acquisition completed in November of 2008, WestFire now controls approximately 80 net sections of undeveloped acreage with Viking horizontal light oil potential in West Central Saskatchewan.

### **Bashaw, Alberta**

The Bashaw core area is located approximately 80 kilometers northeast of the city of Red Deer, Alberta. As at December 31, 2008, WestFire held an average 99% working interest in approximately 7,000 gross acres (6,900 net acres) of undeveloped land.

WestFire's primary objective in the Bashaw area is lower-risk exploration, development and production of conventional multi-zone Mannville gas sands found at depths of up to 1,450 meters. The Company gained its footprint in the Bashaw area through the acquisition of the Canadian assets of Voyager in June, 2008. The purchase consisted of 12 sections of land, nine square miles of proprietary 3D seismic and six producing gas wells tied into a 100% wholly-owned gas processing facility with refrigeration capability. This gas processing facility is the only one in the immediate vicinity that allows for the extraction of valuable natural gas liquids found in the Mannville gas.

During the third quarter, WestFire drilled five vertical exploratory wells on the existing 3D seismic and cased four out of five as multi-zone Mannville gas wells. The Company tied in only two of the new wells as the 5 million cubic feet of gas per day capacity of the gas processing facility was reached. Although the facility may be expanded to 10 million cubic feet of gas per day through additional compression, WestFire's objective is to keep it level-loaded until sufficient new gas, in addition to WestFire's current behind-pipe gas, is discovered to warrant the expansion.

As a result of WestFire's exploratory drilling success, the Company shot an additional 13 square miles of 100% proprietary 3D in the fourth quarter and merged it with the original 3D program shot by Voyager. Numerous additional locations have been identified and are being surveyed for drilling as a result of recent seismic interpretation.

Subsequent to year-end 2008, WestFire has entered into a four township farm-in deal with a major Canadian resource company for the purposes of exploring approximately 80 gross sections of their land in the area. As part of the deal, the two companies have agreed to share their proprietary 3D seismic databases with each other. For WestFire, this translates into accessing an additional 75 square miles of 3D seismic data.

### **Redwater Alberta**

The Redwater core area is located approximately 50 kilometers northeast of the city of Edmonton, Alberta. As at December 31, 2008, WestFire held an average 90% working interest in approximately 10,000 gross acres (9,000 net acres) of undeveloped land.

With the Racing Resources acquisition in November, 2008, WestFire's focus at Redwater remains on the Viking Formation light oil resource play, which underlies the majority of its acreage position. This prospect is analogous to the Viking play in West Central Saskatchewan.

The Viking Formation at Redwater represents an excellent zone on which to carry out horizontal single or multi-legged drilling and multi-stage fracture completion operations to achieve higher productivity and recovery rates. Six area operators have already drilled and placed on production 27 horizontal Viking oil wells with initial rates ranging from 30 to 150 barrels of oil per day and averaging 90 barrels of oil per day. Cumulative production from the first 19 horizontal wells has reached 317 thousand barrels since the initial well was drilled just over two years ago.

WestFire's undeveloped lands in the Redwater area are well positioned in relation to the Viking Formation horizontal light oil potential. The Company's independent reserves evaluation firm has calculated that up to 40 horizontal Viking oil wells at 4 wells per section could be drilled to tap into this light oil resource play on Company lands.

## Management's Discussion and Analysis

WestFire Energy Ltd. ("WestFire" or "the Company") is a private 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 audited financial statements for the year ended December 31, 2008 together with the notes related thereto. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. 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. This MD&A is effective March 27, 2009.

Financial (\$'s except share and production information)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
Oil and gas revenues	5,967,421	89,889	21,324,168	198,997
Cash provided by (used in) operating activities	3,868,556	(742,404)	9,825,248	(659,166)
Funds flow from operations <sup>(1)</sup>	2,894,816	10,698	8,202,010	100,724
Per share – basic <sup>(1)</sup>	0.18	0.00	0.63	0.05
Per share – diluted <sup>(1)</sup>	0.18	0.00	0.63	0.05
Net income (loss)	933,979	(21,046)	3,641,629	(114,706)
Per share - basic	0.06	(0.01)	0.28	(0.05)
Per share – diluted	0.06	(0.01)	0.28	(0.05)
Capital expenditures (including non-cash)			77,888,861	4,584,000
Common shares outstanding – basic	20,435,382	5,014,706	20,435,382	5,014,706
Common shares outstanding – diluted	20,435,382	5,014,706	20,435,382	5,014,706
Weighted average – basic	16,327,495	2,521,677	12,966,260	2,221,016
Weighted average - diluted	16,327,495	2,521,677	12,966,260	2,221,016
Sales Volumes				
Oil and NGL (bbls per day)	567	8	427	1
Natural gas (Mcf per day)	5,328	284	2,831	75
Barrels of oil equivalent (boe per day) <sup>(2)</sup>	1,455	55	899	14

(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

WestFire's primary goal is to build asset value initially through acquisitions. The Company is seeking acquisitions with exploitation and exploration potential. These acquisitions can be in the form of buyouts of corporations or the direct acquisition of oil and gas properties. The ideal acquisition will have a high, operated working interest with large reserves in place and low recoveries to date. The Company will enhance value through increased recovery by infill drilling, applying new geophysical and horizontal drilling technology or employing secondary recovery techniques such as water floods.

Exploration will be conducted on a selective basis while the Company focuses on building production and cash flow.

Before significant capital is expended, a detailed and thorough technical and economic analysis of each prospect will be performed. Our plan is to be patient and selective of opportunities which demonstrate the potential for superior returns on capital expended. With this approach, we intend to maximize our capital efficiency and thereby achieve low finding & development costs and high recycle ratios (field netback per boe divided by finding & development costs per boe).

With the recent substantial and rapid fall in commodity prices coupled with uncertain credit markets, WestFire believes that it will have many opportunities to acquire smaller companies with insufficient cash flow and limited access to capital. WestFire has originally focused on oil weighted exploitation projects, which culminated in the acquisition in March 2008 of K-Town Energy Ltd. ("K-Town"). In June 2008, the Company was able to complete an acquisition of natural gas properties near Bashaw, Alberta for \$23.2 million. On October 7, 2008, WestFire completed the acquisition of five small private companies with oil and gas assets in the Dodsland Area of Saskatchewan. On November 14, 2008, the Company acquired all of the outstanding shares of Racing Resources Ltd. by way of a share exchange. The Racing acquisition provides WestFire with significant land positions in its West Central Saskatchewan and Redwater Alberta Viking resource plays.

#### Oil and gas production

	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
<b>Sales Volumes</b>				
<b>Oil and NGL (bbls per day)</b>	567	8	427	1
<b>Natural gas (Mcf per day)</b>	5,328	284	2,831	75
<b>Barrels of oil equivalent (boe per day)</b>	1,455	55	899	14

Volumes have increased during the fourth quarter of 2008 compared to the same period of 2007 as a result of the previously referred to acquisitions. In addition, during November 2008, the Company completed and tied in four natural gas wells in the Bashaw Area. As this filled the Company's 100% owned gas plant to capacity, two wells that have been drilled and tested have not been completed as the Company monitors the performance of the new production. In December 2008, one of the new wells had to be shut in as its gas started testing sour. The Company has since abandoned the sour gas zone in that well and completed an upper zone and has restored most of the lost production. The Company also drilled four horizontal wells into the Viking formation in West Central Saskatchewan. One well experienced drilling difficulties and was abandoned while the other three wells commenced production during December 2008. Bitter cold weather during most of December prevented the Company from determining the capability of these wells. Since December, the results from the three wells have been below expectations. WestFire is analyzing the merits of the various drilling and completion methods being used in this play type before commencing with additional horizontal wells.

#### Petroleum and natural gas revenues

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
<b>Oil and NGL revenues</b>	2,549,386	25,148	13,194,778	36,635
<b>Per barrel</b>	48.90	95.26	76.86	82.14
<b>Natural gas</b>	3,418,035	64,741	8,129,390	162,362
<b>Per Mcf</b>	6.97	6.92	7.85	7.03

Revenues have increased on a total dollar basis as a result of the increase in volumes from the acquisitions mentioned earlier. Commodity prices have decreased in particular during the fourth quarter of 2008 in comparison to 2007. With the K-Town acquisition, an increased portion of WestFire's oil volumes consists of heavier crude oil and therefore will be subject to a pricing differential from WTI or Edmonton Light grades of crude oil.

#### Interest income

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
<b>Interest income</b>	702	32,478	88,661	141,078

Interest income has declined as WestFire has used its cash on hand and operating lines of credit to execute its capital program.

### Crown and other royalties

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
<b>Total</b>	<b>1,058,922</b>	13,035	<b>4,247,219</b>	36,133
<b>Per boe</b>	<b>7.91</b>	7.15	<b>12.91</b>	8.41
<b>% of revenue</b>	<b>17.7%</b>	14.5%	<b>19.9%</b>	18.2%

Total royalties have increased as a result of the increased volumes from the acquisitions and drilling. Royalties as a percentage of sales has become more consistent with a greater number of wells producing. During the fourth quarter of 2007, the Company had less than 10 wells producing. In the fourth quarter of 2008, WestFire had in excess of 200 producing wells.

### Operating expenses

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
<b>Total</b>	<b>2,145,666</b>	29,259	<b>5,889,212</b>	46,447
<b>Per boe</b>	<b>16.03</b>	16.04	<b>17.91</b>	10.82
<b>% of revenue</b>	<b>36.0%</b>	32.6%	<b>27.6%</b>	23.3%

WestFire expected operating expenses to increase in 2008 on a per boe basis as the K-Town acquisition contained numerous low productivity wells which have a high fixed cost component. Going forward, WestFire's strategy is to operate its properties and invest in facilities whenever possible in order to maintain a low operating cost structure. The recently acquired Bashaw, Alberta gas acquisition has lower operating costs per boe and the Company expects to reduce overall operating costs by operating the Bashaw Gas Plant at or near its capacity of 5 MMcf per day.

### Transportation expenses

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
<b>Total</b>	<b>73,995</b>	960	<b>224,968</b>	1,591
<b>Per boe</b>	<b>0.55</b>	0.53	<b>0.68</b>	0.37
<b>% of revenue</b>	<b>1.2%</b>	1.1%	<b>1.1%</b>	0.8%

Transportation expenses are incurred for services related to moving production to sales points, including oil hauling, pipeline tolls and third-party or custom processing charges. The large increase from 2007 to 2008 is a result of the increase in volumes resulting from the acquisitions. Transportation costs as a percentage of revenues have remained near 1%.

### Netbacks <sup>(1)</sup>

\$ per boe	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
<b>Revenue</b>	<b>44.59</b>	49.28	<b>64.84</b>	46.34
<b>Realized derivative gains and losses</b>	<b>8.91</b>	-	<b>(0.46)</b>	-
<b>Royalties</b>	<b>(7.91)</b>	(7.15)	<b>(12.91)</b>	(8.41)
<b>Operating expenses</b>	<b>(16.03)</b>	(16.04)	<b>(17.91)</b>	(10.82)
<b>Transportation expenses</b>	<b>(0.55)</b>	(0.53)	<b>(0.68)</b>	(0.37)
<b>Netbacks</b>	<b>29.01</b>	25.56	<b>32.88</b>	26.74

The dramatic decline in commodity prices during the fourth quarter of 2008 was cushioned by gains resulting from the Company's derivative program.

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

**General and administration (“G&A”) expenses**

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
Gross G&A expenses	830,085	50,326	2,142,076	56,326
Less: capitalized	(218,633)	-	(510,958)	-
Net G&A expenses	611,452	50,326	1,631,118	56,326
Per boe	4.57	27.59	4.96	13.12

G&A expenses are decreasing on a per boe basis due to the growth in production. At the end of December 2008, WestFire had thirteen office staff. In accordance with its full cost accounting policy, WestFire capitalizes G&A expenses associated with exploration and development activities. WestFire only commenced having a full time management team on December 13, 2007 with the NCEL acquisition which is why the corresponding 2007 periods are much lower in total general and administrative expenses.

**Interest expense**

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
Interest expense	88,934	(4,608)	484,388	179,450

During the first half of 2007, a convertible debenture of approximately \$8 million was outstanding. This debenture was partially repaid in March 2007 with \$4 million in cash and, in July 2007, the remaining \$4 million was converted into 571,429 voting common shares and 571,429 non-voting common shares. Of the total interest in 2008, \$51,781 was paid on a \$10,000,000 note payable to the owner of K-Town as a bridge loan until WestFire could close its April 2008 equity financing. An additional \$129,053 of interest was paid on unspent flow through expenditures which were renounced in January 2008. In May 2008, the Company consolidated its bank facilities with a Canadian chartered bank. The facility was increased in June 2008 to allow the Company to close its Bashaw asset acquisition. The Company spent \$10.5 million on property, plant and equipment and used \$7.0 million to acquire five private companies during the fourth quarter of 2008. At December 31, 2008, the Company had bank debt of \$7,491,273.

**Stock based compensation**

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
Gross stock based compensation	199,938	-	565,599	-
Less: capitalized	(115,560)	-	(115,560)	-
Net stock based compensation	84,378	-	450,039	-

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 over the expected vesting time frame with a corresponding increase to contributed surplus. On January 24, 2008, WestFire granted 509,800 stock options at an exercise price of \$3.75 per share. On May 5, 2008, the Company granted an additional 540,400 stock options at an exercise price of \$5.00. Also during the second quarter of 2008, 50,400 stock options at \$3.75 were forfeited when one employee resigned. During November 2008, two employees left the Company and forfeited 25,000 options. On December 5, 2005, 877,500 stock options were granted at an exercise price of \$6.00 per share. 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 option recipient 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 set by the Board of Directors on the date of grant. In accordance with its full cost accounting policy, WestFire capitalizes stock based compensation expenses associated with exploration and development activities. In the fourth quarter of 2008, the Company capitalized all of the stock based compensation relating to the entire year. Only \$41,154 of the amount capitalized directly relates to the fourth quarter.

### Recovery of uncollectible accounts

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
Provision for (recovery of) uncollectible accounts	(43,667)	-	29,036	-

During June 2008, one of the Company's natural gas marketers filed for creditor protection under the *Companies Creditors Arrangement Act* (Canada). The Company has provided for \$140,959 of uncollectible revenues from this marketer relating to June and July 2008. During the first quarter of 2008, WestFire settled a dispute with working interest partners in a well drilled by NCEL in 2006. NCEL had previously written off 100% of the amount to be collected and the recovery relates to the settlement. In December, the Company recovered a receivable written off by Racing prior to the Racing acquisition.

### Depletion, depreciation and accretion (DD&A)

(\$)	Three Months Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
Depletion and depreciation	3,158,125	44,677	8,062,073	133,943
Accretion	67,518	548	160,691	891
Total	3,225,643	45,225	8,222,764	134,834
Per boe	24.10	24.79	25.00	31.40

WestFire's per boe DD&A rate for the year has declined as a result of the reserves from the acquisitions being completed at a lower cost per barrel than the original production acquisitions completed in March 2007. WestFire's fourth quarter 2008 drilling and acquisitions combined with the realization of an incremental tax asset on the K-Town acquisition lowered the 2008 depletion rate on a per boe basis.

### Income taxes

As at December 31, 2008, WestFire had in excess of \$163 million in tax deductions as well as over \$18 million in tax credits to shelter future taxable income earned. The Company is not able to forecast future changes in federal and provincial tax regimes.

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:

	December 31, 2008	December 31, 2007
Income (loss) before income taxes	\$ 3,044,570	\$ (114,706)
Combined federal and provincial rate	30.00%	32.12%
Computed "expected" income tax expense (recovery)	\$ 913,371	\$ (36,844)
Increase (decrease) resulting from:		
Saskatchewan capital tax	266,062	-
Capital taxes deducted from income tax	(79,819)	-
Stock based compensation	135,012	-
Prior years adjustments	(14,460)	-
Other	808	-
Change in valuation allowance	(1,818,033)	36,844
Income tax (recovery) expense	\$ 597,059	\$ -

The components of the Company's future income tax asset are as follows:

	December 31, 2008	December 31, 2007
Future income tax assets:		
Scientific research and experimental development	<b>\$ 20,486,000</b>	\$ 21,922,209
Investment tax credits	<b>13,467,000</b>	14,558,585
Non-capital losses	<b>2,917,000</b>	5,002,252
Asset retirement obligations	<b>1,791,000</b>	51,966
Share issuance expenses	<b>842,000</b>	117,961
Attributed Canadian royalty income	<b>25,000</b>	-
Total future income tax assets	<b>39,528,000</b>	41,652,973
Less future tax liabilities:		
Temporary differences related to capital assets	<b>(34,000)</b>	(234,890)
Risk management contracts	<b>(678,000)</b>	-
Future tax asset	<b>38,816,000</b>	41,418,083
Less: Valuation allowance	<b>(11,359,000)</b>	(41,418,083)
Future tax asset	<b>\$27,457,000</b>	\$ -

#### Net income (loss) and comprehensive income (loss)

Net income and comprehensive income for the quarter ended December 31, 2008 was \$933,979 compared to a net loss of \$21,046 during the same period in 2007. Net income for the year ended December 31, 2008 was \$3,641,629 compared to a net loss of \$114,706 during the same period in 2007. The net income in the current quarter is attributable to the unrealized gain of \$2,107,144 (before tax) on the Company's financial derivative contracts. Basic and diluted net income per share for the quarter ended December 31, 2008 were \$0.06 per share. This is compared to basic and diluted net loss per share of \$0.01 per share for the same period in 2007. Basic and diluted net income per share for the year ended December 31, 2008 was \$0.28 per share. This is compared to a net loss of \$0.05 per share basic and diluted for 2007.

#### Liquidity and capital resources

In January and February 2008, the Company raised \$2.6 million by issuing 701,800 shares at \$3.75. These issues were necessary to replace working capital used for the issuer bid completed in December 2007.

In March 2008, WestFire closed private placements of 306,000 flow-through shares at an issue price of \$4.50 per share to two employees for gross proceeds of \$1,377,000 before issue costs. This private placement was a term of the offer of employment to these two individuals made in November 2007 which allowed them to acquire shares in WestFire on the same basis as the other employees as long as they were paid for by April 30, 2008.

On March 20, 2008, the Company acquired 100% of the issued and outstanding shares of K-Town in exchange for cash, a promissory note and common shares totaling \$24,250,000. The transaction has been accounted for using the purchase method. The results of operations include the operations of K-Town from March 20, 2008. The purchase price has been allocated as follows:

Accounts receivable	\$ 1,954,235
Property, plant and equipment	15,391,854
Future tax asset	18,641,000
Accounts payable	(1,945,442)
Fair value of hedging contracts	(703,000)
Bank debt	(6,066,420)
Asset retirement obligations	(3,022,227)
<b>Total purchase price</b>	<b>\$ 24,250,000</b>

Consideration given:

Cash	\$ 5,606,000
Promissory note	10,000,000
Common shares (1,728,800 shares at \$5.00 per share)	8,644,000
	<b>\$ 24,250,000</b>

During March and April 2008, WestFire completed private placements for an additional 4,344,508 shares at \$5.00 per share raising gross proceeds of \$21.7 million. These funds were used to close the K-Town acquisition and retire the promissory note.

In July 2008, WestFire completed a private placement issuing 4,191,868 common shares at an issue price of \$6.00 per common share raising gross proceeds of \$25,151,208. These proceeds were used to pay down the revolving bank loan which had been drawn to fund the Bashaw acquisition. The Company elected not to repay the non-revolving bank loan of \$3,000,000 as these funds could not be borrowed again if this loan was repaid.

On October 7, 2008, through its subsidiary, WF Resources Ltd, the Company acquired all of the issued and outstanding shares of five unrelated private companies, Lynch Oil Ltd., Marlo Resources Ltd., KLS Resources Ltd., Widdifield Consulting Inc., and Jylene Resources Ltd. for cash, common shares, and transaction costs totaling \$7,821,203. These acquisitions were accounted for using the purchase method, with the assets and liabilities recorded at their fair value as follows:

<b>Net assets acquired:</b>	
Accounts receivable and prepaid expenses	\$ 353,994
Property, plant and equipment	5,164,867
Future tax asset	2,953,000
Accounts payable	(50504)
Asset retirement obligations	(600,154)
<b>Total purchase price</b>	<b>\$ 7,821,203</b>
Consideration given:	
Cash	\$ 7,000,306
Common shares (25,000 shares at \$6.00 per share)	762,000
Transaction costs	58,897
	<b>\$ 7,821,203</b>

On November 14, 2008, the Company acquired all of the issued and outstanding shares of Racing Resources Ltd. ("RRL") pursuant to a share exchange whereby the Company issued 4,020,700 common shares valued at \$4.00 per common share, in exchange for all of the issued and outstanding shares of RRL. The acquisition is accounted for by the purchase method, with the assets and liabilities recorded at their fair value as follows:

Net assets acquired:	
Accounts receivable and prepaid expenses	\$ 528,584
Property, plant and equipment	12,772,612
Future tax asset	5,856,000
Accounts payable	(1,309,390)
Bank overdraft	(11,314)
Asset retirement obligations	(1,473,902)
<b>Total purchase price</b>	<b>\$ 16,362,590</b>
Consideration given:	
Common shares (4,020,700 shares at \$4.00 per share)	\$16,082,800
Transaction costs	279,790
	<b>\$ 16,362,590</b>

The components of WestFire's working capital are as follows:

	December 31, 2008	December 31, 2007
Current assets	\$ 10,270,637	\$ 4,253,757
Less:		
Bank debt	(7,491,273)	(1,225,000)
Accounts payable and accrued liabilities	(10,223,698)	(1,093,206)
<b>Working capital (deficit)</b>	<b>\$ (7,444,335)</b>	<b>\$ 1,935,551</b>

At December 31, 2008, the Company had a revolving credit facility with a Canadian financial institution, bearing interest at the bank's prime rate. In addition, the Company had a non-revolving subordinated credit facility in the amount of \$3,000,000 bearing interest at prime plus 2.00% per annum. In late December 2008, the Company was advised by its banker that its revolving credit facility in the amount of \$19,000,000 plus the non-revolving facility of \$3,000,000 were to be combined into a single revolving credit facility and reduced to \$17,500,000 (2007 - \$1,925,000), with the proposed facility bearing interest at the bank's prime rate plus 1.5% increasing to prime plus 1.75% if the Company's bank debt exceeded \$16 million.. The authorized limit of the proposed revolving facility was to be subject to semi-annual reviews by the bank with the next review scheduled for April 30, 2009. These facilities were secured by the assets of the Company.

Subsequent to December 31, 2008, the Company arranged a new credit facility with another Canadian financial institution. The new bank facility is a revolving credit facility in the amount of \$20,000,000. 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 new facility will be reviewed on May 31, 2010. The new facility was drawn and the old facilities were paid off on March 2, 2009. This facility is secured by the assets of the Company.

## Capital expenditures

(\$)	Years Ended December 31,	
	2008	2007
Land	984,819	-
Acquisitions	23,346,604	292,000
Geological and geophysical	1,658,183	-
Drilling and completions	13,296,441	-
Equipment and facilities	4,043,260	-
Office equipment	131,283	-
Cash funded capital expenditures	43,460,590	292,000
Non-cash capital expenditures		
Northern Challenger acquisition	-	3,832,697
K-Town acquisition	12,369,627	-
Racing acquisition – oil and gas properties	10,979,713	-
Other oil and gas acquisitions	4,654,892	281,000
Additions to asset retirement obligations	6,269,272	178,303
Racing acquisition – office furniture	39,207	-
Capitalized stock based compensation	115,560	-
Capital expenditure	77,888,861	4,584,000

### Capital program for 2009

With the rapid fall in commodity prices coupled with the uncertainty of the world credit markets, the Company will restrict its capital program for 2009 to approximate expected cash flow.

### Current Economic Conditions

Given the current economic and credit environment, the capital structure of the Company is receiving attention from all stakeholders. Maintaining our financial flexibility is of great importance in case the current commodity and consumer markets deteriorate further. In addition, financial flexibility allows WestFire to capitalize on farm-in and acquisition opportunities in the Company's core areas of operations so that WestFire is positioned to grow when commodity prices and economic conditions improve.

### Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers. This is creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

### New Alberta Royalty Regime

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coal bed methane, would be conducted by a panel of experts with the assistance of individual Albertans and key stakeholders. The review panel produced its report and recommendations on September 18, 2007. The Alberta Government considered these recommendations and obtained input from the public and the oil and gas sector on the recommendations and on October 25, 2008 issued its decision on the direction of royalties in the province. A summary of the Alberta Government's framework, which will impact WestFire, is as follows:

### Conventional Oil

Price-sensitive and volume-sensitive conventional oil royalty rates will become separate elements within a single sliding rate formula. New royalty rates will range from 0% to 50%, up from the current maximums of 30% and 35% for new and old vintages. Royalties will be calculated on a monthly production rate as is done currently and as collected, reported and used by industry.

### Experimental Project Petroleum Royalty

Oil project royalty programs like Enhanced Oil Recovery and the Innovative Energy Technology Program will be retained to encourage research and additional oil recovery. The tiers in conventional oil that distinguish vintages based on the discovery date will be eliminated. Rate caps on price will be raised for conventional oil to \$120 per barrel. Currently, maximum rates are reached at around \$30 per barrel for conventional oil.

### Natural Gas

New royalty rates will range from 5% to 50%, up from ranges of 5% to 30% for new and 5% to 35% for old vintages. The government plans to revamp the Deep Gas Drilling Program. The Government announced that royalty reductions will be available for deep gas wells. Deep gas wells included those over 2,000 meters of drilling length. Included in the deep well regime will be entire length of horizontal wells. The government will raise rate caps on the price of natural gas to \$16.59/GJ. The cap will ensure the royalty system is sensitive over a broad range of prices. Previously maximum royalty rates were reached at around \$3.70/GJ for natural gas.

Royalties for natural gas liquids will now be set at 40% for pentanes, a change from 22-50% for old tiers and 22-35% for new. The new royalties for butanes and propane will be 30%, up from 15-30%. The government will eliminate the option to use the Corporate Average Price to determine natural gas royalties.

For gas processing facilities, the government will move from using corporate effective royalty rates to calculate costs of the Crown's share of capital to establishing facility effective royalty rates. This will improve the link of capital costs for natural gas to a particular facility. The Alberta Royalty Review Panel had recommended going to deemed or set fees, an approach tried before in Alberta, but it does not recognize significant actual cost differences in processing plants. For gathering and compression, the government will continue to use set fees which recognize actual costs. The government will eliminate the tiers in conventional natural gas that distinguish vintages based on the discovery date to simplify the system. The Government views that under current economic conditions the difference between tiers is minimal. The government will retain the Otherwise Flared Solution Gas Royalty (OFSG) Waiver Program and extend it to bitumen wells. This program encourages solution gas conservation, rather than venting the gas, resulting in improved air quality.

In response to the significant reduction in activity and the global economic crisis, on November 19, 2008 the Alberta Government announced that for wells that commenced drilling after this date companies can elect, on a well by well basis to either have the New Royalty Framework ("NRF") apply to the production from that well or have the old, pre-NRF rates apply for new wells between 1,000 and 3,500 meters in depth. This five-year transitional royalty system is designed to help stimulate drilling in Alberta. WestFire will make a determination on each well to see which method is most advantageous.

On March 3, 2009 The Alberta Government released a three-point incentive program aimed at stimulating new and continued economic activity for conventional producers. A summary of the plan is as follows:

The highlights of the province's three-point plan include the following.

- A drilling royalty credit for new, conventional, oil and natural gas wells drilled between April 1, 2009 and March 31, 2010. This one-year program will provide a \$200-per-metre-drilled royalty credit to companies on a sliding scale based on their production levels from the prior year.
- A new well incentive program, which offers a maximum five-per-cent royalty rate for the first year of production from new oil or gas wells. This program also commences on April 1, 2009 and runs for one year.
- To encourage the clean-up of inactive oil and gas wells, the province will invest \$30 million in a fund committed to abandoning and reclaiming old well sites.

It is envisaged for 2009 that both the NRF, in combination with low natural gas prices plus the new initiative announced on March 3, 2009 will have a positive impact on WestFire's Crown royalty rates.

**Related party transactions:**

The following transactions with related parties were recorded at the exchange amount:

- (a) The Company agreed to pay fees to a corporation owned by a director that assisted in raising \$2,069,948 (2007 - \$1,002,567) through the issue of 406,156 (2007 – 270,000) shares. Fees in the amount of \$133,196 (2007 – \$60,750) have been included in share issue costs. No amounts were payable at December 31, 2008.
- (b) A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). Included in general and administrative expenses, share issue expenses, and transaction costs for the year ended December 31, 2008 are amounts totaling \$105,899 (2007 - \$nil), \$273,178 (2007 – \$67,429), and \$279,790 (2007 - \$nil) respectively, charged to the Company by BDP. At December 31, 2008, \$361,062 (December 31, 2007 - \$207,229) was included in accounts payable.
- (c) Included in accounts receivable at year end is \$20,049 due from the Chief Executive Officer (CEO) of the Company. The amount relates to the settlement of a lawsuit and the purchase of WestFire shares from a former employee of Racing Resources Ltd. For administrative purposes, the Company advanced one cheque to the former employee for both the severance settlement and the share purchase. The account receivable represents the CEO's commitment to purchase a portion of such shares and was fully repaid in January 2009.
- (d) On December 13, 2007, The Company acquired all of the issued and outstanding shares of NCEL pursuant to a share exchange. Current directors and officers of the Company owned 17% of the common shares of NCEL.
- (e) During 2007, WestFire paid \$15,000 for rent and accounting fees to a corporation that held shares in WestFire.

**Commitments:**

- (a) The Company has a commitment for an office lease, at \$42,695 per month until November 30, 2010. A portion of the office space has been subleased for the first quarter of 2009 and on a month by month basis after the first quarter for \$6,000 per month. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2009	\$512,340	\$(18,000)	\$494,340
2010	\$469,645	\$ -	\$469,645

- (b) As part of the acquisition of Racing Resources Ltd. on November 14, 2008, the Company assumed a commitment for an office lease, at \$10,984 per month until December 31, 2012. Commencing February 1, 2009, the Company has sublet this space for a period of 24 months at a monthly rate of \$10,007. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2009	\$131,805	\$(110,077)	\$21,728
2010	\$131,805	\$(120,089)	\$11,716
2011	\$131,805	\$ (10,007)	\$121,798
2012	\$131,805	\$ -	\$131,805

- (c) At December 31, 2008, the Company had committed to vehicle leases for the purposes of field operations. All of the leases commenced on September 1, 2008 and expire on August 31, 2010. Future minimum lease payments relating to the vehicle leases are:

Year ending December 31,	
2009	\$55,546
2010	\$29,413

- (d) Flow-through shares

- (i) Pursuant to the flow-through share private placement entered into during December 2007 (Note 9(a)), the Company was obligated to incur \$4,683,443 in eligible costs by December 31, 2008. WestFire satisfied this commitment in full during 2008. The related tax pools were renounced in January 2008.
- (ii) Included in the NCEL acquisition was a obligation assumed pursuant to the flow-through share private placement entered into during December 2007 by NCEL (Note 9(a)), the Company was obligated to incur \$1,378,000 in eligible costs by December 31, 2008. WestFire satisfied this commitment in full during 2008. The related tax pools were renounced in January 2008.

- (iii) In March 2008, the Company issued flow-through common shares and has until December 31, 2009 to expend \$1,377,000 on qualifying flow-through expenditures and to renounce those expenditures to the investors. At December 31, 2008, the Company had incurred sufficient qualifying flow-through expenditures and renounced the related tax benefits in January 2009 to the investors.

#### Off-balance sheet obligations and financial instruments

The Company has not entered into any off-balance sheet transactions. WestFire entered into contracts for management of commodity price risk. Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices.

As of December 31, 2008, 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
Swap (WTI)	50 barrels per day	\$89.95	March 2008	February 2009
Costless Collar (WTI)	50 barrels per day	Floor \$85.00 Ceiling \$95.25	March 2008	February 2009
Swap (WTI)	50 barrels per day	\$89.40	March 2008	August 2009
Costless Collar (WTI)	150 barrels per day	Floor \$100.00 Ceiling \$128.65	September 2008	August 2009
Put (Aeco C)	1500 gigajoules (GJ)/ day	Floor \$10.00/ GJ	August 2008	March 2009

There were no derivative contracts outstanding as of December 31, 2007 or during 2007. At December 31, 2008, an unrealized hedging gain of \$2,962,167 was included in net income for the period. In addition, \$2,259,167 was recorded as a current asset on the Company's balance sheet at December 31, 2008 relating to the risk management contracts.

#### Subsequent events:

On January 1, 2009, the Company amalgamated with two of its wholly owned subsidiaries, WF Resources Ltd., and Racing Resources Ltd.

#### Drilling commitments

Subsequent to December 31, 2008, WestFire committed to drill 6 wells in Alberta and Saskatchewan. All of these projects are to be drilled during 2009. These commitments are pursuant to three farm-in agreements with industry partners. The Company expects to satisfy its portion of this drilling commitment at an estimated cost of \$6,075,000. During March, 2009, the Company completed the drilling of one of the six remaining commitments wells.

#### Critical accounting estimates

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company.

#### Full cost accounting

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flow-line and facility costs, geological and geophysical expenses and overhead expenses directly related to exploration and development activities. Gains or losses on sales of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are amortized using the unit-of-production method based on estimated proved reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. Changes in estimated proven reserves or future development costs have a direct impact on depletion and depreciation expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned to them. If proved reserves are assigned to the properties, the costs are included in the depletion calculation.

#### **Oil and natural gas reserves**

Estimates of oil and natural gas reserves are projections based on geological and engineering data. There are uncertainties inherent in these projections including the interpretation of data and the projection of future rates or production and the timing of developmental expenditures. Reserve engineering is an analytical process of estimating below ground accumulations of oil and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. The Company's proved oil and gas reserves are evaluated and reported on annually by an independent, qualified, petroleum-engineering consultant. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to a number of uncertainties and various interpretations. The Company expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion. A revision to the reserves estimate could result in a higher or lower D,D&A charge to net earnings. Downward revisions to reserve estimates could also result in a write-down of oil and natural gas property, plant and equipment under the ceiling test described below.

#### **Ceiling test**

Under full cost accounting, a ceiling test is performed to ensure that unamortized capitalized costs in each cost center do not exceed their fair value. The carrying value of property, plant and equipment is reviewed annually for impairment. Impairment will occur when the carrying amount of the property, plant and equipment minus the sum of the undiscounted cash flows expected to result from the Company's proved reserves yields a negative result. The cash flows are calculated based on third party quoted forward prices and adjusted for the Company's quality differentials. If there were impairment, the magnitude of it would be calculated by comparing the carrying amount of property, plant and equipment to the estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the Statement of Operations and Comprehensive Income. No write-down was required at December 31, 2008.

#### **Asset retirement obligations**

The Company recognizes the fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of fair value can be made. The obligations recognized are estimates of statutory, contractual or legal obligations that the Company will reasonably be expected to incur and then discounted to its present value using the Company's credit adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of this accretion is charged to earnings in the period through charges to accretion expense. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs. Determination of the original undiscounted costs is based on engineering estimates using current costs in accordance with existing legislation and industry practice. The estimation of these costs can be affected by factors such as the number of wells drilled, well depth, estimated future salvage values, location of the well and current environmental legislation. Actual payments to settle the obligations may differ from the estimated amounts.

#### **Future income tax**

The Company follows the liability method of accounting for income taxes. Under this method the Company records future income tax assets and liabilities based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the substantively enacted tax rates and laws expected to apply when these differences reverse. Timing and amount of future revenue streams and future capital spending changes can affect the timing of

any temporary differences, and accordingly affect the amount of the future income tax asset or liability calculated at a point in time. These differences could materially impact earnings. The effect of a change in substantively enacted income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

The determination of the Company's income tax asset or liability requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment. The actual income tax liability may differ significantly from the liability estimated or recorded.

### **Stock-based compensation**

The Company has a stock based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the market price on the date the option is granted. The Company uses the fair value method for valuing stock option grants. Compensation costs attributable to share options granted are measured at their fair value at the grant date and expensed over the expected vesting period with a corresponding increase to contributed surplus. Upon exercise of the stock options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is credited to share capital. The assumptions used in calculating its stock based compensation expense are: the volatility of the stock price, risk-free rates of return and the expected lives of the options given that some will be forfeited upon termination of employment.

### **Financial Instruments**

The Company's financial instruments consist of financial assets, financial liabilities, and non-financial derivatives. All financial instruments are initially recognized at fair value on the balance sheet. Measurement of financial instruments subsequent to the initial recognition, as well as resulting gains and losses, are recorded based on how each financial instrument was initially classified. The Fund has classified each identified financial instrument into the following categories: held for trading, loans and receivables, and other financial liabilities. Held for trading financial instruments are measured at fair value with gains and losses recognized in earnings immediately. Loans and receivables, held to maturity investments and other financial liabilities are recognized at amortized cost using the effective interest method and impairment losses are recorded in earnings when incurred. With all new financial instruments, an election is available that allows entities to classify any financial instrument as held for trading. Only those financial assets and liabilities that must be classified as held for trading are classified as such by the Company.

As the Company frequently uses non-financial derivative instruments to manage market risk associated with volatile commodity prices, such instruments must be classified as held for trading and recorded on the balance sheet at fair value as derivative assets and liabilities. Under the alternative hedge accounting treatment, gains and losses on derivatives classified as effective cash flow hedges are included in other comprehensive income until the time at which the hedged item is realized. The Company does not utilize derivative instruments for speculative purposes but has elected not to apply hedge accounting. Therefore, gains and losses on these instruments are recorded as unrealized gains and losses on derivatives in the consolidated statement of loss, comprehensive loss and accumulated deficit in the period they occur and as realized gains and losses on derivatives when the contracts are settled. Since unrealized gains and losses on derivatives are non-cash items, there is no impact on cash provided by operating activities as a result of their recognition.

### **Other estimates**

The accrual method of accounting will require management to incorporate certain estimates of revenues, royalties, and production costs as at a specific reporting date but for which actual revenue, royalties and other costs have not yet been received. In addition, the Company must estimate capital expenditures on capital projects that are in progress or recently completed where actual costs have not been received as of the reporting date.

### **Update on financial reporting requirements**

As of January 1, 2008, WestFire adopted the new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risk associated with both recognized and unrecognized financial instruments and how these risks are managed.

Also effective January 1, 2008, the Company adopted CICA 1535 "Capital Disclosures," which requires additional disclosures of objectives, policies and processes for managing capital. In addition, disclosure includes whether the Company has complied with externally imposed capital requirements and the consequences of non-compliance.

In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized as assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. WestFire does not expect that this section will have any impact on its results of operations and financial position.

In December 2008, the CICA issued section 1582 “Business Combinations,” which will replace CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all transaction costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings of each reporting period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582 will be effective for WestFire on January 1, 2011 with prospective application.

### **International Financial Reporting Standards**

In January 2006, the Canadian Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, as part of its strategic plan, the AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards (“IFRS”), which will replace Canadian GAAP for years beginning on or after January 1, 2011. An omnibus exposure draft was issued by the AcSB in the second quarter of 2008, which incorporates IFRS into the CICA Handbook and prescribes the transitional provisions for adopting IFRS. The Company intends to convert to IFRS to allow itself the flexibility to become a public entity in the future. The Company commenced its IFRS transition project in 2008, which includes four key phases:

**Project awareness and engagement** – This phase includes identifying and engaging the appropriate members of the IFRS transition team. In addition, this phase includes communicating the key project requirements and objectives to the areas of the organization that will be impacted by IFRS conversion, including the Company’s senior executive management team, Board of Directors and Audit Committee.

**Diagnostic** – This phase includes an assessment of the differences between current Canadian GAAP and IFRS, focusing on the areas which will have the most significant impact to WestFire. A preliminary conversion roadmap will be prepared as part of this phase.

### **Design, planning and solution development**

This phase focuses on determining the specific impacts to the Company based on the application of the IFRS requirements. This includes the design and development of detailed solutions and work plans by each key area to address implementation requirements. In addition, impact analysis will be performed on all areas of the business, including tax and information technology systems. Accounting policies will be finalized, first-time adoption exemptions will be considered, draft financial statements and disclosures will be prepared and a detailed implementation plan and timeline will be developed. This phase also includes the development of a training plan.

### **Implementation**

This phase includes implementing the required changes necessary for IFRS compliance. The focus of this phase is the finalization of IFRS conversion impacts, approval and implementation of accounting and tax policies, implementation and testing of new processes, systems and controls, execution of customized training programs and preparation of opening IFRS balances. Corporate governance over the project will need to be established and the implementation team will likely consist of the CFO and Controller. This team is responsible for preparation and final approval of project recommendations and deliverables to the Audit Committee and Board. The Company may also engage an external advisor to assist with the IFRS conversion process. The Company will first complete the diagnostic assessment phase by performing comparisons of the differences between Canadian GAAP and IFRS. The Company has determined that the most significant impact of IFRS conversion is to property, plant and equipment. The Company currently follows full cost accounting as prescribed in Accounting Guideline (“AcG”) 16, “Oil and Gas Accounting – Full Cost”. Conversion to IFRS may have a significant impact on how the Company accounts for costs pertaining to oil and gas activities. In addition, the level at which impairment tests are performed and the impairment testing methodology will differ under IFRS. IFRS conversion will also result in other impacts, some of which may be significant in nature. These impacts continue to be assessed by the Company. At this time, the impact on the Company’s financial position and results of operations

is not reasonably determinable or estimable for any of the IFRS conversion impacts identified. The Company will soon be commencing the design, planning and solution development phase. Communication, training and education are a critical aspect of the Company's IFRS conversion project. Therefore training and education sessions will continue throughout each phase of the project. In September 2008, the International Accounting Standards Board ("IASB") issued an exposure draft which proposes additional exemptions for entities adopting IFRS for the first-time. One of these proposed exemptions relates to companies using the full cost method of accounting. If the exposure draft is adopted, this exemption will allow entities to allocate their oil and gas asset balance as determined under full cost accounting to the IFRS categories of exploration and evaluation assets and development and producing properties. This exemption would relieve entities from significant adjustments resulting from retrospective adoption of IFRS. The Company intends to utilize this exemption if it is approved and finalized as part of IFRS. The Company is also evaluating other first-time adoption exemptions available upon initial transition which give relief from retrospective application of IFRS. In addition, the Company is monitoring the IASB's active projects and all changes to IFRS prior to January 1, 2011 will be incorporated as required.

#### **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:*

	<b>2008</b>	<b>2007</b>
<i>Cash provided by operating activities</i>	<b>9,825,248</b>	(659,166)
<i>Change in non-cash working capital</i>	<b>(1,623,238)</b>	759,890
<i>Funds flow from operations</i>	<b>8,202,010</b>	100,724

*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.*

#### **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; 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.*

## Management's Report

To the Shareholders of WestFire Energy Ltd.:

Management is responsible for the preparation of the consolidated financial statements and for the consistency of all other financial and operating data presented in this annual report. Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

WestFire's external auditors, PricewaterhouseCoopers LLP, Chartered Accountants, who are appointed by the shareholders, have audited the consolidated financial statements. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has recommended their approval to the Board of Directors. The Board of Directors has subsequently approved the consolidated financial statements.

(signed)  
Lowell E. Jackson  
President and CEO

(signed)  
D. Stephen Burt  
Vice President, Finance and CFO

Calgary, Alberta, Canada  
March 27, 2008

## Auditors Report

To the Directors of WestFire Energy Ltd.

We have audited the consolidated balance sheets of WestFire Energy Ltd. as at December 31, 2008 and 2007 and the consolidated statements of income (loss), comprehensive income (loss), and retained earnings (deficit) and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of WestFire Energy Ltd. as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "PricewaterhouseCoopers LLP"  
Chartered Accountants  
Calgary, Alberta, Canada  
March 27, 2009

## Financial Statements

### Consolidated Balance Sheets

	As at December 31,	
	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 2,735,943
Accounts receivable (note 12)	3,148,584	1,381,025
Risk management contracts (note 12)	2,259,167	-
Future tax asset (note 8)	4,388,000	-
Prepaid expenses and deposits	474,885	136,789
	<b>10,270,637</b>	<b>4,253,757</b>
Property, plant and equipment (note 4)	74,287,846	4,461,057
Future tax asset (note 8)	23,069,000	-
	<b>\$ 107,627,482</b>	<b>\$ 8,714,814</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,223,698	\$ 1,093,206
Bank debt (note 5)	7,491,273	1,225,000
	<b>17,714,971</b>	<b>2,318,206</b>
Asset retirement obligations (note 6)	6,609,156	179,194
	<b>24,324,127</b>	<b>2,497,400</b>
<b>Shareholders' Equity</b>		
Shareholders' equity:		
Share capital (note 9)	79,096,127	12,762,293
Contributed surplus (note 9d)	565,599	131,123,500
Retained earnings (deficit)	3,641,629	(137,668,379)
	<b>83,303,355</b>	<b>6,217,414</b>
	<b>\$ 107,627,482</b>	<b>\$ 8,714,814</b>
Commitments (note 11)		
Subsequent Events (note 14)		

See accompanying notes to financial statements.

**Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Retained Earnings (Deficit)**

Years Ended December 31,

	2008	2007
<b>Revenue:</b>		
Petroleum and natural gas	\$ 21,324,168	\$ 198,997
Interest and other revenue	88,661	141,078
Crown and other royalties	(4,247,219)	(36,133)
	<b>17,165,610</b>	<b>303,942</b>
Realized loss on financial instruments (note 12)	(151,682)	-
Unrealized gain on financial instruments (note 12)	2,962,167	-
	<b>19,976,095</b>	<b>303,942</b>
<b>Expenses:</b>		
Operating	5,889,212	46,447
Transportation	224,968	1,591
Interest	484,388	179,450
General and administrative	1,660,154	56,326
Stock based compensation (note 9e)	450,039	-
Depletion, depreciation and accretion	8,222,764	134,834
	<b>16,931,525</b>	<b>418,648</b>
Income (loss) before taxes	<b>3,044,570</b>	<b>(114,706)</b>
Provision for (recovery of) income taxes (note 8)		
Capital and income taxes	463,015	-
Future income tax recovery	(1,060,074)	-
	<b>(597,059)</b>	<b>-</b>
Net income (loss) and comprehensive income (loss)	<b>3,641,629</b>	<b>(114,706)</b>
Retained earnings (deficit), beginning of the year	<b>(137,668,379)</b>	<b>(137,553,673)</b>
Application of deficit to share capital	6,544,879	-
Application of deficit to contributed surplus	131,123,500	-
<b>Retained earnings (deficit), end of the year</b>	<b>\$ 3,641,629</b>	<b>\$(137,668,379)</b>

See accompanying notes to financial statements.

## Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2008	2007
Cash provided by (used in):		
<b>Operating activities:</b>		
Net income (loss) for the period	3,641,629	\$ (114,706)
Add (deduct) items not affecting cash:		
Depletion, depreciation and accretion	8,222,764	134,834
Unrealized gain on financial instruments	(2,962,167)	-
Future income tax recovery	(1,060,074)	-
Stock based compensation	450,039	-
Provision for uncollectible accounts	(90,181)	-
Accretion of convertible debentures (note 7)	-	80,596
	<b>8,202,010</b>	<b>100,724</b>
Change in non-cash working capital	<b>1,623,238</b>	<b>(759,890)</b>
	<b>9,825,248</b>	<b>(659,166)</b>
<b>Financing activities:</b>		
Increase in bank debt	188,539	-
Proceeds of share issue net of issue costs	49,368,421	11,154,157
Acquisition of shares by way of issuer bid	-	(5,756,506)
Repayment of convertible debentures	-	(4,000,000)
	<b>49,556,960</b>	<b>1,397,651</b>
<b>Investing activities:</b>		
Petroleum and natural gas properties	(43,460,590)	(292,000)
Acquisition of K-Town Energy Ltd.	(15,606,000)	-
Other corporate acquisitions	(7,059,203)	-
Change in non-cash working capital	4,007,642	-
	<b>(62,118,151)</b>	<b>(292,000)</b>
Net increase (decrease) in cash during the year	<b>(2,735,943)</b>	<b>446,485</b>
Cash and cash equivalents, beginning of the year	<b>2,735,943</b>	<b>2,289,458</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ -</b>	<b>\$ 2,735,943</b>
Supplementary disclosure		
Cash interest paid	\$ 484,388	\$ 98,854
Cash taxes paid	\$ 463,015	\$ -

See accompanying notes to financial statements.

## Notes to the Consolidated Financial Statements

For years ended December 31, 2008 and 2007

---

### 1. Basis of presentation:

WestFire Energy Ltd. ("the Company" or "WestFire") is a private company in the business of exploration and production of crude oil, natural gas and natural gas liquids.

These consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles following the accounting policies and methods of computation as described in Note 2.

The consolidated financial statements at December 31, 2008 include the accounts of the Company and the subsidiaries acquired during 2007 and 2008, namely Northern Challenger Exploration Ltd. ("NCEL") acquired on December 13, 2007, K-Town Energy Ltd. ("K-Town") acquired on March 20, 2008, WF Resources Ltd. ("WF") which was incorporated on October 7, 2008 to acquire five unrelated private companies and Racing Resources Ltd. ("Racing") which was acquired on November 14, 2008 (Note 3). On May 1, 2008, WestFire commenced the process of dissolving its wholly owned subsidiaries, K-Town and NCEL. Both K-Town and NCEL transferred 100% of their respective assets and liabilities to WestFire. Final dissolution of K-Town and NCEL is expected to occur in 2009. On January 1, 2009, WestFire amalgamated with WF and Racing.

### 2. Significant Accounting Policies

#### (a) Property, plant and equipment

The Company follows the full cost method of accounting for its petroleum and natural gas operations whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis and charged against income, as set out below. Such costs include land acquisition, drilling of productive and non-productive wells, geological and geophysical, production facilities, carrying costs directly related to unproved properties and corporate expenses directly related to acquisition, exploration and development activities and do not include any costs related to production or general overhead expenses. These costs, along with estimated future capital costs to be incurred in developing proved reserves, are depleted and depreciated on a unit of production basis using estimated proved petroleum and natural gas reserves, with both production and reserves stated before royalties. For purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs. Unproved properties are evaluated for impairment on an annual basis or when events or conditions indicate.

Gains or losses on the disposition of petroleum and natural gas properties are recognized only when crediting the proceeds to costs would result in a change of 20 percent or more in the depletion rate.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). The ceiling test is a two-stage process which is performed at least annually or when events or conditions indicate. The first stage of the test is a recovery test which compares the undiscounted future cash flow from proved reserves at forecast prices and costs plus the cost less impairment of unproved properties to the net book value of the petroleum and natural gas assets to determine if the assets are impaired. A potential impairment loss exists when the net book value of the petroleum and natural gas assets exceeds such undiscounted cash flow. The second stage determines the amount of the impairment loss to be recorded.

## **2. Significant Accounting Policies (continued)**

### **(a) Property, plant and equipment (continued)**

The impairment is measured as the amount by which the net book value of the petroleum and natural gas assets exceeds the future discounted cash flow from proved plus probable reserves at forecast prices and costs. Any impairment is recorded as additional depletion and depreciation.

Computer and office equipment are recorded at cost and amortized on a declining basis using a rate of 30% per annum.

### **(b) Interests in joint operations**

A significant portion of the Company's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's interests in such activities.

### **(c) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and have a maturity of three months or less.

### **(d) Asset retirement obligations**

Asset retirement obligations are 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 the Company's credit-adjusted, risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of petroleum and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings 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 obligations. Actual costs incurred upon settlement of the retirement obligations are charged against the obligation to the extent of the liability recorded.

### **(e) Future income taxes**

The Company uses the liability method for calculating future 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 future income tax assets or liabilities. Future 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 future income tax assets if it is more likely than not that the asset will not be realized.

### **(f) 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. The future tax liability and share capital are adjusted by the estimated cost of the renounced tax deductions when the expenditures are renounced.

### **(g) Revenue recognition**

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

## 2. Significant Accounting Policies (continued)

### (h) 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.

### (i) Measurement uncertainty

The preparation of timely financial statements necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgements made by management. Actual results could differ materially from those estimated.

Amounts recorded for depletion and depreciation, asset retirement obligations and amounts used for ceiling test calculations are based on estimates of petroleum and natural gas reserves which include estimates of future commodity prices, future costs and other relevant assumptions. The Company's reserves are estimated and evaluated annually by an independent engineering firm. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact of changes in such estimates on the consolidated financial statements of future periods could be material.

The preparation of timely financial statements necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgements made by management. Actual results could differ materially from those estimated.

The determination of fair values used in the purchase price allocations are subject to uncertainty associated with the future recoverability of oil and natural gas reserves, commodity prices and timing of future events.

The measurement of future tax expense and the related provision in the consolidated financial statements are subject to uncertainty associated with future recoverability of oil and natural gas reserves, commodity prices and the timing of future events, which could result in material changes to deferred amounts.

### j) Stock-based compensation plan

The Company has a stock-based compensation plan enabling officers, directors, employees and certain consultants 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 9). Under this method, stock-based compensation is recorded as an expense over the vesting period of the option, with a corresponding increase in contributed surplus. Stock-based compensation expense is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model. When stock options are exercised, the consideration paid to the Company, along with amounts previously credited to contributed surplus, is credited to share capital. Forfeitures are accounted for as they occur and result in a reduction of compensation expense if the options are unvested at the time of forfeiture. Stock based compensation directly related to exploration for and development of petroleum and natural gas reserves are capitalized.

## 2. Significant Accounting Policies (continued)

### k) Financial instruments

The Company's financial instruments consist of financial assets, financial liabilities, and non-financial derivatives. All financial instruments are initially recognized at fair value on the balance sheet. Measurement of financial instruments subsequent to the initial recognition, as well as resulting gains and losses, are recorded based on how each financial instrument was initially classified. The Fund has classified each identified financial instrument into the following categories: held for trading, loans and receivables, and other financial liabilities. Held for trading financial instruments are measured at fair value with gains and losses recognized in earnings immediately. Loans and receivables, held to maturity investments and other financial liabilities are recognized at amortized cost using the effective interest method and impairment losses are recorded in earnings when incurred. With all new financial instruments, an election is available that allows entities to classify any financial instrument as held for trading. Only those financial assets and liabilities that must be classified as held for trading are classified as such by the Company.

As the Company frequently uses non-financial derivative instruments to manage market risk associated with volatile commodity prices, such instruments must be classified as held for trading and recorded on the balance sheet at fair value as derivative assets and liabilities. Under the alternative hedge accounting treatment, gains and losses on derivatives classified as effective cash flow hedges are included in other comprehensive income until the time at which the hedged item is realized. The Company does not utilize derivative instruments for speculative purposes but has elected not to apply hedge accounting. Therefore, gains and losses on these instruments are recorded as unrealized gains and losses on derivatives in the consolidated statement of loss, comprehensive loss and accumulated deficit in the period they occur and as realized gains and losses on derivatives when the contracts are settled. Since unrealized gains and losses on derivatives are non-cash items, there is no impact on cash provided by operating activities as a result of their recognition.

### (l) Changes in accounting policies

On January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

- (i) Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's objectives, policies and processes for how it manages its capital. A company must also disclose qualitative data about what the entity regards as capital; and whether the company has complied with any capital requirements and if not, the consequences of such non-compliance. The Company adopted this standard effective January 1, 2008 (see note 13).
- (ii) Section 3862, "Financial Instruments – Disclosure". This section describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risk arising from both recognized and unrecognized financial instruments to which the entity is exposed and how the entity manages those risks. The Company adopted this standard effective January 1, 2008 (see note 12).
- (iii) Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments/derivatives and non-financial derivatives. It details the presentation of the standards described in Section 3861, "Financial Instruments – Disclosure and Presentation". The Company adopted this standard effective January 1, 2008 (see note 12).

### (m) Recent accounting pronouncements

- (i) Section 3064, "Goodwill and Intangible Assets." In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized as assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. WestFire does not expect that this section will have any impact on its results of operations and financial position.
- (ii) Section 1582 "Business Combinations." In December 2008, the CICA issued section 1582 "Business Combinations," which will replace CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all transaction costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings of each reporting period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582 will be effective for WestFire on January 1, 2011 with prospective application.

## 2. Significant Accounting Policies (continued)

### (m) Recent accounting pronouncements (continued)

(iii) In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB confirmed that the standards will become effective for all publicly accountable enterprises in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. An omnibus exposure draft was issued by the AcSB in the second quarter of 2008, which incorporates IFRS into the CICA Handbook and prescribes the transitional provisions for adopting IFRS. The Company intends to convert to IFRS to allow itself the flexibility to become a public entity in the future. The Company will complete the diagnostic assessment phase by performing comparisons of the differences between Canadian GAAP and IFRS and is currently assessing the effects of adoption and finalizing its conversion plan. The Company has determined that accounting for property, plant and equipment will be impacted by the conversion to IFRS. The Company currently follows full cost accounting as prescribed in Accounting Guideline ("AcG") 16, "Oil and Gas Accounting – Full Cost." Conversion from Canadian GAAP to IFRS will have an impact on how the Company accounts for costs pertaining to oil and gas activities. The conversion to IFRS will also result in other impacts, some of which may be significant in nature and these continue to be assessed by the Company. At this time, the impact on WestFire's financial position and results of operations is not reasonably determinable or estimable for any of the IFRS conversion impacts identified. The Company will continue to monitor any changes in the adoption of IFRS and will update its plan as necessary.

## 3. Corporate acquisitions

### (a) Acquisition of Northern Challenger Exploration Ltd.

The Company acquired all of the issued and outstanding shares of Northern Challenger Exploration Ltd. ("NCEL") pursuant to a share exchange on December 13, 2007 whereby the Company issued 1,630,700 common shares valued at \$0.73 per common share, in exchange for all of the issued and outstanding shares of NCEL. The acquisition is accounted for by the purchase method, with the assets and liabilities recorded at their fair value as follows:

---

Net assets acquired:	
Accounts receivable	\$ 448,559
Property, plant and equipment	4,000,000
Accounts payable	(1,770,280)
Bank debt	(1,328,638)
Asset retirement obligations	(167,303)
Total purchase price paid in shares	\$ 1,182,338

---

### 3. Corporate acquisitions (continued)

#### (b) Acquisition of K-Town Energy Ltd.

On March 20, 2008, the Company acquired 100% of the issued and outstanding shares of K-Town Energy Ltd. ("K-Town") in exchange for cash, a promissory note and common shares totaling \$24,250,000. The transaction has been accounted for using the purchase method. The results of operations include the operations of K-Town from March 20, 2008. The future tax assets are WestFire tax assets that are now more likely than not to be realized. The purchase price has been allocated based on the fair value of assets and liabilities of K-Town as follows:

Accounts receivable	\$ 1,954,235
Property, plant and equipment	15,391,854
Future tax asset	18,641,000
Accounts payable	(1,945,442)
Fair value of hedging contracts	(703,000)
Bank debt	(6,066,420)
Asset retirement obligations	(3,022,227)
Total purchase price	\$ 24,250,000
Consideration given:	
Cash	\$ 5,606,000
Promissory note	10,000,000
Common shares (1,728,800 shares at \$5.00 per share)	8,644,000
	\$ 24,250,000

The promissory note was paid in 2008.

#### (c) Other Corporate Acquisitions

On October 7, 2008, through its subsidiary, WF Resources Ltd, the Company acquired all of the issued and outstanding shares of five unrelated private companies, Lynch Oil Ltd., Marlo Resources Ltd., KLS Resources Ltd., Widdifield Consulting Inc., and Jylene Resources Ltd. for cash, common shares, and transaction costs totaling \$7,821,203. These unrelated companies were grouped for disclosure purposes as they were all acquired on the same date and owned a similar asset. The future tax assets are WestFire tax assets that are now more likely than not to be realized. These acquisitions were accounted for using the purchase method, with the assets and liabilities recorded at their fair value as follows:

Net assets acquired:	
Accounts receivable and prepaid expenses	\$ 353,994
Property, plant and equipment	5,164,867
Future tax asset	2,953,000
Accounts payable	(50,504)
Asset retirement obligations	(600,154)
Total purchase price	\$ 7,821,203
Consideration given:	
Cash	\$ 7,000,306
Common shares (127,000 shares at \$6.00 per share)	762,000
Transaction costs	58,897
	\$ 7,821,203

### 3. Corporate acquisitions (continued)

#### (d) Acquisition of Racing Resources Ltd.

The Company acquired all of the issued and outstanding shares of Racing Resources Ltd. ("RRL") pursuant to a share exchange on November 14, 2008 whereby the Company issued 4,020,700 common shares valued at \$4.00 per common share, in exchange for all of the issued and outstanding shares of RRL. The future tax assets consist of both Racing and WestFire tax assets that are now more likely than not to be realized. The acquisition is accounted for by the purchase method, with the assets and liabilities recorded at their fair value as follows:

---

Net assets acquired:	
Accounts receivable and prepaid expenses	\$ 528,584
Property, plant and equipment	12,772,612
Future tax asset	5,856,000
Accounts payable	(1,309,390)
Bank overdraft	(11,314)
Asset retirement obligations	(1,473,902)
Total purchase price	\$ 16,362,590

  

Consideration given:	
Common shares (4,020,700 shares at \$4.00 per share)	\$16,082,800
Transaction costs	279,790
	\$ 16,362,590

---

### 4. Property, plant and equipment

	December 31, 2008		
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	\$ 82,313,371	\$ 8,174,725	\$ 74,138,646
Office equipment	170,490	21,290	149,200
	\$ 82,483,861	\$ 8,196,015	\$ 74,287,846

  

	December 31, 2007		
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	\$ 4,595,000	\$ 133,943	\$ 4,461,057
Office equipment	-	-	-
	\$ 4,595,000	\$ 133,943	\$ 4,461,057

#### 4. Property, plant and equipment (continued)

During the year ended December 31, 2008, the Company capitalized general and administrative expenses in the amount of \$510,958 (December 31, 2007 - \$0) related to acquisition, exploration and development activities.

As at December 31, 2008, unproved oil and gas properties amounting to \$3,001,883 (2007 -\$0) were excluded from the depletion and depreciation calculation. Future development costs on proved undeveloped reserves of \$4,911,000 (2007 - \$0) are included in the depletion calculation for the 2008 period.

The Company performed a ceiling test calculation as at December 31, 2008 and December 31, 2007 to assess the recoverable value of petroleum and natural gas properties and equipment. The table below summarizes the benchmark prices for the next ten years used by the independent reserve evaluators in preparing the Company's reserve report. Based on the expected future commodity prices no write-down was required for the year ended December 31, 2008.

Year	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par 40 d API (\$Cdn/bbl)	Alberta AECO-C (\$Cdn/MMBtu)	Natural Gas Liquids (Butanes) (\$Cdn/bbl)
2009	57.50	68.61	7.58	52.14
2010	68.00	78.94	7.94	61.57
2011	74.00	83.54	8.34	65.16
2012	85.00	90.92	8.70	70.92
2013	92.01	95.91	8.95	74.81
2014	93.85	97.84	9.14	76.32
2015	95.73	99.82	9.34	77.86
2016	97.64	101.83	9.54	79.43
2017	99.59	103.89	9.75	81.03
2018	101.59	105.99	9.95	82.67

The annual escalation rate used after 2018 is 2.0%.

#### 5. Bank debt

At December 31, 2008, the Company had a revolving credit facility with a Canadian financial institution, bearing interest at the bank's prime rate. In addition, the Company had a non-revolving subordinated credit facility in the amount of \$3,000,000 bearing interest at prime plus 2.00% per annum. In late December 2008, the Company was advised by its banker that its revolving credit facility in the amount of \$19,000,000 plus the non-revolving facility of \$3,000,000 were to be combined into a single revolving credit facility and reduced to \$17,500,000 (2007 - \$1,925,000), with the proposed facility bearing interest at the bank's prime rate plus 1.5% increasing to prime plus 1.75% if the Company's bank debt exceeded \$16 million. The authorized limit of the proposed revolving facility was to be subject to semi-annual reviews by the bank with the next review scheduled for April 30, 2009. These facilities were secured by the assets of the Company.

Subsequent to December 31, 2008, the Company arranged a new credit facility with another Canadian financial institution. The new bank facility is a revolving credit facility in the amount of \$20,000,000. 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 new facility will be reviewed on May 31, 2010. The new facility was drawn and the old facilities were paid off on March 2, 2009. This facility is secured by the assets of the Company.

#### 6. Asset retirement obligation

The total future asset retirement obligation was 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 December 31, 2008 was \$11,619,096 (December 31, 2007 - \$234,418) which will be incurred between 2009 and 2020. The Company used a credit adjusted risk free rate of 7.5% 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 obligations were as follows:

	December 31, 2008	December 31, 2007
Balance, beginning of year	\$ 179,194	\$ -
Liabilities incurred	332,420	11,000
Liabilities acquired	5,320,234	167,303
Accretion	160,690	891
Revision to estimates	616,618	-
Balance, end of year	\$ 6,609,156	\$ 179,194

#### 7. Convertible debenture

Balance, December 31, 2006	\$ 7,919,404
Amortization of bifurcation	80,596
Cash repayment	(4,000,000)
Conversion to common shares	(2,000,000)
Conversion to non-voting common shares	(2,000,000)
Balance, December 31, 2007 and 2008	\$ -

## 8. 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:

	December 31, 2008	December 31, 2007
Income (loss) before income taxes	\$ 3,044,570	\$ (114,706)
Combined federal and provincial rate	30.00%	32.12%
Computed "expected" income tax expense (recovery)	\$ 913,371	\$ (36,844)
Increase (decrease) resulting from:		
Saskatchewan capital tax	266,062	-
Capital taxes deducted from income tax	(79,819)	-
Stock based compensation	135,012	-
Other	(13,652)	-
Change in valuation allowance	(1,818,033)	36,844
Income tax recovery	\$ (597,059)	\$ -

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

	December 31, 2008	December 31, 2007
Future income tax assets:		
Scientific research and experimental development	\$ 20,486,000	\$ 21,922,209
Investment tax credits	13,467,000	14,558,585
Non-capital losses	2,917,000	5,002,252
Asset retirement obligations	1,791,000	51,966
Share issuance expenses	842,000	117,961
Attributed Canadian royalty income	25,000	-
Total future income tax assets	39,528,000	41,652,973
Less Future tax liabilities:		
Temporary differences related to capital assets	(34,000)	(234,890)
Risk management contracts	(678,000)	-
Future tax asset	38,816,000	41,418,083
Less: Valuation allowance	(11,359,000)	(41,418,083)
Future tax asset	27,457,000	-
Less: Current portion	(4,388,000)	-
Future tax asset	\$ 23,069,000	\$ -

Non capital loss carry forward balances expire as follows: December 31, 2009 - \$5,136,827, December 31, 2010 - \$4,083,623, December 31, 2015 - \$258,861, December 31, 2026 - \$537,158, December 31, 2027 - \$746,736.

Investment tax credit balances expire as follows: December 31, 2019 - \$1,335,202, December 31, 2020 - \$3,045,563, December 31, 2021 - \$3,765,980, December 31, 2022 - \$3,061,460, December 31, 2023 - \$3,452,121, December 31, 2024 - \$3,537,905.

## 9. 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	Amount
Balance, December 31, 2006	3,400,000	\$ 307,100
Issued for cash <sup>(i)</sup>	11,370,000	5,685,000
Issued for properties <sup>(ii)</sup>	584,000	292,000
Conversion of debenture <sup>(iii)</sup>	4,000,000	2,000,000
Flow through shares issued for cash <sup>(iv)</sup>	7,295,086	4,683,443
Issued for cash <sup>(v)</sup>	1,908,639	1,021,122
Conversion of non-voting common shares <sup>(vi)</sup>	4,000,000	2,000,000
Issuer bid <sup>(vii)</sup>	(10,759,825)	(5,283,006)
Share consolidation <sup>(viii)</sup>	(18,683,894)	-
Issued for shares of NCEL <sup>(ix)</sup>	1,630,700	1,182,338
Issued for cash <sup>(x)</sup>	270,000	1,002,475
Share issue expenses	-	(128,179)
Balance, December 31, 2007	5,014,706	12,762,293
Issued for cash <sup>(xi)</sup>	701,800	2,631,750
Issued for cash <sup>(xii)</sup>	306,000	1,377,000
Issued for shares of K-Town Energy Ltd. <sup>(xiii)</sup>	1,728,800	8,644,000
Issued for cash <sup>(xiv)</sup>	4,344,508	21,722,540
Issued for cash <sup>(xv)</sup>	4,191,868	25,151,208
Issued for other corporate acquisitions <sup>(xvi)</sup>	127,000	762,000
Issued for shares of Racing Resources Ltd. <sup>(xvii)</sup>	4,020,700	16,082,800
Application of deficit to share capital	-	(6,544,879)
Tax effect of flow through shares	-	(1,818,033)
Share issue expenses (net of \$842,000 of taxes)	-	(1,674,552)
Balance, December 31, 2008	20,435,382	\$ 79,096,127

The shareholders of the Company approved the application of the deficit to the share capital account at a meeting held on June 25, 2008.

### (b) Common shares, issued and outstanding (continued)

- (i) On March 14, 2007, the Company completed a private placement of 11,370,000 pre-consolidation common shares at a price of \$0.50 per common shares for proceeds of \$5,685,000 before share issue expenses.
- (ii) On March 14, 2007, the Company issued 584,000 pre-consolidation shares at \$0.50 per common share for \$292,000 as partial consideration for the acquisition of oil and gas properties.
- (iii) On July 12, 2007, the Company retired the convertible debentures by issuing 4,000,000 pre-consolidation common shares at \$0.50 per common share and 4,000,000 non-voting common shares at \$0.50 per share.
- (iv) On December 13, 2007, the Company completed a private placement of 7,295,086 pre-consolidation flow through common shares at a price of \$0.642 per common share for proceeds of \$4,683,443 before share issue expenses.
- (v) On December 13, 2007, the Company completed a private placement of 1,908,639 pre-consolidation common shares at a price of \$0.535 per common share for proceeds of \$1,021,122 before share issue costs.
- (vi) On December 13, 2007, the Company converted the 4,000,000 non-voting common shares into 4,000,000 pre-consolidation common shares.
- (vii) On December 13, 2007, the Company completed an issuer bid repurchasing 10,759,825 pre-consolidation common shares at a price of \$0.535 per common share for a cash outlay of \$5,756,506. The Company has reduced capital stock by \$5,283,006 with the remaining \$473,500 being applied to contributed surplus.

## 9. Share capital (continued)

### (b) Common shares, issued and outstanding: (continued)

- (viii) On December 13, 2007, the common shares were consolidated on a seven for one basis reducing the number of shares outstanding to 3,114,006.
- (ix) On December 13, 2008, the Company acquired all of the issued and outstanding shares of Northern Challenger Exploration Ltd. ("NCEL") pursuant to a share exchange whereby the Company issued 1,630,700 post consolidation shares valued at \$0.73 per common share, in exchange for all of the shares of NCEL (note 3a).
- (x) On December 28, 2007, the Company completed a private placement of 270,000 post consolidation common shares at a price of \$3.71 per common share for proceeds of \$1,002,475 before share issue costs.
- (xi) During the first quarter of 2008, the Company completed private placements of 701,800 common shares at a price of \$3.75 per share for proceeds of \$2,631,750 before issue costs. A corporation owned by a director of the Company earned a fee of \$11,250 for arranging this private placement.
- (xii) On March 17, 2008, the Company completed a private placement of 306,000 flow-through shares at an issue price of \$4.50 per share to two employees for gross proceeds of \$1,377,000 before issue costs. This private placement was a term of the offer of employment to these two individuals made in November 2007 which allowed them to acquire shares in WestFire on the same basis as the other employees as long as they were paid for by April 30, 2008.
- (xiii) On March 20, 2008, the Company closed the purchase of all of the issued and outstanding shares of K-Town Energy Ltd for \$24,250,000 plus the assumption of \$6,900,000 of debt. WestFire paid \$15,606,000 in cash, and issued 1,728,800 common shares valued at \$5.00 per share. (See note 3b)
- (xiv) The Company completed private placements in March and April 2008 issuing 4,344,508 common shares at an issue price of \$5.00 per common share raising gross proceeds of \$21,722,540 before issue costs. Included in share issue costs are fees of \$76,346 that were paid to a Corporation owned by a director.
- (xv) The Company completed a private placement in July 2008 issuing 4,191,868 common shares at an issue price of \$6.00 per common share raising gross proceeds of \$25,151,208. Included in share issue costs are fees of \$45,600 that were paid to a Corporation owned by a director.
- (xvi) On October 7, 2008, the Company closed the purchase of all of the issued and outstanding shares of various unrelated private corporations for \$7,821,203. WestFire paid \$7,059,203 in cash and transaction costs, and issued 127,000 common shares valued at \$6.00 per share. (See note 3c)
- (xvii) On November 14, 2008, the Company closed the purchase of all of the issued and outstanding shares of Racing Resources Ltd. for \$16,082,800. WestFire issued 4,020,700 in WestFire common shares valued at \$4.00 per share. (See note 3d)

### (c) Non-voting common shares

	Number of shares	Amount
Balance, December 31, 2006	-	\$ -
Conversion of debenture on July 12, 2007	4,000,000	2,000,000
Conversion to voting common shares on December 13, 2007	(4,000,000)	(2,000,000)
Balance, December 31, 2007 and 2008	-	\$ -

### (d) Contributed surplus

Balance, December 31, 2006	\$ 131,597,000
Reduction for shares acquired pursuant to an issuer bid	(473,500)
Balance, December 31, 2007	131,123,500
Application of deficit to contributed surplus	(131,123,500)
Stock based compensation	565,599
Balance, December 31, 2008	\$ 565,599

The shareholders of the Company approved the application of the deficit to the contributed surplus account at a meeting held on June 25, 2008.

## 9. Share capital (continued)

### (e) Stock-based compensation

The Company has a stock option plan that is described above. Compensation costs attributable to share options granted to employees or directors are measured at fair value at the grant date and expensed 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: dividend yield – nil, expected volatility 50%, risk-free interest rate 4.00%, and weighted average life of 5.0 years. Forfeitures are recognized as they occur. The weighted average fair value of stock options granted during the period was \$1.77 per option.

### (f) 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 the directors on the date the option is granted.

The following tables summarize the information about options to purchase common shares as at December 31, 2008.

	Number Of Options	Weighted Average Exercise Prices
Balance, January 1, 2008	-	\$ -
Granted	1,927,700	\$ 5.12
Forfeited	(75,400)	\$ 4.16
Balance, December 31, 2008	1,852,300	\$ 5.16

Exercise price (\$/share)	Outstanding options			Exercisable options	
	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	459,400	4.1	\$3.75	-	-
\$5.00	515,400	4.4	\$5.00	-	-
\$6.00	877,500	4.9	\$6.00	-	-
	1,852,300	4.4	\$5.16	-	-

### (g) Per share amounts

The following table summarizes the basis for the determination of basic and diluted share amounts:

	Years Ended December 31,	
	2008	2007
Weighted average common shares		
Basic	12,966,260	2,221,016
Diluted	12,966,260	2,221,016
Net income (loss) per share:		
Net income (loss) for the period	\$ 3,641,629	\$ (114,706)
Per share basic	\$ 0.28	\$ (0.05)
Per share diluted	\$ 0.28	\$ (0.05)

## 10. Related party transactions

The following transactions with related parties were recorded at the exchange amount:

- (a) The Company agreed to pay fees to a corporation owned by a director that assisted in raising \$2,069,948 (2007 - \$1,002,567) through the issue of 406,156 (2007 - 270,000) shares. Fees in the amount of \$133,196 (2007 - \$60,750) have been included in share issue costs. All amounts were paid during 2008.
- (b) A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). Included in general and administrative expenses, share issue expenses, and transaction costs for the year ended December 31, 2008 are amounts totaling \$105,899 (2007 - \$nil), \$273,178 (2007 - \$67,429), and \$279,790 (2007 - \$nil) respectively, charged to the Company by BDP. At December 31, 2008, \$361,062 (December 31, 2007 - \$207,229) was included in accounts payable.
- (c) Included in accounts receivable at year end is \$20,049 due from the Chief Executive Officer (CEO) of the Company. The amount relates to the settlement of a lawsuit and the purchase of WestFire shares from a former employee of Racing Resources Ltd. For administrative purposes, the Company advanced one cheque to the former employee for both the severance settlement and the share purchase. The account receivable represents the CEO's commitment to purchase a portion of such shares and was fully repaid in January 2009.
- (d) On December 13, 2007, The Company acquired all of the issued and outstanding shares of NCEL pursuant to a share exchange. Current directors and officers of the Company owned 17% of the common shares of NCEL (note 3a).
- (e) During 2007, WestFire paid \$15,000 for rent and accounting fees to a corporation that held shares in WestFire.

## 11. Commitments

- (a) The Company has a commitment for an office lease, at \$42,695 per month until November 30, 2010. A portion of the office space has been subleased for the first quarter of 2009 and on a month by month basis after the first quarter for \$6,000 per month. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2009	\$512,340	\$(18,000)	\$494,340
2010	\$469,645	\$ -	\$469,645

- (a) As part of the acquisition of Racing Resources Ltd. on November 14, 2008, the Company assumed a commitment for an office lease, at \$10,984 per month until December 31, 2012. Commencing February 1, 2009, the Company has sublet this space for a period of 24 months at a monthly rate of \$10,007. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2009	\$131,805	\$(110,077)	\$21,728
2010	\$131,805	\$(120,089)	\$11,716
2011	\$131,805	\$(10,007)	\$121,798
2012	\$131,805	\$ -	\$131,805

- (c) At December 31, 2008, the Company had committed to vehicle leases for the purposes of field operations. All of the leases commenced on September 1, 2008 and expire on August 31, 2010. Future minimum lease payments relating to the vehicle leases are:

Year ending December 31,	
2009	\$55,546
2010	\$29,413

## 11. Commitments (continued)

### (d) Flow-through shares

- (i) Pursuant to the flow-through share private placement entered into during December 2007 (Note 9(a)), the Company was obligated to incur \$4,683,443 in eligible costs by December 31, 2008. WestFire satisfied this commitment in full during 2008. The related tax pools were renounced in January 2008.
- (ii) Included in the NCEL acquisition was a obligation assumed pursuant to the flow-through share private placement entered into during December 2007 by NCEL (Note 9(a)), the Company was obligated to incur \$1,378,000 in eligible costs by December 31, 2008. WestFire satisfied this commitment in full during 2008. The related tax pools were renounced in January 2008.
- (iii) In March 2008, the Company issued flow-through common shares and has until December 31, 2009 to expend \$1,377,000 on qualifying flow-through expenditures and to renounce those expenditures to the investors. At December 31, 2008, the Company had incurred sufficient qualifying flow-through expenditures and renounced the related tax benefits in January 2009 to the investors.

## 12. Financial instruments

### (a) Overview

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about WestFire's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company is in the process of establishing risk management policies to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

### (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 petroleum and natural gas marketers. As at December 31, the Company's receivables consisted of the following:

	2008	2007
Petroleum and natural gas marketers	\$ 2,515,035	\$ 83,899
Joint venture partners	567,846	153,865
Other trade receivables	65,703	1,143,261
Balance, end of year	\$ 3,148,584	\$ 1,381,025

Receivables from petroleum 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 historically has not experienced any collection issues with its petroleum and natural gas marketers. At December 31, 2008, WestFire had receivables from fourteen different marketing companies. One of these marketing companies owed WestFire \$1,256,222 or 50% of the total and another owed WestFire \$777,763 or 31% of the total at December 31, 2008. In June and July 2008, the Company provided for a \$140,959 uncollectible account from a natural gas marketer that filed for creditor protection under the Companies Creditors Arrangement Act. The Company cancelled all contracts with this marketer in July 2008.

## 12. Financial instruments (continued)

### (b) Credit risk

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 petroleum 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 petroleum and natural gas marketers or joint venture partners; however the Company may have the ability to withhold production from joint venture partners in the event of non-payment.

The carrying amount of accounts receivable represents the maximum credit exposure.

As at December 31, 2008 and 2007, the Company's receivables were aged as follows:

Ageing	December 31, 2008	December 31, 2007
Not past due (less than 120 days)	\$ 3,064,922	\$ 1,381,025
Past due (120 days to one year)	83,662	-
	<b>\$ 3,148,584</b>	<b>\$ 1,381,025</b>

### (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 5. With the rapid fall in commodity prices coupled with the uncertainty of the world credit markets, the Company will restrict its capital program for 2009 to approximate expected cash flow.

WestFire's financial liabilities on the balance sheet consist of accounts payable 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 5. 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 2010.

### (d) Market risk

Market risk is the risk that changes in economic factors, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company utilizes financial derivatives contracts to manage market risks.

### (e) 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 risks. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the years ended December 31, 2008 and 2007.

## 12. Financial instruments (continued)

### (f) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices.

There are derivative contracts outstanding as of December 31, 2008 as result of the K-Town acquisition and as part of lending conditions from the Company's banker. 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
Swap (WTI)	50 barrels per day	\$89.95	March 2008	February 2009
Costless Collar (WTI)	50 barrels per day	Floor \$85.00 Ceiling \$95.25	March 2008	February 2009
Swap (WTI)	50 barrels per day	\$89.40	March 2008	August 2009
Costless Collar (WTI)	150 barrels per day	Floor \$100.00 Ceiling \$128.65	September 2008	August 2009
Put (Aeco C)	1500 gigajoules (GJ)/ day	Floor \$10.00/ GJ	August 2008	March 2009

There were no derivative contracts outstanding as of December 31, 2007 or during 2007. At December 31, 2008, an unrealized derivative gain of \$2,962,167 was included in net income for the year. In addition, \$2,259,167 was recorded as a current asset on the Company's balance sheet at December 31, 2008 relating to the risk management contracts.

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the year ended December 31, 2008 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL (\$/bbl)	\$1.00	\$ 125,073
Natural gas (\$/Mcf)	\$0.10	\$ 82,988

### (g) 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. As at December 31, 2008, if interest rates had been one percent lower with all other variables held constant, net income for the period would have been approximately \$74,913 lower (2007 – \$15,109 lower). An equal and opposite impact would have occurred to net income had interest rates been one percent higher.

The fair value of accounts receivable, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of risk management contracts is determined by calculating the difference between contracted price and published forward curves at the balance sheet date, then multiplying this price differential by the contracted commodity volumes. WestFire's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

## 12. Financial instruments (continued)

(h) The carrying and fair value of the Company's financial instruments as at December 31, 2008 are as follows:

Financial assets	Carrying value	Fair value
Held for trading		
Risk management assets	\$2,259,167	\$ 2,259,167
Loans and receivables		
Accounts receivable	\$ 3,148,584	\$3,148,585
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 10,223,698	\$ 10,223,698
Bank debt	\$ 7,491,273	\$ 7,491,273

## 13. 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 petroleum 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.

With the rapid fall in commodity prices coupled with the uncertainty of the world credit markets, the Company will restrict its capital program for 2009 to approximate expected cash flow.

The Company's share capital is not subject to external restrictions, however the bank debt facility is based on petroleum and natural gas reserves and contains a working capital and trailing cash flow covenant (see note 5). 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.

## 14. Subsequent Events

### Drilling commitments

Subsequent to December 31, 2008, WestFire committed to drill 6 wells in Alberta and Saskatchewan. All of these projects are to be drilled during 2009. These commitments are pursuant to three farm-in agreements with industry partners. The Company expects to satisfy this drilling commitment at an estimated cost of \$6,075,000. During March, 2009, the Company completed the drilling of one of the six remaining commitments wells.

## Corporate Information

### Directors

Ed Chwyl, <sup>(2) (3)</sup>  
Victoria, B.C.

John A. Brussa, LL.B.  
Calgary, Alberta

Raymond T. Chan, CA <sup>(1)</sup>  
Calgary, Alberta

W.W. (Chuck) Charlton  
Calgary, Alberta

Paul Colborne  
Calgary, Alberta

Robert M. Duguid <sup>(1)</sup>  
Regina, Saskatchewan

Henry J. Dunfield  
Calgary, Alberta

Lowell E. Jackson, P.Eng. <sup>(2) (3)</sup>  
Calgary, Alberta

Michael McGovern <sup>(1) (3)</sup>  
Houston, Texas

- (1) Member of the Audit Committee
- (2) Member of the Reserve Committee
- (3) Member of the Compensation Committee

### Auditors

PricewaterhouseCoopers LLP

### Evaluation Engineers

GLJ Petroleum Consultants

### Banker

ATB Financial

### Legal Counsel

Burnet, Duckworth and Palmer LLP

### Officers

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

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

D. Stephen Burt, CA  
Vice President, Finance and CFO

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

A. Caroline Banks, CA  
Controller

Alan T. Pettie, LL.B.  
Corporate Secretary

### Corporate Office

810, 555 – 4<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 3E7  
Phone: (403) 261-6955  
Fax: (403) 261-9658

Website: [www.westfireenergy.com](http://www.westfireenergy.com)

Contact: Lowell E. Jackson  
Email: [ljackson@westfireenergy.com](mailto:ljackson@westfireenergy.com)

Contact: D. Stephen Burt  
Email: [sburt@westfireenergy.com](mailto:sburt@westfireenergy.com)