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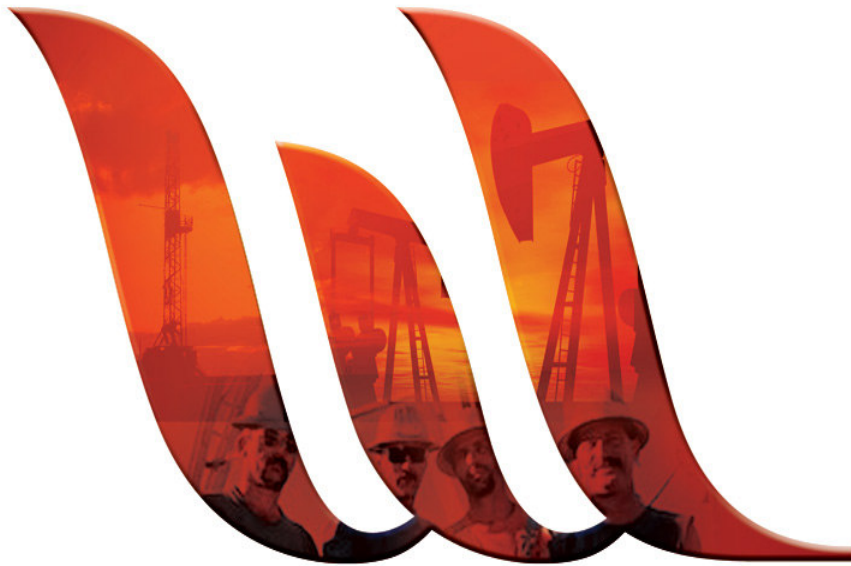

2010 Annual Report

WestFire
ENERGY LTD

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Profile

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

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

Annual General Meeting

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

Message to Our Shareholders

The year 2010 was positive for WestFire Energy Ltd. despite uncertainty caused by the global financial crisis and extremely wet weather in Western Canada which hampered field operations. The company's achievements in the year include the following:

- 2010 average production increased 70% to 2,513 barrels of oil equivalent per day ("boepd") from the 2009 average production of 1,480 boepd;
- Increased total proved reserves 53% to 8.2 million barrels of oil equivalent ("MMboe") and total proved plus probable reserves 45% to 14.2 MMboe;
- Increased oil weighting of the production throughout the year with Q4 2010 production averaging 57% from 40% in the corresponding period of 2009;
- Replaced 480% of production based on proved plus probable reserves at finding, development and acquisition costs ("FD&A") of $14.18 per barrel of oil equivalent ("boe") excluding future development capital ("FDC");
- Realized a recycle ratio of 2.5 (operating netback divided by FD&A) based on total proved plus probable reserves excluding FDC;
- Increased net asset value by 26% to $7.95 per share;
- Advanced development of our Viking light oil resources play, increasing year-end reserves by 91% to 4.6 MMboe on a total proved basis and by 87% to 8.6 MMboe on a total proved plus probable basis;
- Continued to advance development techniques with the introduction of our "hot" frac process; and
- Successfully drilled 53 (47.7 net) wells with an overall success rate of 98%.

Outlook

WestFire continues to execute its business plan of creating value-added growth by acquiring, exploiting and developing high quality, long life oil and natural gas properties in Western Canada. During 2010, the Company continued to pursue its acquisition strategy by completing the purchase of three private companies in the Provost area of Alberta. This acquisition represented a strategic entry point into a new Viking core area that complemented WestFire's existing light oil resource asset base. As a result, the Company now has approximately 220 net sections of land in the Viking play with more than 785 potential Viking development drilling locations which include the 148 high quality locations recognized by GLJ at year-end of 2010.

Including other properties, WestFire has a drilling inventory of more than 875 net locations which represents the potential for a substantial increase in reserves and production. The depth of this drilling inventory positions the Company well for future growth.

WestFire's approved 2011 capital budget has been set at $90MM. Execution of this budget is anticipated to provide 2011 average daily production of 4,000 boepd, which represents year over year production growth of more than 55 percent. Approximately 80 percent of the budget is allocated to the drilling of 61 (60.1 net) wells, of which 46 (45.1 net) wells will be on the Viking light oil resource play. The remainder will be directed to the development of heavy oil at Lloydminster, Alberta.

Acknowledgements

I would like to express my appreciation to our Board of Directors for their wisdom and guidance, our staff for their dedication and hard work and our 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, 2010. ("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 3, 2011 and was approved by the Board of Directors on March 23, 2011.

Proved plus probable reserves were 14.24 million barrels of oil equivalent while total proved reserves were 8.19 million barrels of oil equivalent at December 31, 2010. On a proved plus probable basis, the Company's mix of reserves was 62% light/medium crude and natural gas liquids, 11% heavy crude and 27% natural gas.

Proved developed producing reserves represent 47 per cent of total proved reserves and 27 per cent of proved plus probable reserves; total proved reserves account for 57 per cent of proved plus probable reserves.

Reserve additions, on a proved plus probable basis, came through development activities of 4.81 million barrels of oil equivalent and acquisitions of 0.45 million barrels of oil equivalent.

Summary of Reserves (Forecast Prices and Costs) [(1) (2)]

Company Working Interest Reserves	Light and Medium Crude Oil (Mbbl)	Heavy Crude Oil (Mbbl)	Natural Gas (MMcf)	Natural Gas Liquids (Mbbl)	Barrels of Oil Equivalent (Mboe)
Proved Developed Producing	1,643	590	8,917	127	3,845
Proved Developed Non-producing	211	70	4,247	38	1,027
Proved Undeveloped	2,672	379	1,492	13	3,312
Total Proved	4,525	1,039	14,656	178	8,185
Total Probable	3,964	573	8,429	112	6,055
Total Proved Plus Probable	8,490	1,612	23,085	290	14,239

(1) 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 six Mcf to one 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.

(2) Columns in this table may not add due to rounding.

Reserves Life Index ("RLI")

WestFire's proved plus probable RLI was 13.3 years at year-end 2010 while the proved RLI was 7.6 years based upon the GLJ reserves and a December average production rate of 2,937 boepd.

Net Present Value of Future Net Revenue (Forecast Prices and Costs) (1) (2)

GLJ's January 2011 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 $281.4 million, up 61% from $175.1 million at December 31, 2009. At a 10 per cent discount factor, proved developed producing reserves represent 50 per cent of total proved reserves and 31 per cent of proved plus probable reserves; total proved reserves account for 61 per cent of proved plus probable reserves on a value basis.

Future Net Revenue Before Income Tax	0% M$	5% M$	10% M$	15% M$	20% M$
Proved Developed Producing	111,891	96,938	85,834	77,292	70,529
Proved Developed Non-producing	32,074	23,861	18,872	15,591	13,290
Proved Undeveloped	117,811	87,590	65,999	50,140	38,211
Total Proved	261,776	208,389	170,705	143,023	122,029
Total Probable	232,587	157,007	110,706	80,684	60,306
Total Proved Plus Probable	494,363	365,396	281,411	223,707	182,335

(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.

Future Net Revenue After Income Tax	0% M$	5% M$	10% M$	15% M$	20% M$
Proved Developed Producing	111,891	96,938	85,834	77,292	70,529
Proved Developed Non-producing	32,074	23,861	18,872	15,591	13,290
Proved Undeveloped	117,811	87,590	65,999	50,140	38,211
Total Proved	261,776	208,389	170,705	143,023	122,029
Total Probable	192,791	131,829	94,169	69,470	52,487
Total Proved Plus Probable	454,567	340,218	264,874	212,493	174,517

(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) (1)

(M$)	Revenue	Royalties	Operating Costs	Development Costs	Abandonment Costs	Future Net Revenue Before Income Tax
Total Proved	598,769	71,174	164,233	91,085	10,502	261,776
Total Proved Plus Probable	1,102,486	147,110	277,324	169,964	13,725	494,363

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

Crude Oil and Natural Gas Liquids Price Forecast (1) (2) (7)

Year	Inflation %	Exchange Rate $US/$Cdn	WTI $US/bbl(3)	Edmonton $Cdn/bbl(4)	Heavy Crude at Hardisty $Cdn/bbl(5)	Medium Crude at Cromer $Cdn/bbl(6)	Edmonton Propane $Cdn/bbl	Edmonton Butane $Cdn/bbl	Edmonton Pentanes Plus $Cdn/bbl
2010	2.0	0.980	88.00	86.22	68.79	82.78	54.32	67.26	90.54
2011	2.0	0.980	89.00	89.29	68.33	83.04	56.25	68.75	91.96
2012	2.0	0.980	90.00	90.92	67.03	83.64	57.28	70.01	92.74
2013	2.0	0.980	92.00	92.96	67.84	84.59	58.56	71.58	94.82
2014	2.0	0.980	95.17	96.19	70.23	87.54	60.60	74.07	98.12
2015	2.0	0.980	97.55	98.62	72.03	89.75	62.13	75.94	100.59
2016	2.0	0.980	100.26	101.39	74.08	92.26	63.87	78.07	103.42
2017	2.0	0.980	102.74	103.92	75.95	94.57	65.47	80.02	106.00
2018	2.0	0.980	105.45	106.68	78.00	97.08	67.21	82.15	108.82
2019	2.0	0.980	107.56	108.84	79.59	99.04	68.57	83.80	111.01
2020+	2.0	0.980	+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, 2011
(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 (1) (2) (3) (4)

			Alberta Plant Gate			Saskatchewan Plant Gate	
Year	NYMEX Near Month Contract $US/MMBtu	AECO/ NIT Spot $Cdn/ MMBtu (5)	Spot $Cdn/ MMBtu	ARP $Cdn/ MMBtu	Aggregator $Cdn/ MMBtu	Sask Energy $Cdn/ MMBtu	Spot $Cdn/ MMBtu
2010	4.50	4.16	3.92	3.89	3.78	3.79	4.13
2011	5.15	4.74	4.51	4.37	4.34	4.27	4.71
2012	5.75	5.31	5.06	4.91	4.88	4.81	5.28
2013	6.25	5.77	5.52	5.35	5.32	5.25	5.74
2014	6.75	6.22	5.97	5.80	5.76	5.70	6.19
2015	7.10	6.53	6.28	6.09	6.05	5.99	6.50
2016	7.32	6.76	6.50	6.31	6.26	6.21	6.73
2017	7.47	6.90	6.65	6.45	6.41	6.35	6.87
2018	7.62	7.06	6.80	6.60	6.55	6.50	7.03
2019	7.77	7.21	6.95	6.75	6.70	6.65	7.18
2020+	+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, 2011
(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, 2011, 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.

Reserve Reconciliation Table

The following table presents data that is used in the preparation of FD&A costs and recycle ratios for 2010:

	Oil/NGLs		Gas		Combined	
	Total Proved (Mbbls)	Proved Plus Probable (Mbbls)	Total Proved (MMcf)	Proved Plus Probable (MMcf)	Total Proved (Mboe)	Proved Plus Probable (Mboe)
Balance, December 31, 2009	3,169	6,310	13,164	21,177	5,363	9,839
Extensions	2,348	3,968	2,070	3,000	2,693	4,468
Infill Drilling	368	294	78	62	381	304
Improved Recovery	2	2	147	183	26	33
Technical Revisions	121	241	1,918	1,533	441	495
Acquisitions	291	352	467	566	369	447
Dispositions	(108)	(326)	(374)	(622)	(171)	(430)
Production	(448)	(448)	(2,813)	(2,813)	(917)	(917)
Balance, December 31, 2010	5,742	10,392	14,656	23,085	8,185	14,239

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 including and excluding FDC as well as FD&A excluding land costs. The following table provides detailed calculations relating to FD&A costs and recycle ratios for 2010:

	Total Proved	Proved Plus Probable
Capital Expenditures excluding Land ($000)	72,685	72,685
Capital Expenditures including Land ($000)	75,181	75,181
Change in FDC Required to Develop Reserves ($000)	61,956	91,679
Total Capital Costs (($000)	137,137	166,860
Reserve Additions (Mboe)	3,739	5,317
FD&A Costs before Land & FDC ($/boe)	19.44	13.67
FD&A Costs before FDC ($/boe)	20.11	14.14
FD&A Costs Including FDC ($/boe)	36.68	31.38
Operating Netback ($/boe) [(1)]	34.79	34.79
Recycle Ratio before Land & FDC	1.8	2.5
Recycle Ratio before FDC	1.7	2.5
Recycle Ratio including FDC	0.9	1.1

(1) Netback for month of December 2010

Production Replacement

WestFire's 2010 capital investment program replaced 2010 production by a factor of 3.1 times on a proved basis and 4.8 times on a proved plus probable basis. The following table summarizes production replacement for 2010:

	Total Proved			Proved Plus Probable		
	Oil/NGLs (Mbbls)	Gas (MMcf)	Combined (Mboe)	Oil/NGLs (Mbbls)	Gas (MMcf)	Combined (Mboe)
Reserve additions, including revisions	2,573	1,492	2,822	4,082	1,908	4,400
2010 production	448	2,813	917	448	2,813	917
Production replacement ratio	5.7	0.5	3.1	9.1	0.7	4.8

Land Holdings

WestFire had undeveloped land at December 31, 2010 of 209,370 net acres with an average working interest of 83%. The Company's undeveloped lands consist of 103,738 net acres (49.6 percent) in Alberta, 104,807 net acres (50 percent) in Saskatchewan and 825 net acres (0.4 per cent) in British Columbia.

In 2010, WestFire incurred $0.746 million at Alberta Crown land sales acquiring 2,847 net acres of petroleum and natural gas rights at an average cost of $262 per acre in the Plains region. In Saskatchewan, WestFire incurred $0.17 million at Saskatchewan Crown land sales acquiring 8,158 net acres of petroleum and natural gas rights at an average cost of $21 per acre.

Over 95% of WestFire's 2010 land expenditures were directed towards expanding the Company's acreage position at Redwater, Alberta and 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 Redwater, where the Company has an average working interest of 92% in 30,322 gross (28,023 net) acres of undeveloped lands and West Central Saskatchewan, where the Company has an average working interest of 95% in 108,622 gross (102,887 net) acres of undeveloped lands..

Looking ahead to 2011, 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. Over the next twelve months, 11 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, 2010 and 2009.

	2010		2009	
	Gross acres	Net acres	Gross acres	Net acres
Alberta	137,710	103,738	145,000	109,000
Saskatchewan	110,862	104,807	110,000	95,000
British Columbia	2,640	825	3,000	1,000
Total undeveloped land	251,212	209,370	258,000	205,000

Net Asset Value

WestFire's net asset value at December 31, 2010 increased to $342.3 million, up 46% from $234.2 million at December 31, 2009. On a per share basis, net asset value increased by 26% to $7.95 per share. 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, 2010 was appraised by Independent Land Evaluations Inc. at $51.9 million which is $248 per acre (2009 evaluated by WestFire at $36.4 million or $177 per acre). The components of net asset value are summarized in the following table:

At December 31, ($000s)	2010	2009
Present value of P&NG reserves, discounted at 8% after tax	$291,588	$191,434
Undeveloped land(1)	51,909	36,421
Net debt(2)	(20,570)	(3,378)
Proceeds from exercise of stock options	19,400	9,782
Net asset value	$ 342,327	$ 234,259
Diluted common shares outstanding (000s)	43,054	37,070
Net asset value per share ($/Share)	$7.95	$6.32

(1) Independent Land Evaluators Inc. evaluation effective December 31, 2010.
(2) The reader is referred to the section - " Non-GAAP Measurements ".

Operations

Review of Operations

As at December 31, 2010, WestFire increased proved plus probable reserves to 14.2 Mmboe from 9.8 Mmboe the previous year, and Q4 2010 production to 2,802 boepd from Q4 2009 production of 1,678 boepd, through a balanced approach of low-risk Viking light oil horizontal drilling and selective acquisitions. This growth demonstrates the ongoing success of the Company's business plan. WestFire's product mix consisted of 73 percent oil and natural gas liquids and 27 percent gas on a proved plus probable reserve basis and 57 percent oil and natural gas liquids and 43 percent gas on a daily production basis as at year-end 2010.

WestFire currently has four core operating areas which include Redwater, Alberta, west central Saskatchewan, Lloydminster, Alberta and Bashaw, Alberta. The Company's primary focus remains firmly fixed on developing its shallow, low-risk Viking light oil horizontal resource play at Redwater, Alberta and West Central Saskatchewan. The Lloydminster heavy oil horizontal and Bashaw multi-zone gas projects have evolved into self-sustaining, cash flow generating assets which assist in funding the Viking oil resource play development.

During 2010, the acquisition component of our business plan resulted in WestFire completing the purchase of three private companies in Provost, Alberta. This acquisition represented a strategic entry point into a new Viking core area that complemented WestFire's existing light oil resource asset base. WestFire recognized the opportunity for additional value creation by enhancing reserves, production, cash flow and net asset value through various technical, operating and financial activities on the Provost property.

WestFire has diligently enhanced the value of each of its four core areas throughout 2010. The Company drilled 53 gross (47.7 net) wells with an average working interest of 90 percent, resulting in a 98 percent success rate. We prefer to emphasize hands-on management by operating 47 of the 53 wells. Development drilling represented 93 percent of our activity, while exploration represented 7 percent. Looking ahead, WestFire intends to continue with its development drilling oriented approach to fuel our near-term and long-term growth.

The Company continued to consolidate and add to its land position during 2010. This was achieved through a combination of acquisitions, one significant third-party lease option deal and modest participation at Crown land sales. WestFire's net undeveloped acreage position has increased to 209,370 acres at year-end 2010 with an average working interest of 83 percent. Of this land position, the Viking net undeveloped acreage represents 140,152 acres with an average working interest of 94 percent.

Redwater Alberta

The Redwater core area is located approximately 50 kilometers northeast of the city of Edmonton, Alberta. At December 31, 2010, WestFire held 30,322 gross (28,023 net) acres of undeveloped land at a 92 percent working interest.

WestFire acquired its assets in Redwater primarily through two acquisitions completed in 2008 and 2009 and to a lesser extent through selective purchases at Crown sales. WestFire's focus at Redwater is on the Viking light oil resource play which underlies the majority of its acreage position.

The Viking Formation in Redwater represents an excellent zone on which to carry out horizontal single leg cemented liner drill and multi-stage fracture completion operations to achieve higher productivity and recovery rates. This high quality oil resource play is encountered at a depth of about 700 meters, has average initial oil-in-place of approximately 5 to 6 million barrels per section, low recovery factors, and consists of interbedded silts and sands that yield 32 to 38 degree API oil. During 2010, WestFire drilled and placed on production 21 gross (18.1 net) Viking light oil horizontal wells. These wells achieved Company expectations and approximated area average initial production rates.

WestFire has a dominant undeveloped land position in the Redwater area and is now harvesting the Viking light oil potential. WestFire has identified in excess of 165 gross (150 net) un-booked potential Viking light oil horizontal drilling locations on lands it currently controls in the Redwater area. At December 31, 2010, WestFire's independent reserves evaluation firm recognized 71 Viking light oil horizontal locations in its reserves report.

West Central Saskatchewan

The west central Saskatchewan core area is located near the town of Kindersley, Saskatchewan. As at December 31, 2010, WestFire held 108,622 gross (102,887 net) acres of undeveloped land at a 95 percent working interest.

WestFire initially established its Viking position in west central Saskatchewan through two acquisitions in 2008. During 2009 and 2010, the land position increased substantially through two large lease option deals with one of the dominant freehold land owners in the area in addition to selective purchases at Crown sales.

The Viking Formation in west central Saskatchewan represents an excellent zone on which to carry out horizontal single leg cemented liner and multi-stage fracture completion operations to achieve higher productivity and recovery rates. This high quality oil resource play is encountered at a depth of about 700 meters, has average initial oil-in-place of approximately 6 to 7 million barrels per section, low recovery factors, and consists of interbedded silts and sands that yield 30 to 36 degrees API oil. During 2010, WestFire drilled and placed on production 5 gross (5.0 net) Viking light oil horizontal wells. While three of these wells were below Company expectations and area average initial production rates, the last two wells showed encouraging early production results. This improvement resulted from WestFire's internally generated "hot frac" completion technique which minimizes early time damaging wax formation buildup in the horizontal leg. The Company will continue to carry out this technique on all its Viking horizontal wells and expects to achieve continued improvement in initial productivity and ultimate recovery.

WestFire has one of the dominant Viking oil-prone land positions in west central Saskatchewan and is well positioned to harvest the Viking light oil on its lands. WestFire has identified in excess of 435 (425 net) un-booked potential Viking light oil horizontal drilling locations on lands it currently controls, or has under lease option, in the Lucky Hills/Plato/Dodsland areas of west central Saskatchewan. At December 31, 2010, WestFire's independent reserves evaluation firm recognized 73 Viking light oil horizontal locations in its reserves report.

Lloydminster Alberta

The Lloydminster core area is located approximately 15 kilometers west of the town of Lloydminster, Alberta. As at December 31, 2010, WestFire held 1,474 gross (882 net) acres of undeveloped land at a 60% working interest.

All of the Lloydminster acreage was acquired by WestFire through an acquisition completed in 2009. The Company's lands have been delineated by a number of existing vertical and horizontal Lloydminster and Sparky oil wells.

The Lloydminster heavy oil zone at Lloydminster represents an excellent target on which to carry out horizontal single leg drill with slotted liner operations in order to achieve higher productivity and recovery rates. Typically, four to eight horizontal wells are drilled from one surface location with a horizontal length of 800m with the wellbores spaced 50m apart. Area average initial peak flush production rates range from 40 to 100 barrels of oil per day and average 65 barrels of oil per day in the first full month of production. In addition, the Sparky heavy oil zone represents an excellent target for vertical development.

WestFire holds a modest undeveloped acreage position in its Lloydminster core area that is ideally suited for down-spaced and infill horizontal and vertical heavy oil drilling activity. WestFire has identified in excess of 35 gross (35.0 net) un-booked potential Lloydminster heavy oil horizontal locations as well as up to 20 (20.0) un-booked potential Sparky heavy oil vertical locations on lands it controls in the Lloydminster area. At December 31, 2010, WestFire's independent reserves evaluation firm recognized 12 horizontal and 3 vertical heavy oil locations in its reserves report.

Bashaw Alberta

The Bashaw core area is located approximately 80 kilometers northeast of the city of Red Deer, Alberta. As at December 31, 2010, WestFire held 17,137 gross (16,497 net) acres of undeveloped land at a 96 percent working interest. As a result of current natural gas prices and having met its drilling commitments, WestFire elected not to extend the terms of its farm-in deal with a major North American independent.

The Company its Bashaw acreage position through an acquisition completed in 2008, farm-in drilling over the past two years and selective Crown land sale purchases.

WestFire's primary objective in the Bashaw area is lower-risk, vertical, with some horizontal exploration, development and production of conventional multi-zone Mannville gas sands found at depths of up to 1,400 meters. During 2010, while using proprietary 3D seismic, the Company drilled and placed on production 4 gross (3.2 net) gas wells. These wells met WestFire's expectations and area-wide averages. In addition, one well was drilled during 2010 that was dry and abandoned. All of the Company's gas wells are tied into its 100 percent wholly-owned gas processing facility with refrigeration capability which allows for the extraction of natural gas liquids.

WestFire has an extensive Mannville multi-zone gas-prone land position in the Bashaw area and is ideally situated to continue its exploitation and development using its proprietary 3D seismic. WestFire has identified up to 13 gross (12.0) un-booked potential Mannville gas vertical, and several horizontal, drilling locations on lands it currently controls in the Bashaw area. At December 31, 2010, WestFire's independent reserves evaluation firm recognized 2 vertical locations in its reserves report.

Management's Discussion and Analysis

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

This Management's Discussion & Analysis ("MD&A") is a review of how WestFire performed during the period covered by the financial statements, and of WestFire's financial condition and future prospects. The MD&A complements and supplements the financial statements of WestFire, and should be read in conjunction with the accompanying consolidated financial statements and the related notes for the year ended December 31, 2010 of WestFire. 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. All dollar amounts are quoted in thousands of dollars with the exception of share amounts, production and well information. This MD&A is effective March 23, 2011.

Financial	**Three Months Ended December 31,**		**Year Ended December 31,**	
($ thousands except share and production information)	**2010**	**2009**	**2010**	**2009**
Oil and gas revenues	**13,367**	6,957	**43,432**	20,229
Cash provided by operating activities	**6,005**	2,585	**21,725**	6,510
Funds flow from operations (1)	**5,820**	2,674	**19,747**	7,395
Per share – basic and diluted(1)	**0.15**	0.10	**0.52**	0.31
Net income (loss)	**(4,436)**	11,829	**(6,355)**	6,636
Per share – basic and diluted	**(0.11)**	0.43	**(0.17)**	0.27
Capital expenditures (including non-cash)	**11,883**	32,998	**76,221**	49,079
Common shares outstanding – basic	**39,935**	35,158	**39,935**	35,158
Common shares outstanding – diluted	**40,170**	35,158	**40,174**	35,158
Weighted average common shares – basic	**39,254**	27,734	**37,575**	24,169
Weighted average common shares – diluted	**39,489**	27,734	**37,814**	24,169
Sales Volumes				
Oil and NGL (bbls per day)	**1,601**	669	**1,228**	536
Natural gas (Mcf per day)	**7,209**	6,054	**7,707**	5,666
Barrels of oil equivalent (boe per day) (2)	**2,802**	1,678	**2,513**	1,480

(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

With strong oil prices expected for the foreseeable future, the Company is fortunate to have a large number of low risk light oil drilling opportunities. WestFire is focused on developing its Viking light oil prone land holdings in Redwater, Alberta, west central Saskatchewan and Provost, Alberta. In addition, WestFire will continue development of its heavy oil lands near Lloydminster. The Company plans to spend $90 million in capital in 2010 predominantly drilling Viking and Lloydminster oil wells and has set a target to achieve an average production rate for 2011 of 4,000 boe per day.

Oil and gas production

	Three Months Ended December 31,		Year Ended December 31,	
	2010	**2009**	**2010**	**2009**
Sales Volumes				
Oil and NGL (bbls per day)	**1,601**	669	**1,228**	536
Natural gas (Mcf per day)	**7,209**	6,054	**7,707**	5,666
Barrels of oil equivalent (boe per day)	**2,802**	1,678	**2,513**	1,480
Oil and NGL volumes as a percentage of total	**57%**	40%	**49%**	36%

Volumes have increased during 2010 compared to 2009 as a result of new production from acquisitions and the most active drilling program in the Company's history. WestFire drilled a total of 53 (47.7 net) wells in 2010. During December 2010, a total of 14 (14.0 net) wells were tied in and placed on production leaving only one (1.0 net) well awaiting completion and tie in at year-end. Oil and natural gas volumes during the fourth quarter of 2010 were 67% higher than the fourth quarter of 2009 as wells drilled during the third quarter of 2010 were brought on production. Oil and NGL volumes for the year ended December 31, 2010 increased 129% to 1,228 bbls per day from 536 bbls per day. This increase can be attributed to increases in WestFire's Viking production at Redwater and heavy oil volumes at Lloydminster, Alberta. Gas volumes for the year increased 36% to 7,707 Mcf per day from 5,666 Mcf per day, the result of 5 (4.2 net) wells drilled in the Bashaw area.

Petroleum and natural gas revenues

	Three Months Ended December 31,		Year Ended December 31,	
($ thousands)	**2010**	**2009**	**2010**	**2009**
Oil and NGL revenues	**10,855**	4,271	**31,326**	11,479
Per barrel before hedging	**73.71**	69.40	**69.87**	58.67
Natural gas	**2,512**	2,686	**12,106**	8,750
Per Mcf before hedging	**3.79**	4.82	**4.30**	4.23

Oil revenues increased 154% in the fourth quarter of 2010 over the same period of 2009. The increase is primarily a result of a 139% volume increase combined with a 6% increase in oil prices from the fourth quarter of 2009. Oil revenues in 2010 increased 173% over 2009. The increase can be attributed to an increase in volumes of 129% combined with a 19% increase in price. The West Texas Intermediate price averaged $79.53US per bbl in 2010 compared with $61.93 in 2009 and averaged $85.17US per bbl in the fourth quarter of 2010 compared with $76.19 in the fourth quarter of 2009. During 2010, WestFire's oil and NGL volumes consisted of 30% (2009 - 20%) heavy crude oil. The light/heavy crude oil differential averaged $14.48US per bbl or 16% of WTI in 2010 compared with $9.93US per bbl or 16% of WTI in 2009.

Gas revenues decreased 6% in the fourth quarter of 2010 over the same period of 2009. The decrease is a result of volume increases of 19%, offset by a decrease of gas prices of 21% from the average price received during Q4 2009. The average AECO daily reference price of $3.62 per GJ for Q4 2010 represents a 20% decrease from Q4 2009 price of $4.50 per GJ. For 2010, gas revenue increased 38% over 2009. The increase can be attributed to a volume increase of 36% combined with a moderate price increase of 2% year over year. The average AECO daily reference price of $3.94 per GJ for 2010 is basically unchanged from the average price for 2009 of $3.93 per GJ. Most of WestFire's gas volumes receive a premium to the AECO reference price due to their high heat content.

Price Risk Management

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

WestFire has entered into crude oil and natural gas derivatives contracts to manage the volatility of commodity prices. For Q4 2010, the Company had a net realized gain of $629 (Q4 2009 – gain of $26). The Company has used a combination of fixed price swaps and costless collars.

At December 31, 2010, a current asset of $184 and a long term liability of $465 (for a net liability of $281) (December 31, 2009 – current liability of $175) was recorded on the Company's balance sheet resulting in an unrealized derivative loss of $106 for the year ended December 31, 2010 (2009 – loss of $2,434).

The Company has outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel or GJ (Cdn $)	Commencement date	Termination date
Oil				
Swap (WTI)	200 barrels per day	$85.40	January 2011	June 2011
Swap (WTI)	100 barrels per day	$89.00	January 2011	June 2011
Costless Collar (WTI)	200 barrels per day	Floor $75.00 Ceiling $95.00	January 2011	June 2011
Costless Collar (WTI)	100 barrels per day	Floor $80.00 Ceiling $96.80 Ceiling $102.00	January 2011	June 2011
Swap (WTI)	150 barrels per day	$84.50	July 2011	September 2011
Swap (WTI)	150 barrels per day	$86.40	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $92.20	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $95.10	July 2011	September 2011
Swap (WTI)	100 barrels per day	$88.65	January 2011	December 2011
Costless Collar (WTI)[(1)]	100 barrels per day	Floor $85.00 Ceiling $102.00	February 2011	December 2011
Swap (WTI)	300 barrels per day	$88.20	October 2011	December 2011
Costless Collar (WTI)	300 barrels per day	Floor $80.00 Ceiling $95.25	October 2011	December 2011
Swap (WTI)	350 barrels per day	$90.70	January 2012	March 2012
Costless Collar (WTI)	350 barrels per day	Floor $80.00 Ceiling $99.00	January 2012	March 2012
Swap (WTI)	350 barrels per day	$91.10	April 2012	June 2012
Swap (WTI)	350 barrels per day	Floor $80.00 Ceiling $100.45	April 2012	June 2012
Natural Gas				
Swap (AECO)	2,000 GJ's per day	$5.83	November 2010	March 2011
Swap (AECO)	500 GJ's per day	$5.76	November 2010	October 2011
Swap (AECO)	2,000 GJ's per day	$5.48	April 2011	October 2011

(1) Entered into subsequent to December 31, 2010

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the quarter ended December 31, 2010 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL ($/bbl)	+/- $1.00	$ 399
Natural gas ($/Mcf)	+/- $0.10	$ 251

Crown and other royalties

($ thousands)	Three Months Ended December 31, 2010	2009	Year Ended December 31, 2010	2009
Total	**1,526**	704	**4,736**	2,252
Per boe	**5.92**	4.56	**5.16**	4.17
% of revenue	**11.4%**	10.1%	**10.9%**	11.1%

Total royalties in the fourth quarter of 2010 increased 117% from the same period in 2009 largely due to the increased revenues. For the three months ended December 31, 2010, royalties increased on a per boe basis and as a percentage of revenue as a result of higher commodity prices compared to the same period in 2009. Royalties for 2010 have increased on a per boe basis from the same period in 2009 largely due to the increase in commodity prices. These increases were partially offset by recoveries resulting from a gas cost allowance adjustment relating to prior periods. Crown royalties have decreased slightly as a percent of revenue for 2010 compared to the same period in 2009.

($ thousands)	Three Months Ended December 31, 2010	2009	Year Ended December 31, 2010	2009
Total	**4,748**	2,641	**16,277**	9,849
Per boe	**18.42**	17.11	**17.74**	18.23
% of revenue	**35.5%**	38.0%	**37.5%**	48.7%

Operating costs were $18.42 per boe during Q4 2010 which is a slight increase from Q4 2009. This increase is due to a number of one-time costs which included drilling site cleanup costs at Lindberg, costs to return rental equipment and a coil-tubing cleanout at a well in Lloydminster. Seasonal preparation for winter at WestFire's heavy oil properties in Lloydminster and chemical treatment trials on a number of Viking wells in west central Saskatchewan also contributed to higher costs in Q4 2010. Operating costs for 2010 are 65% higher than in 2009 as WestFire continues to acquire and develop new properties, but have decreased as a percentage of revenue as volumes have increased. Operating cost per boe have also benefitted by the addition of new production, particularly in the Redwater and Lloydminster areas. Production from new wells drilled continues to reduce the average operating cost per boe.

Transportation expenses

($ thousands)	Three Months Ended December 31, 2010	2009	Year Ended December 31, 2010	2009
Total	**287**	198	**1,017**	630
Per boe	**1.11**	1.28	**1.11**	1.17
% of revenue	**2.1%**	2.9%	**2.3%**	3.1%

Transportation expenses are incurred for services related to moving production to sales points, including oil hauling, and pipeline tariffs. The large increase from 2009 to 2010 is a result of the increase in volumes as previously noted. On a per boe basis transportation costs were fairly consistent while on a % of revenue basis, transportation costs have declined.

Netbacks [(1)]

($ per boe)	Three Months Ended December 31, 2010	2009	Year Ended December 31, 2010	2009
Revenue	**51.85**	45.07	**47.35**	37.44
Realized derivative gains	**2.44**	0.17	**2.46**	4.93
Royalties	**(5.92)**	(4.56)	**(5.16)**	(4.17)
Operating expenses	**(18.42)**	(17.11)	**(17.74)**	(18.23)
Transportation expenses	**(1.11)**	(1.28)	**(1.11)**	(1.17)
Netbacks	**28.84**	22.29	**25.80**	18.80

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

Netbacks have increased during 2010 and during the fourth quarter of 2010 over the same period in 2009 as a result of the increase of the Company's oil and NGL production as a percentage of total production. Netbacks have improved in 2010 from 2009 as a result of higher oil prices and lower operating costs, which have more than offset the impact of a 50% decrease in realized derivative gains.

General and administration ("G&A") expenses

	Three Months Ended December 31,		Year Ended December 31,	
($ thousands)	**2010**	**2009**	**2010**	**2009**
Gross G&A expenses	**1,220**	868	**3,576**	2,857
Less: capitalized	**(184)**	(178)	**(645)**	(781)
Net G&A expenses	**1,036**	690	**2,931**	2,076
Per boe	**4.02**	4.47	**3.20**	3.84

G&A expenses decreased on a per boe basis due to the growth in production. At the end of 2010, WestFire had 21 office staff. In accordance with its full cost accounting policy, WestFire capitalizes G&A expenses directly associated with exploration and development activities. Gross and net general and administration expenses increased 25% and 41%, respectively from 2009 as a result of the various acquisitions which required additional staffing, office space and overhead. Additionally, as of January 1, 2010 the Company adopted Section 1582 "Business Combinations" of the CICA Handbook which requires all transaction costs to be expensed, which previously were capitalized as part of the purchase price. Accordingly, the Company has expensed in excess of $300 of transactions costs associated with both the Provost acquisition and WestFire's divestiture program. WestFire's gross G&A for the fourth quarter of 2010 were higher due to year-end audit fees, reserve evaluations and costs associated with WestFIre's divestiture program

Interest expense

	Three Months Ended December 31,		Year Ended December 31,	
($ thousands)	**2010**	**2009**	**2010**	**2009**
Interest expense	**187**	69	**540**	415

During December 2010, WestFire issued flow-through shares for total proceeds of $7,518. These funds were used to repay the bank line and partially fund the fourth quarter capital spending, resulting in the bank line ending the year at approximately the same level as at the end of the third quarter of 2010. During the third quarter of 2010, the Company began to draw on its newly expanded credit facility of $42,000 as the 2010 drilling program continued. The Company had raised $30,000 of equity during the second quarter and used some of the proceeds to fully repay the bank debt. Also, during the second quarter, a one-time fee of $120 was incurred to expand the credit facility.

Stock-based compensation

	Three Months Ended December 31,		Year Ended December 31,	
($ thousands)	**2010**	**2009**	**2010**	**2009**
Gross stock-based compensation	**1,202**	278	**3,038**	1,119
Less: capitalized	**(554)**	(52)	**(1,018)**	(212)
Net stock-based compensation	**648**	226	**2,020**	907

Stock-based compensation is a non-cash expense, which represents the estimated fair value of stock-based compensation granted to employees as part of WestFire's incentive package. Compensation costs attributable to the common share stock options granted to employees or directors are measured at fair value at the grant date and expensed to stock-based compensation or capitalized to property, plant and equipment over the expected vesting time frame with a corresponding increase to contributed surplus. The Company's stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding common shares of the Company. These options have a term of five years to expiry and have a three year vesting period from the date of grant. In accordance with its full cost accounting policy, WestFire capitalizes stock-based compensation expenses associated with exploration and development activities. During the fourth quarter of 2010, the Company issued 195,500 options at an average exercise price of $5.36, 26,667 options were forfeited and no options were exercised. During the 2010, the Company granted 1,519,000 options at an average exercise price of $7.62 per share, 79,999 options were exercised for total proceeds of $380, while 232,334 options were forfeited. As at December 31, 2010, there were 3,118,967 options outstanding compared with 1,912,300 options outstanding as

at December 31, 2009. The gross and net stock-based compensation expense have increased during 2010 compared with 2009 as a result of the larger number of options granted during 2010.

Depletion, depreciation and accretion (DD&A)

	Three Months Ended December 31,		Year Ended December 31,	
($ thousands)	**2010**	**2009**	**2010**	**2009**
Depletion and depreciation	**7,397**	3,477	**23,667**	12,552
Accretion	**172**	97	**658**	364
Total	**7,569**	3,574	**24,325**	12,916
Per boe	**29.36**	23.15	**26.52**	23.91

Depletion is calculated based on the percentage of proved reserves produced during the period multiplied by the adjusted full cost pool. The adjusted full cost pool includes future development costs and excludes the cost of undeveloped lands and salvage value of equipment. For the fourth quarter of 2010, depletion and depreciation of property, plant and equipment and the accretion of the asset retirement obligations (“DD&A”) increased 112% compared to the same period in 2009. For 2010, DD&A increased 88% compared to 2009. The increase in DD&A expense was due to the increased scale of operations as a result of corporate and asset acquisitions, combined with the Company’s 2010 drilling program.

Income taxes

For 2010, the income tax expense was $173 as compared to a recovery of $15,219 for the same period in 2009. The recovery in 2009 was due to the increase in reserves valuation which allowed for the value of WestFire’s tax pools to be set up as an asset on the balance sheet as a future tax asset and to be shown as a recovery on the income statement. Though WestFire is generating taxable income, no current income taxes other than capital taxes are payable as a result of the availability of tax pools to offset taxable income. At December 31, 2010, WestFire has approximately $321,000 in tax pools and $18,000 in investment tax credits to shelter future taxable income.

Current taxes of $251 for the year ended December 31, 2010 were related to Saskatchewan capital taxes and the related resource royalty surcharge (“SCT”). In March 2009, the Company found an error in the 2005 capital tax return for one of the acquired companies. The error resulted in additional tax payable of $127. The SCT for year ended December 31, 2009 was $369.

Income tax provision

	Year Ended December 31,	
($ thousands)	**2010**	2009
Current tax expense	**$ 251**	$ 369
Future income tax recovery	**(78)**	(15,588)
Income tax expense (recovery)	**$ 173**	$ (15,219)

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

	Year Ended December 31,	
($ thousands)	**2010**	2009
Scientific research and experimental development	**$ 19,056**	$ 20,410
Temporary differences related to capital assets	**19,818**	19,550
Investment tax credits(1)	**15,434**	15,468
Non-capital losses(2)	**1,313**	2,815
Asset retirement obligations	**3,402**	2,975
Share issuance expenses	**1,496**	1,472
Risk management contracts	**82**	51
Attributed Canadian royalty income	**2**	25
Total future income tax assets	**$ 60,603**	$ 62,766

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

(2) Non capital loss carry forward balances expire as follows: December 31, 2011 - $90, December 31, 2012 - $208, December 31, 2013 - $101, December 31, 2015 - $259, December 31, 2024 and later - $4,334.

Net income and comprehensive income

Net loss and comprehensive loss for the year ended December 31, 2010 was $6,355 compared to a net income for the year ended December 31, 2009 of $6,636. The net income in 2009 is attributable to the recognition of a future tax recovery. Basic and diluted net loss per share for 2010 was $0.17. This is compared to basic and diluted net income per share of $0.27 per share for 2009.

Liquidity and capital resources

During the second quarter of 2010, the Company's bank facility which is a revolving credit facility was increased to $42,000. The interest rate charged on the bank facility ranged from the bank's prime plus 1.0% to prime plus 2.0% and is dependent on the ratio of the Company's net debt(1) to trailing cash flow. The authorized limit of the facility will be reviewed in May 2011 for possible increase. This facility is secured by the assets of the Company.

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

On May 25, 2010, the Company issued 3,750,000 shares at $8.00 per share for total proceeds of $30,000. These funds were used to fund the acquisition of three private companies for $8,018, repay bank debt and to accelerate the Company's 2010 Viking development program.

On December 9, 2010 WestFire issued 895,000 common shares on a flow-through basis at a price of $8.40 per share for gross proceeds of $7,518.

At December 31, 2010, the Company's bank debt was $8,089 while accounts payable exceeded current assets (excluding the future tax asset and risk management contracts of $17,706) by $12,665, resulting in total net debt of $20,754.

On March 9, 2011, the Company issued 4,420,000 common shares at $9.05 per common share for gross proceeds of $40,001. These funds will be used to expand WestFire's capital program.

WestFire's 2011 capital budget of $90,000 will be funded through cash flow and available credit facilities

Capital expenditures

	Three Months Ended December 31,		Year Ended December 31,	
($ thousands)	**2010**	**2009**	**2010**	**2009**
Land	**229**	684	**2,496**	1,607
Geological and geophysical	**527**	462	**1,339**	1,137
Drilling and completions	**11,029**	5,749	**55,904**	12,939
Equipment and facilities	**5,549**	1,375	**12,220**	2,930
Office equipment	**16**	18	**48**	19
Exploration and development capital	**17,350**	8,288	**72,007**	18,632
Acquisitions	**188**	29,647	**7,524**	38,416
Divestitures	**(5,752)**	-	**(6,579)**	(857)
Total investing activities (before changes in non-cash working capital)	**11,786**	37,935	**72,953**	56,191
Asset acquisition – non-cash	**-**	4,231	**2,276**	6,131
Future tax effect on asset acquisitions		(12,922)		(17,501)
Additions to asset retirement obligations	**(457)**	3,702	**(25)**	4,046
Capitalized stock-based compensation	**554**	52	**1,017**	212
Capital expenditures	**11,883**	32,998	**76,221**	49,079

Capital program for 2010

During Q4 2010, WestFire participated in the drilling of 14 (14.0 net) wells. WestFire operated all of these wells. Of the wells drilled during the fourth quarter of 2010, two (2.0 net) well were horizontally drilled on its west central Saskatchewan Viking lands, 10 (10.0 net) were horizontally drilled on its Lloydminster heavy oil prospect, and two (2.0 net) gas well were drilled in the Bashaw area of Alberta.

Early in the second quarter, WestFire initiated a sales process on a number of non-core oil and natural gas properties. Transactions on a total of five property packages representing 150 boepd of marginal production were closed for total cash proceeds of $6,600. This program is part of the Company's ongoing strategy of high grading and focusing its asset base. The proceeds will be reinvested into core property inventory.

During 2010, WestFire participated in the drilling of 53 (47.7 net) wells. WestFire operated 47 of these wells. Of the wells drilled during the year ended December 31, 2010, 21 (18.1 net) were horizontal oil wells in the Redwater area. One (0.7) vertical well was drilled in the Redwater area. Five (5.0 net) wells were horizontally drilled and two (2.0 net) were vertically dirlled on its west central Saskatchewan Viking lands, 17 (17.0 net) were horizontally drilled on its Lloydminster heavy oil prospect, two (0.7 net) were horizontally drilled in the Willesden Green area of Alberta and five (4.2 net) gas wells were drilled in the Bashaw area of Alberta.

The majority of WestFire's 2010 drilling program was focused on the Viking light oil resource play at Redwater, Alberta and at Plato and Lucky Hills in west central Saskatchewan. Initial production results from the 29 (25.8 net) oil wells drilled have shown steady improvement. WestFire continued to refine its drilling and completion techniques while identifying regions of higher quality reservoir. The Company has implemented its internally-generated hot fluid fracture stimulation ("hot-frac") completion procedure on its most recent Viking horizontal wells with encouraging results. Hot-frac will be the completion technique of choice as WestFire embarks on harvesting its extensive Viking resource. Currently, the average all-in costs for a Viking horizontal well are approximately $1,200.

WestFire drilled 17 (17.0 net) horizontal wells at Lloydminster in 2010. The Company holds four (4.0 net) sections on two large oil-in-place heavy oil pools. The bulk of this drilling targeted the Lloydminster formation. Given strong heavy oil pricing and all-in well costs of approximately $650, development economics are extremely attractive.

On March 3, 2009, the Alberta government introduced a drilling royalty credit for new conventional oil and gas wells up to two hundred dollars per meter drilled. As at December 31, 2010, approximately $4,226 in Alberta drilling credits have been earned and recognized as a reduction to capital spending. Additional credits will be earned and recognized through WestFire's active drilling program in Q1 2011 thru to the end of the program on March 31, 2011.

Based on its successful ongoing drilling program and an extensive internal review of its Viking light oil land base of 220 net undeveloped sections, WestFire has established its 2011 capital budget at $90,000. Spending will be focused on accelerating the development of WestFire's large inventory of Viking light oil projects at Redwater and Provost, Alberta and west central Saskatchewan.

It is anticipated that approximately 80% of the 2011 budget will be allocated to the drilling of 61 gross (60.1 net) wells. The Company is expecting to drill 46 gross (45.1 net) horizontal wells on the Viking light oil resource play with 35 gross (35.0 net) of these wells in Redwater, Alberta. WestFire also anticipates drilling 15 gross (15.0 net) wells in its Lloydminster heavy oil core area.

Economic Environment

The Company's investing activities for the year ended December 31, 2010 consisted of expenditures on its capital program, the three private company acquisition in Provost and the disposition of non-core oil and natural gas properties. Despite the economic down turn and financial market volatility dating back to 2009, WestFire continued to have access to the equity market in 2009, 2010 and into 2011. As noted above, on March 9, 2011 the Company issued 4,862,000 common shares at $9.05 per common share for gross proceeds of $44,001. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity and debt.

Off-balance sheet obligations and financial instruments

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

Summary of Quarterly Results

	2010				2009			
($000, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and gas sales	13,367	9,957	9,290	10,818	6,957	4,271	4,225	4,777
Net income (loss)	(4,436)	(2,304)	(842)	1,227	11,829	(1,812)	(1,267)	(2,114)
Net income (loss) per share – basic and diluted	(0.11)	(0.06)	(0.02)	0.03	0.43	(0.07)	(0.06)	(0.10)
Cash flow from operating activities	6,005	5,852	3,092	6,678	2,585	1,671	2,871	(545)
Cash flow from operating activities per share – basic and diluted	0.15	0.15	0.08	0.19	0.09	0.06	0.13	(0.03)
Funds flow from operations[(1)]	5,820	4,017	4,546	5,268	2,674	681	2,054	1,986
Funds flow from operations per share – basic and diluted	0.15	0.10	0.12	0.15	0.10	0.03	0.09	0.09
Working capital (deficiency)[(2)]	(3,048)	(10,295)	9,685	(3,950)	6,592	(2,562)	3,342	(9,039)
Total assets	233,453	228,504	215,437	194,257	179,927	117,938	113,115	106,354
Total liabilities	42,824	41,605	26,759	23,433	21,604	17,553	11,199	25,258
Weighted average shares – basic (thousands)	39,254	39,036	36,759	35,191	27,734	26,513	21,887	20,435
Weighted average shares – diluted (thousands)	39,489	39,130	37,171	35,499	27,734	26,513	21,887	20,435
Capital expenditures (including non-cash)	11,883	24,206	22,711	17,421	32,998	6,750	6,722	2,609

[(1)]The reader is referred to the section - "Non-GAAP Measurements".
[(2)] Working capital is calculated as current assets less current liabilities.

International Financial Reporting Standards

On January 1, 2011 International Financial Reporting Standards ("IFRS") will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by WestFire for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The project is being managed in-house by an accounting professional who has engaged in IFRS educational programs and continues to develop the Company's adoption of IFRS. The Company's auditors have been and will continue to be involved throughout the process to ensure the Company's policies are in accordance with these new standards.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets under full cost. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. WestFire will use this exemption. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Company which other than the full cost accounting exemption noted above are:

Business Combinations – IFRS 1 allows WestFire to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows WestFire an exemption on IFRS 2, "Share-Based Payments" to equity instruments which vested before WestFire's transition date to IFRS.

WestFire will use these exemptions

The transition from Canadian GAAP to IFRS is significant and may materially affect our reported financial position and results of operations. At this time, WestFire has identified key differences that will impact the financial statements and the current status of those items is summarized as follows:

- Exploration and Evaluation ("E&E") expenditures – On transition to IFRS, WestFire will re-classify all E&E expenditures that are currently included in the property, plant and equipment balance on the consolidated balance sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment. WestFire has determined that it has no E&E assets.

• Property, plant and equipment ("PP&E") – This includes oil and gas assets in the development and production phases. The Company has considered the amount recognized under current Canadian GAAP as at January 1, 2010 using allocations based on both reserve volumes and reserve values to the assets at a cash generating unit ("CGU"). WestFire will use reserve values to allocate its oil and gas assets in the development and production phases as at January 1, 2010.
• Depletion expense – On transition to IFRS WestFire has the option to base the depletion calculation using either proved reserves or proved and probable reserves. WestFire will use proved and probable reserves as the basis for the depletion calculation under IFRS.
• Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed at the CGU level as opposed to much larger cost centres which is required under Canadian GAAP through the full cost ceiling test. Impairment calculations are required to be performed using accounting fair values of the PP&E assets and WestFire anticipates using discounted proved plus probable reserve values for impairment tests of PP&E. WestFire does not anticipate its PP&E assets to be impaired as at January 1, 2010 under IFRS.
• Share-based payments – The Company has determined the major differences from Canadian GAAP that would impact the Company such as treating graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. The Company has performing the revised share-based payment expense calculations under IFRS, and on transition, contributed surplus will increase approximately by $792 with an offsetting charge to the opening retained earnings.
• Provisions – The major difference between the Canadian GAAP and IFRS is the discount rate used to measure asset retirement obligations ("ARO"). Under Canadian GAAP a credit adjusted risk free rate is used, where IFRS allows the use of a risk free rate when the expected cash flows are risked. There was debate within the industry on the discount rate and whether there should be a risk adjustment. Based on recent comments made by the standard setters and positions within the industry, WestFire believes a risk free rate is appropriate. As a result WestFire has measured its ARO liability on transition using a risk free rate of four percent resulting in an increase of $2,862 with an offsetting charge to the opening retained earnings.
• Flow-through shares – IFRS has no standard for the accounting treatment of flow-through shares and the associated tax renouncement. The current industry recommendation is to use US GAAP methodology. The change in methodology at transition to IFRS will result in an increase in share capital of $1,181 with an offsetting decrease to retained earnings.

In additions to the accounting policy differences, WestFire's transition to IFRS will impact the internal controls over financial reporting, the disclosure and procedures and information technology ("IT") systems as follows:

• Internal controls over financial reporting – Based on the Company's accounting policies under IFRS, WestFire has assessed whether additional controls or changes in procedures are required. WestFire does not consider these changes to be significant.
• Disclosure controls and procedures – Throughout the transition process, WestFire will be assessing stakeholder's information requirements and will ensure that adequate and timely information is provided while ensuring the Company maintains its due process regarding information that is disclosed.
• IT Systems – WestFire has assessed the readiness of its accounting software and continues to assess other system requirements that may be needed in order to perform ongoing calculations and analysis under IFRS. These changes are not considered to be significant.

Management is continuing to finalize its accounting policies and choices and as such is unable to quantify the full impact on the financial statements of adopting IFRS. However, WestFire has disclosed certain expectations above based on information known to date. Due to anticipated changes to IFRS and International Accounting Standards prior to WestFire's adoption of IFRS, certain items may be subject to change based on new facts and circumstances that arise after the date of this MD&A.

Disclosure Controls and Procedures

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

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

There have been no significant changes to the Company's ICOFR during the quarter ended December 31, 2010, which have materially affected, or are reasonably likely to materially affect, the Company's ICOFR.

Additional Information

Additional information regarding the Company and its business and operations, including the annual information form ("AIF") is available on the Company's profile at www.sedar.com. Copies of the AIF can also be obtained by contacting the Company at WestFire Energy Ltd. 810, 555 – 4th Avenue S.W., Calgary, Alberta, Canada T2P 3E7 or by e-mail at sburtt@westfireenergy.com. This information is also accessible on the Company's web site at www.westfireenergy.com.

Outlook

WestFire continues to execute its business plan of creating value-added growth by acquiring, exploiting and developing high quality, long life oil and natural gas properties in Western Canada. During 2010, the Company continued to pursue its acquisition strategy by completing the purchase of three private companies in the Provost area of Alberta. This acquisition represented a strategic entry point into a new Viking core area that complemented WestFire's existing light oil resource asset base. As a result, the Company now has approximately 220 net sections of land in the Viking play with more than 785 potential Viking development drilling locations which include the 148 high quality locations recognized by GLJ at year-end of 2010.

Including other properties, WestFire has a drilling inventory of more than 875 net locations which represents the potential for a substantial increase in reserves and production. The depth of this drilling inventory positions the Company well for future growth.

WestFire's approved 2011 capital budget has been set at $90MM. Execution of this budget is anticipated to provide 2011 average daily production of 4,000 boepd, which represents year over year production growth of more than 55 percent. Approximately 80 percent of the budget is allocated to the drilling of 61 (60.1 net) wells, of which 46 (45.1 net) wells will be on the Viking light oil resource play. The remainder will be directed to the development of heavy oil at Lloydminster, Alberta.

Legal advisories

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

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

Non-GAAP Measurements

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

	Three Months Ended December 31		*Year Ended December 31,*	
($ thousands)	**2010**	2009	**2010**	2009
Cash provided by operating activities	**6,005**	2,585	**21,725**	6,510
Change in non-cash working capital	**(185)**	89	**(1,978)**	885
Funds flow from operations	**5,820**	2,674	**19,747**	7,395

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

Forward-Looking Statements

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

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

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

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

Management's Report

To the Shareholders of WestFire Energy Ltd.:

Management is responsible for the preparation of the 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 financial statements. The Audit Committee has reviewed the 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 financial statements.

(signed)	(signed)
Lowell E. Jackson	D. Stephen Burtt
President and CEO	Vice President, Finance and CFO

Calgary, Alberta, Canada
March 23, 2011

Independent Auditor's Report

To the Shareholders of WestFire Energy Ltd.:

We have audited the accompanying consolidated financial statements of WestFire Energy Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of income, comprehensive income, retained earnings and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of WestFire Energy Ltd. as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
March 23, 2011

Financial Statements

Consolidated Balance Sheets

($ thousands)

	As at December 31,	
	2010	2009
Assets		
Current assets		
Cash and cash equivalents	**$ -**	$ 274
Accounts receivable (note 11)	**8,188**	6,455
Risk management contracts (note 11)	**184**	-
Future tax asset (note 7)	**17,522**	9,971
Prepaid expenses and deposits	**480**	477
	26,374	17,177
Property, plant and equipment (note 4)	**162,509**	109,955
Future tax asset (note 7)	**43,081**	52,795
Goodwill (note 3b)	**1,489**	-
	$ 233,453	$ 179,927
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 21,333**	$ 10,410
Bank debt (note 5)	**8,089**	-
Risk management contracts (note 11)	**-**	175
	29,422	10,585
Risk management contracts (note 11)	**465**	-
Asset retirement obligations (note 6)	**12,937**	11,018
	42,824	21,603
Shareholders' Equity		
Share capital (note 8)	**182,472**	146,361
Contributed surplus (note 8c)	**4,234**	1,685
Retained earnings	**3,923**	10,278
	190,629	158,324
	$ 233,453	$ 179,927

Commitments (note 10)

See accompanying notes to financial statements.

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

($ thousands)

	Year Ended December 31,	
	2010	2009
Revenue		
Petroleum and natural gas	**$ 43,432**	$ 20,229
Interest and other revenue	**82**	2
Crown and other royalties	**(4,736)**	(2,252)
	38,778	17,979
Realized gain on financial instruments (note 11)	**2,256**	2,665
Unrealized loss on financial instruments (note 11)	**(106)**	(2,434)
	40,928	18,210
Expenses		
Operating	**16,277**	9,849
Transportation	**1,017**	630
Interest	**540**	415
General and administrative	**2,931**	2,076
Stock-based compensation (note 8f)	**2,020**	907
Depletion, depreciation and accretion	**24,325**	12,916
	47,110	26,793
Loss before taxes	**(6,182)**	(8,583)
Taxes		
Capital and current income taxes (note 7)	**251**	369
Future income tax recovery (note 7)	**(78)**	(15,588)
	173	(15,219)
Net income (loss) and comprehensive income (loss)	**(6,355)**	6,636
Retained earnings, beginning of year	**10,278**	3,642
Retained earnings, end of year	**$ 3,923**	$ 10,278
Net income (loss) per share (note 8f)		
Basic and diluted	**$ (0.17)**	$ 0.27

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

($ thousands)

	Year Ended December 31,	
	2010	**2009**
Operating activities		
Net income (loss) for the year	**$ (6,355)**	$ 6,636
Depletion, depreciation and accretion	**24,325**	12,916
Unrealized loss on financial instruments	**106**	2,434
Future income tax recovery	**(78)**	(15,588)
Stock-based compensation	**2,020**	907
Asset retirement expenditures	**(369)**	-
Employee stock purchase plan	**98**	90
	19,747	7,395
Change in non-cash working capital	**1,978**	(885)
	21,725	6,510
Financing activities		
Increase (decrease) in bank debt	**8,089**	(9,321)
Proceeds of share issue net of issue costs	**35,654**	61,579
	43,743	52,258
Investing activities		
Petroleum and natural gas properties	**(72,007)**	(56,191)
Proceeds from the sale of assets	**6,579**	857
Other corporate acquisitions	**(7,524)**	-
Change in non-cash working capital	**7,210**	(3,160)
	(65,742)	(58,494)
Net increase (decrease) in cash during the year	**(274)**	274
Cash and cash equivalents, beginning of year	**274**	-
Cash and cash equivalents, end of year	**$ -**	$ 274

See accompanying notes to financial statements.

1. Basis of presentation:

WestFire Energy Ltd. (“the Company” or “WestFire”) is a public company engaged in the business of exploration for 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 (“GAAP”) following the accounting policies and methods of computation as described in Note 2.

The consolidated financial statements at December 31, 2009 and 2010 include the accounts of the Company and its subsidiary Exceed Energy Inc. (“Exceed”), which was acquired on December 18, 2009. Exceed and the Company amalgamated on December 24, 2010. The three unrelated corporations acquired in 2010 (Note 3b) were all dissolved in 2010.

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 the cost centre 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 dictate. 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.

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 using a risk free disount rate. 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.

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

(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) Goodwill

Goodwill is recognized on corporate acquisitions when the total purchase price exceeds the fair value of the net identifiable assets of the acquired company. Goodwill is tested for impairment on an annual basis in the fourth quarter. If indications of impairment are present, a loss would be charged to earnings for the amount that the carrying value of goodwill exceeds its fair value.

(f) 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.

(g) 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 paperwork to renounce the expenditures is filed.

(h) Revenue recognition

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

(i) 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.

2. Significant Accounting Policies (continued)

(j) 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 amount of compensation expense accrued for future performance-based compensation arrangements are subject to management's best estimate of whether or not the performance criteria will be met and what the ultimate payout will be.

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.

(k) Stock-based compensation plans

The Company has a stock-based compensation plan enabling officers, directors, and employees to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 8). Under this method, stock-based compensation is recorded as an expense or capitalized over the vesting period of the option, with a corresponding increase in contributed surplus. Stock-based compensation 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.

The Company has a cash-settled performance plan based on the Company's share price. Under the plan officers, directors and employee were granted a right to receive performance payments if the Company's share price reaches specified levels. The cash settlement of the performance plan is service based with a one third vesting if the Company's share price meets or exceed the specified share price, an additional third is paid in one year from that vesting date and the final third in two years from that vesting date. The fair value of the liability for the performance plan is measured each reporting date using a binomial lattice model and recognized as compensation expense over the vesting period.

(l) 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 Company 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.

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

(l) Financial instruments (continued)

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 apply hedge accounting. Therefore, gains and losses on these instruments are recorded as unrealized gains and losses on derivatives in the consolidated statement of income, comprehensive income and accumulated retained earnings 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.

(m) Changes in accounting policies

On January 1, 2010, the Company adopted the following amendments made to the Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

(i) Section 1582 "Business Combinations." Under this section, 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. Previously, the purchase price used was 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 section generally requires all transaction costs to be expensed, which previously were capitalized as part of the purchase price. Contingent liabilities are recognized at fair value at the acquisition date and re-measured at fair value through earnings of each reporting period until settled. Previously 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 previous requirement to eliminate it by deducting it from non-current assets in the purchase price allocation.

(ii) Section 1601, "Consolidated Financial Statements" which together with Section 1602 below replaced the former recommendation under section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements.

(iii) Section 1602, "Non-Controlling Interests", Section 1602 provides recommendation on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

3. **Corporate acquisitions**

(a) Other Corporate Acquisitions

On April 30, 2010, the Company acquired all of the issued and outstanding shares of three unrelated private companies for cash totaling $8,018. These unrelated companies were grouped for disclosure purposes as they were all acquired on the same date and owned similar assets. These acquisitions were accounted for using the purchase method as prescribed by CICA Section 1582 "Business Combinations", which was adopted prospectively by WestFire on January 1, 2010.

The assets and liabilities were recorded at their fair value as follows:

Net assets acquired:	
Cash	$ 389
Accounts receivable and prepaid expenses	185
Property, plant and equipment	9,776
Goodwill	1,489
Accounts payable	(56)
Future tax liability	(2,111)
Asset retirement obligations	(1,654)
Total purchase price	$ 8,018

Consideration given:	
Cash	$ 8,018

3. Corporate acquisitions (continued)

(b) Acquisition of Exceed Energy Inc.

The Company acquired all of the issued and outstanding shares of Exceed Energy Inc. ("EEI") pursuant to a share exchange on December 18, 2009 whereby the Company issued 645,229 common shares valued at $5.00 per common share, in exchange for all of the issued and outstanding shares of EEI. 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	$ 356
Property, plant and equipment	4,585
Future tax asset	1,661
Accounts payable	(1,192)
Bank overdraft	(1,830)
Asset retirement obligations	(354)
Total purchase price	$ 3,226

Consideration given:	
Common shares (645,229 shares at $5.00 per share)	$ 3,226

As a condition of the acquisition of EEI, 25% of the 645,229 shares issued representing approximately 161,306 shares were placed in escrow pending the resolution of an audit by the Canada Revenue Agency as to the renounced flow-through expenditures for flow-through shares issued by EEI. As the audit did not result in any adjustments, these shares were released from escrow in June 2010.

This acquisition is accounted for by the purchase method, as prescribed by CICA Section 1581. CICA Section 1581 was replaced by CICA Section 1582 "Business Combinations" and adopted by WestFire on January 1, 2010 prospectively. There is no requirement to restate for the new standard; therefore this acquisition is not comparable to any acquisitions made in 2010.

4. Property, plant and equipment

			December 31, 2010
	Cost	**Accumulated depletion and depreciation**	**Net book Value**
Petroleum and natural gas properties	**$ 206,699**	**$ 44,315**	**$ 162,384**
Office equipment	**225**	**100**	**125**
	$ 206,924	**$ 44,415**	**$ 162,509**

			December 31, 2009
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	$ 130,526	$ 20,683	$ 109,843
Office equipment	176	64	112
	$ 130,702	$ 20,747	$ 109,955

During the year ended December 31, 2010, the Company capitalized general and administrative expenses in the amount of $645 (December 31, 2009 - $781) related to acquisition, exploration and development activities. The Company also capitalized stock-based compensation of employees directly involved in exploration and development activities in the amount of $1,283 (December 31, 2009 - $212).

4. Property, plant and equipment (continued)

As at December 31, 2010, unproved oil and gas properties amounting to $11,273 (2009 -$10,453) were excluded from the depletion and depreciation calculation. Future development costs on proved undeveloped reserves of $91,085 (2009 - $28,314) are included in the depletion calculation for the 2010 period. During 2010, WestFire spent $8,018 in cash to acquire $9,776 in assets through three acquisitions (2009 - $43,690).

The Company performed a ceiling test calculation as at December 31, 2010 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, 2010.

Year	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par 40 API ($Cdn/bbl)	Alberta AECO-C ($Cdn/MMBtu)	Natural Gas Liquids (Butanes) ($Cdn/bbl)
2011	88.00	86.22	4.16	67.26
2012	89.00	89.29	4.74	68.75
2013	90.00	90.92	5.31	70.01
2014	92.00	92.96	5.77	71.58
2015	95.17	96.19	6.22	74.07
2016	97.55	98.62	6.53	75.94
2017	100.26	101.39	6.76	78.07
2018	102.74	103.92	6.90	80.02
2019	105.45	106.68	7.06	82.15
2020	107.56	108.84	7.21	83.80

The annual escalation rate used after 2020 is 2.0%.

5. Bank debt

At December 31, 2010, the Company had a revolving credit facility in the amount of $42,000 (2009 - $20,000) with a Canadian financial institution. The interest rate charged on the bank facility ranges from the bank's prime plus 1.0% to prime plus 2.0% and is dependent on the ratio of the Company's net debt to trailing cash flow. The authorized limit of the facility will be reviewed by May 31, 2011. This facility is secured by the assets of the Company.

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, 2010 was $22,267 (December 31, 2009 - $18,794) which will be incurred between 2011 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:

	2010	2009
Balance, beginning of year	**$ 11,018**	$ 6,609
Liabilities incurred	**876**	234
Liabilities acquired	**1,654**	4,860
Accretion	**658**	364
Dispositions	**(964)**	(72)
Abandonment costs incurred	**(369)**	-
Revision to estimates	**64**	(977)
Balance, end of year	**$ 12,937**	$ 11,018

7. 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:

	2010	2009
Loss before income taxes	**$ (6,182)**	$ (8,583)
Combined federal and provincial rate	**29.0%**	29.5%
Computed "expected" income tax expense (recovery)	**$ (1,793)**	$ (2,532)
Increase (decrease) resulting from:		
Saskatchewan capital tax	**245**	368
Capital taxes deducted from income tax	**(71)**	(110)
Stock-based compensation	**586**	272
Tax rate reduction	**1,200**	131
Other	**47**	30
Investment tax credits	**(41)**	(2,019)
Change in valuation allowance	**-**	(11,359)
Income tax expense (recovery)	**$ 173**	$ (15,219)

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

December 31	2010	2009
Future income tax assets:		
Scientific research and experimental development	**$ 19,056**	$ 20,410
Temporary differences related to capital assets	**19,818**	19,550
Investment tax credits	**15,434**	15,468
Non-capital losses	**1,313**	2,815
Asset retirement obligations	**3,402**	2,975
Share issuance expenses	**1,496**	1,472
Risk management contracts	**82**	51
Attributed Canadian royalty income	**2**	25
	60,603	62,766
Less: current portion	**(17,522)**	(9,971)
Future tax asset – non current	**$ 43,081**	$ 52,795

Non-capital loss carry forward balances expire as follows: December 31, 2011 - $90, December 31, 2012 - $208, December 31, 2013 - $101, December 31, 2015 - $259, December 31, 2024 and later - $4,334.

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

8. 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, 2008	20,435,382	$ 79,096
Issued for cash (i)	5,267,480	18,436
Issued for cash (ii)	362,809	1,542
Issued for oil and gas properties (iii)	447,059	1,900
Issued for cash (iv)	8,000,000	45,040
Issued for shares of Exceed Energy Inc. (v)	645,229	3,226
Tax effect of flow-through shares	-	(373)
Share issue expenses (net of $932 of taxes)	-	(2,506)
Balance, December 31, 2009	35,157,959	$ 146,361
Issued pursuant to the 2009 Employee Stock Purchase Plan(vi)	52,357	198
Issued on option exercise	79,999	380
Issued for cash(vii)	3,750,000	30,000
Tax effect of flow-through shares	-	(415)
Transfer from contributed surplus on exercise of stock options	-	142
Issued for cash (viii)	895,000	7,518
Share issue expenses (net of $632 of taxes)	-	(1,712)
Balance, December 31, 2010	39,935,315	$ 182,472

(i) During the second quarter of 2009, the Company completed private placements issuing 5,267,480 common shares at an issue price of $3.50 per common share raising gross proceeds of $18,436 before issue costs.

(ii) During the second quarter of 2009, the Company completed private placements issuing 362,809 flow-through common shares at an issue price of $4.25 per common share raising gross proceeds of $1,542 before issue costs.

(iii) On June 18, 2009, the Company acquired oil and natural gas assets for $9,846 paying cash of $7,946 and issuing 447,059 common shares valued at $4.25 per share.

(iv) On December 18, 2009, the Company completed a private placement issuing 8,000,000 common shares at an issue price of $5.63 per common share raising gross proceeds of $45,040 before issue costs.

(v) On December 18, 2009, the Company closed the purchase of all of the issued and outstanding shares of Exceed Energy Inc. for $3,226. WestFire issued 645,229 common shares valued at $5.00 per share.

(vi) On February 15, 2010, the Company issued 52,357 common shares at a value of $198 pursuant to the 2009 Employee Stock Option Savings Plan.

(vii) On May 25, 2010 the Company issued 3,750,000 common shares at an issue price of $8.00 per share for gross proceeds of $30,000.

(viii) On December 2, 2010 the Company completed a private placement of 895,000 flow-through shares at an issue price of $8.40 for gross proceeds of $7,518 before issue costs.

(c) Contributed surplus

Balance, December 31, 2008	$ 566
Stock-based compensation	1,119
Balance, December 31, 2009	$ 1,685
Stock-based compensation	2,691
Reclass to share capital upon stock option exercise	(142)
Balance, December 31, 2010	$ 4,234

8. Share capital (continued)

(d) 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.

	Number Of Options	Weighted Average Exercise Prices
Balance, December 31, 2008	1,852,300	$ 5.16
Granted	60,000	$ 3.63
Balance, December 31, 2009	1,912,300	$ 5.12
Granted	1,519,000	$ 7.62
Forfeited	(232,334)	$ 6.68
Exercised	(79,999)	$ 4.73
Balance, December 31, 2010	3,118,967	$ 6.22

	Outstanding options			Exercisable options	
Exercise price ($/share)	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price ($/share)	Number of options exercisable	Weighted average exercise price ($/share)
$3.50	15,000	3.8	$3.50	5,000	$3.50
$3.75	449,400	2.2	$3.75	282,932	$3.75
$5.00	495,400	2.3	$5.00	326,918	$5.00
$5.13	51,500	4.7	$5.13	-	-
$5.29	175,000	4.8	$5.29	-	-
$5.62	12,000	4.8	$5.62	-	-
$6.00	739,167	2.9	$6.00	488,321	$6.00
$6.29	8,500	4.9	$6.29	-	-
$8.03	1,173,000	4.2	$8.03	-	-
	3,118,967	3.4	$6.22	1,103,171	$5.11

(e) Net income (loss) per share

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

	2010	2009
Weighted average common shares		
Basic	**37,575,082**	24,168,695
Diluted	**37,813,945**	24,168,695

8. Share capital (continued)

(f) Stock-based compensation

Compensation costs attributable to share options granted to employees or directors are measured at fair value at the grant date and expensed or capitalized over the expected vesting time frame with a corresponding increase to contributed surplus. During 2010 the Company incurred $3,303 (2009 - $1,119) of stock-based compensation of which $1,283 (2009 - $212) was capitalized. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions used for the options granted in 2010: dividend yield – nil, expected volatility averaged 73.5%, risk-free interest rate averaged 2.1%, and weighted average life of 5.0 years. The assumptions used for the options granted in 2009 were: dividend yield – nil, expected volatility 50%, risk-free interest rate 4.00%, and weighted average life of 5.0 years. The weighted average fair value of stock options granted during 2010 was $4.96 (2009 - $1.75) per option. Forfeitures are recognized as they occur, with 232,334 options forfeited during the 2010.

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

9. Related party transactions

A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the year ended December 31, 2010, included in general and administrative expenses, share issue expenses, and transaction costs are amounts totaling $118 (2009 - $100), $266 (2009 - $525), and $0 (2009 - $74) respectively, charged to the Company by BDP. At December 31, 2010, $158 (December 31, 2009 - $561) was included in accounts payable. These transactions were recorded at fair market value.

10. Commitments

(a) The Company has a commitment to lease office space for $26,862 per month from December 1, 2010 to November 30, 2013. In addition, as part of a corporate acquisition, the Company assumed a commitment for an office lease at $11,520 per month until December 31, 2012. The Company has sublet this space for the balance of the lease. Future lease payments are:

Year ending December 31 ($)	Gross lease payments	Sublease recovery	Net lease payments
2011	461	(80)	381
2012	461	(80)	381
2013	295	-	295

(b) At December 31, 2010, the Company had committed to vehicle leases for the purposes of field operations. Future minimum lease payments relating to the vehicle leases are:

Year ending December 31 ($)	
2011	63
2012	20

(c) During the second quarter of 2010, WestFire committed to drill a minimum of two horizontal wells in West Central Saskatchewan. The commitment is pursuant to a lease option agreement with an industry partner. The Company expects to satisfy this drilling commitment at an estimated cost of $2,800. There will be a penalty of $750 per horizontal well if not drilled by October 2011.

(d) Flow-through shares

(i) During the second quarter of 2009, the Company issued flow-through common shares and had until December 31, 2010 to expend $1,542 on qualifying flow-through expenditures and to renounce those expenditures to the investors. The Company incurred all of these expenditures during 2010 and renounced the related tax benefits in February of 2010.

10. Commitments (continued)

(ii) During the fourth quarter of 2010, the Company issued flow-through common shares and has until December 31, 2011 to expend $7,518 on qualifying flow-through expenditures and to renounce those expenditures to the investors. The Company renounced the related tax benefits in February of 2011.

11. 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.

(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:

	2010	2009
Petroleum and natural gas marketers	**$ 5,440**	$ 2,722
Joint venture partners	**981**	3,019
Other trade receivables	**1,767**	714
Balance, end of year	**$ 8,188**	$ 6,455

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 markets its production to customers with investment grade credit ratings, if available in the area of production, or seeks parental guarantees and letters of credit. At December 31, 2010, WestFire had receivables from seven different marketing companies. One of these marketing companies owed WestFire $1,754 or 33% of the total. During 2010, this marketing company marketed oil and gas volumes representing approximately 48% of total oil and gas revenues. Another marketing company owed WestFire $1,474 or 28% of the total at December 31, 2010. This marketing company marketed oil and gas volumes representing approximately 16% of total oil and gas revenues. A third marketing company owed WestFire $1,120 or 21% of the total at December 31, 2010. This marketing company marketed oil and gas volumes representing approximately 15% of total oil and gas revenues.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure being incurred. However, the receivables are from participants in the 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. As the operator of properties, WestFire has the ability to not allocate production to joint venture partners who are in default of amounts owing.

The carrying amount of accounts receivable represents the maximum credit exposure. The Company's receivables were aged as follows:

December 31	**2010**	2009
Not past due (less than 120 days)	**$ 8,124**	$ 6,441
Past due (120 days to one year)	**64**	14
	$ 8,188	$ 6,455

11. Financial instruments (continued)

(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.

WestFire's financial liabilities on the balance sheet consist of accounts payable, risk management contracts and bank debt. The Company expects to satisfy obligations under accounts payable in less than one year. WestFire has a revolving reserve based credit facility as outlined in note 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 2011.

(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 rates. 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, 2010 and 2009.

(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. The use of these risk management contracts is governed by a formal policy and is subject to maximum limits established by the Board of Directors. The Company has entered into several financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital. For the year ended December 31, 2010, the Company's risk management program had a net realized gain of $2,256 (2009 - $2,665).

11. **Financial instruments (continued)**

(f) Commodity price risk (continued)

The Company had outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel or GJ (Cdn $)	Commencement date	Termination date
Oil				
Swap (WTI)	200 barrels per day	$85.40	January 2011	June 2011
Swap (WTI)	100 barrels per day	$89.00	January 2011	June 2011
Costless Collar (WTI)	200 barrels per day	Floor $75.00 Ceiling $95.00	January 2011	June 2011
Costless Collar (WTI)	100 barrels per day	Floor $80.00 Ceiling $96.80	January 2011	June 2011
Swap (WTI)	150 barrels per day	$84.50	July 2011	September 2011
Swap (WTI)	150 barrels per day	$86.40	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $92.20	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $95.10	July 2011	September 2011
Swap (WTI)	100 barrels per day	$88.65	January 2011	December 2011
Costless Collar (WTI)(1)	100 barrels per day	Floor $85.00 Ceiling $102.00	February 2011	December 2011
Swap (WTI)	300 barrels per day	$88.20	October 2011	December 2011
Costless Collar (WTI)	300 barrels per day	Floor $80.00 Ceiling $95.25	October 2011	December 2011
Swap (WTI)	350 barrels per day	$90.70	January 2012	March 2012
Costless Collar (WTI)	350 barrels per day	Floor $80.00 Ceiling $99.00	January 2012	March 2012
Swap (WTI)	350 barrels per day	$91.10	April 2012	June 2012
Swap (WTI)	350 barrels per day	Floor $80.00 Ceiling $100.45	April 2012	June 2012
Natural Gas				
Swap (AECO)	2,000 GJ’s per day	$5.83	November 2010	March 2011
Swap (AECO)	500 GJ’s per day	$5.76	November 2010	October 2011
Swap (AECO)	2,000 GJ’s per day	$5.48	April 2011	October 2011

(1) Entered into subsequent to December 31, 2010

At December 31, 2010, a current asset of $184 and a long term liability of $465 (for a net total liability of $281) (2009 – current liability of $175) were recorded on the Company’s balance sheet resulting in an unrealized derivative loss of $106 for the year ended December 31, 2010 (2009 – loss of $2,434).

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the year ended December 31, 2010 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL ($/bbl)	$1.00	$ 399
Natural gas ($/Mcf)	$0.10	$ 251

(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. An increase or decrease of one percent to the effective interest rate for the Company, given average bank debt for the year of approximately $4.4 million (2009 - $5.2 million), would have impacted 2010 net earnings by $44 (2009 - $52).

(h) Fair value

The fair value of cash, 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 prices 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.

11. Financial instruments (continued)

(h) Fair value (continued)

All of WestFire's cash and cash equivalents and risk management contracts, are transacted in active markets. WestFire classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

WestFire's cash and cash equivalents, and risk management contracts, have been assessed as Level 2 on the fair value hierarchy described above. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The carrying and fair values of the Company's financial instruments are as follows:

December 31	**2010**		2009	
Financial assets	Carrying value	Fair value	Carrying value	Fair value
Held for trading				
Cash and cash equivalents	$ -	$ -	$ 274	$ 274
Loans and receivables				
Accounts receivable	$ 8,188	$ 8,188	$ 6,456	$ 6,456
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	$ 21,333	$ 21,333	$ 10,411	$ 10,411
Risk management liabilities	$ 281	$ 281	$ 175	$ 175

12. 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.

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.

13. Supplemental cash flow information

Changes in non-cash working capital	2010	2009
Accounts receivable	**$ (1,733)**	$ 3,435
Prepaid expenses and deposits	**(3)**	(610)
Accounts payable and accrued liabilities	**(10,923)**	714
Changes in non-cash working capital	**9,187**	(4,045)
Relating to:		
Investing activities	**7,210**	(3,160)
Operating activities	**$ 1,978**	$ (885)

Interest and taxes paid		
Interest paid	**$ 540**	$ 415
Taxes paid	**$ 251**	$ 369

14. Subsequent event

On March 9, 2011 the Company issued 4,862,000 common shares at an issue price of $9.05 per share for gross proceeds of $44,001.

Corporate Information

Directors
Ed Chwyl [(2) (3)]
Victoria, B.C.

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

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

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

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

Michael McGovern [(1) (2) (3)]
Houston, Texas

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

Auditors
PricewaterhouseCoopers LLP

Evaluation Engineers
GLJ Petroleum Consultants

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 Burtt, CA
Vice President, Finance and CFO

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

Christopher J. Bennett, LLB
Vice President, Land

A. Caroline Banks, CA
Controller

Alan T. Pettie, LL.B
Corporate Secretary

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