



2009 Q1 Report

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Message to Our Shareholders

The first quarter of 2009 saw the continued deterioration of both oil and natural gas prices. In addition, the impact of the global financial crisis, which took hold in the last half of 2008, has contributed to a severe reduction in industry activity.

In the current environment, WestFire has been diligent in maintaining the Company’s strong financial position to ensure it could ride out this downturn in the industry. Capital expenditures were cut in both the fourth quarter of 2008 and the first quarter of 2009 and a disciplined commodity hedging strategy has been implemented on WestFire’s quality asset base in order to maintain strong financial flexibility during this challenging period of the business cycle. The Company’s achievements during the first quarter of 2009 include the following:

- Increased production to 1,528 barrels of oil equivalent per day (Boepd) from 184 Boepd in the first quarter of 2008 representing a 731% year over year increase and the fifth consecutive quarter over quarter of production growth;
- Daily production per share increased year over year by 135%;
- Cash flow increased to \$1,985,680 in the first quarter of 2009 from \$513,886 in the first quarter of 2008, a 287% year over year increase;
- Completed a four township farm-in deal in the Bashaw area. This transaction provides access to 45,440 (40,960 net) undeveloped acres contiguous to WestFire’s existing land base; and
- Arranged a revolving credit facility in the amount of \$20 million. The authorized limit will be next reviewed on May 31, 2010.

Operational Review

WestFire achieved its fifth consecutive quarter of production growth in the first quarter of 2009, where the Company averaged 1,528 Boepd. The Company participated in the drilling of one (1.0 net) well at Bashaw which resulted in a dry hole. The majority of field activities during the quarter were directed towards maintenance activities in order to optimize throughput from each area.

Outlook

WestFire continues to closely monitor capital spending due to reduced commodity prices and economic uncertainty. The capital program was curtailed in first quarter in anticipation of lower industry costs by the second half of 2009. The focus of field activities will be on WestFire’s large land base on the emerging light oil resource play in the Viking formation. The Company’s Viking oil prone land base in West Central Saskatchewan and Redwater, Alberta now totals 65,920 (63,360 net) undeveloped acres. The application of multi-stage sand fracture technology to horizontal wells was advanced in the Bakken formation in South East Saskatchewan, and has had encouraging results in the Viking formation recently. During 2009, WestFire plans to drill up to 8 wells on this play. We look forward to reporting on the results of this program.

Subsequent to March 31, 2009, the Company has reached its target of raising \$15 to \$20 million of equity. WestFire will use a portion of these proceeds to acquire complementary assets in the Redwater area of Alberta. The remaining proceeds will be used to reduce debt.

On behalf of the Board of Directors,

(signed)

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

Management's Discussion and Analysis

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

This Management's Discussion & Analysis ("MD&A") is a review of how WestFire performed during the period covered by the financial statements, and of WestFire's financial condition and future prospects. The MD&A complements and supplements the financial statements of WestFire, and should be read in conjunction with the audited financial statements for the year ended December 31, 2008 and the interim financial statements for the three months ended March 31, 2009, together with the notes related thereto. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Readers should read the Legal Advisories section at the end of this MD&A. WestFire's Board of Directors has reviewed and, on the recommendation of the Audit Committee, has approved the financial statements and MD&A. This MD&A is effective May 27, 2009.

Financial (\$'s except share and production information)	Three Months Ended March 31,	
	2009	2008
Oil and gas revenues	4,776,535	1,195,059
Cash provided by (used in) operating activities	(544,673)	304,893
Funds flow from operations ⁽¹⁾	1,985,680	513,886
Per share – basic ⁽¹⁾	0.09	0.09
Per share – diluted ⁽¹⁾	0.09	0.09
Net income (loss)	(2,113,683)	2,093,349
Per share - basic	(0.10)	0.36
Per share – diluted	(0.10)	0.36
Capital expenditures (including non-cash)	2,609,344	32,805,734
Common shares outstanding – basic	20,435,382	8,603,794
Common shares outstanding – diluted	20,435,382	9,113,594
Weighted average – basic	20,435,382	5,792,572
Weighted average - diluted	20,435,382	5,843,919
Sales Volumes		
Oil and NGL (bbls per day)	572	106
Natural gas (Mcf per day)	5,739	470
Barrels of oil equivalent (boe per day) ⁽²⁾	1,528	184

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

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

Overview

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

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

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

With the recent substantial and rapid fall in commodity prices coupled with uncertain credit markets, WestFire believes that it will have many opportunities to acquire smaller companies with insufficient cash flow and limited access to capital.

Oil and gas production

	Three Months Ended March 31,	
	2009	2008
Sales Volumes		
Oil and NGL (bbls per day)	572	106
Natural gas (Mcf per day)	5,739	470
Barrels of oil equivalent (boe per day)	1,528	184

Volumes have increased during the first quarter of 2009 compared to the same period of 2008 as a result of acquisitions that were completed throughout 2008. Maintenance was carried out to improve the operational performance of fields acquired as part of the Racing Resources acquisition. In addition, the Company completed additional zones in existing wells at Bashaw in order to maintain production at or near plant capacity. Two wells in Bashaw have been drilled and tested but not completed and tied in as the Company continues to monitor the performance of this area.

Petroleum and natural gas revenues

(\$)	Three Months Ended March 31,	
	2009	2008
Oil and NGL revenues	2,087,618	838,678
Per barrel	33.75	86.95
Natural gas	2,688,917	356,381
Per Mcf	5.21	8.33

Revenues have increased on a total dollar basis as a result of the increase in volumes from the acquisitions made in 2008. Oil prices received by WestFire during the first quarter of 2009 declined 61% from the prices received during the same period of 2008. During Q1 2009, WestFire's oil and NGL volumes consisted of 33% (39% - 2008) heavier crude oil which is subject to an additional pricing differential from Edmonton Light Sweet crude oil. The Edmonton Light Sweet price averaged \$49.69 per bbl in the first quarter of 2009, a 49 percent decrease from the \$97.55 per bbl in the first quarter of 2008.

The Company's average natural gas price of \$5.21 per Mcf received in Q1 2009 declined 37% from the average price received during the first quarter of 2008. This compares to an average Alberta Plant Gate reference price of \$5.40 per mcf in the first quarter of 2009 and a 22 percent decrease from the first quarter of 2008 price of \$6.90 per mcf. During the first quarter of 2008, most of WestFire's gas volumes would have received a premium due to its high heat content. During 2009, most of WestFire's natural gas volumes are produced at Bashaw, Alberta where the Company extracts NGL at its 100% owned plant prior to selling the natural gas.

Other income (expense)

(\$)	Three Months Ended March 31,	
	2009	2008
Other income (expense)	(21,230)	44,325

Other income has declined as WestFire has used its cash on hand and operating lines of credit to execute its capital program. In the first quarter of 2009, WestFire realized a loss on the sale of two trucks in the amount of \$22,123.

Crown and other royalties

(\$)	Three Months Ended March 31,	
	2009	2008
Total	907,776	222,346
Per boe	7.06	13.25
% of revenue	20.3%	18.6%

Total royalties have increased as a result of the increased volumes from the acquisitions and drilling. Royalties per boe have decreased to \$7.06 as a result of the significant decline in commodity prices. Royalties as a percentage of sales has increased as a result of the Alberta's new royalty framework ("NRF"). On January 1, 2009 the Alberta government's NRF took effect. Under the NRF, royalty rates on conventional and non-conventional oil and natural gas production in Alberta may increase to a maximum of 50 percent. The sliding scale royalty calculations are based on a broader range of commodity prices and production rates. The Company has experienced an increase in royalty rates assessed on its Alberta volumes during the first quarter. On March 3, 2009, an incentive program designed to encourage the execution of new drilling projects in Alberta was announced in response to the global economic crisis and slowdown in drilling activity throughout the province of Alberta. The incentive program provides for a drilling royalty credit for new conventional oil and natural gas wells that initiate drilling on or after April 1, 2009 and that complete drilling by March 31, 2010. The incentive program also provides a reduced royalty rate on new wells for the first year of production up to an established total production volume. This program is expected to positively impact the Company. Approximately 50 percent of WestFire's proved reserves were in Alberta at year end, with the balance located in Saskatchewan. None of the royalty programs noted above have regulations in force as at the date of this MD&A. It is anticipated these programs will be in force by the end of 2009. As royalties under the NRF are sensitive to both commodity prices and production levels, the estimated NRF Alberta and corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled. As a result of these recent changes to royalties, WestFire expects its royalty rates will increase in 2009 as a result of the NRF, but will likely decrease in the second half of the year as a result of the drilling royalty credit and reduced royalty rate incentives announced during the quarter.

Operating expenses

(\$)	Three Months Ended March 31,	
	2009	2008
Total	2,364,455	259,085
Per boe	17.19	15.44
% of revenue	49.5%	21.7%

Operating costs per boe were higher in January and February of 2009 due to very cold weather in January along with additional expenses to optimize and maintain production in the Brock area acquired from Racing Resources. During March 2009, operating costs were in line with the Company's expectations. Operating costs as a percent of revenues increased largely due to the decline in commodity prices.

Transportation expenses

(\$)	Three Months Ended March 31,	
	2009	2008
Total	131,199	8,762
Per boe	0.95	0.52
% of revenue	2.7%	0.7%

Transportation expenses are incurred for services related to moving production to sales points, including oil hauling, pipeline tolls and third-party or custom processing charges. The large increase from 2008 to 2009 is a result of the increase in volumes resulting from the 2008 acquisitions. During the first quarter of 2009, WestFire trucked its North Plato Saskatchewan sales volumes a greater distance in order to obtain a better sales price. This resulted in higher per boe transportation costs. Transportation costs as a percentage of revenues have increase due to the additional transportation distance and as a result of the lower commodity prices.

Netbacks ⁽¹⁾

\$ per boe	Three Months Ended March 31,	
	2009	2008
Revenue	34.73	71.22
Realized derivative gains	11.85	-
Royalties	(7.06)	(13.25)
Operating expenses	(17.19)	(15.44)
Transportation expenses	(0.95)	(0.52)
Netbacks	21.38	42.01

The dramatic decline in commodity prices was cushioned by gains resulting from the Company's derivative program.

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

General and administration ("G&A") expenses

(\$)	Three Months Ended March 31,	
	2009	2008
Gross G&A expenses	722,959	244,905
Less: capitalized	(204,547)	(52,825)
Net G&A expenses	518,412	192,080
Per boe	3.77	11.44

G&A expenses have decreased on a per boe basis due to the growth in production. At the end of March 2009, WestFire had thirteen office staff. In accordance with its full cost accounting policy, WestFire capitalizes G&A expenses associated with exploration and development activities.

Interest expense

(\$)	Three Months Ended March 31,	
	2009	2008
Interest expense	239,825	43,225

During the fourth quarter of 2008, the Company's capital programs resulted in WestFire drawing its operating line. At March 31, 2009, the Company had bank debt of \$14,957,485 versus \$7,491,273 at December 31, 2008. In February 2009, the Company moved its banking facilities to a different financial institution due to more favorable terms.

Stock based compensation

(\$)	Three Months Ended March 31,	
	2009	2008
Gross stock based compensation	279,453	32,934
Less: capitalized	(53,316)	-
Net stock based compensation	226,137	32,934

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. The maximum number of common shares granted to any one option recipient during a twelve month period shall not exceed 5% of the outstanding common shares of the Company at the time of granting. These options have a term of five years to expiry and have a three year vesting period from the date of grant. The exercise price of each option is set by the Board of Directors on the date of grant. In accordance with its full cost accounting policy, WestFire capitalizes stock based compensation expenses associated with

exploration and development activities. No new options were issued in the first quarter of 2009. As at March 31, 2009, there were 1,852,300 options granted compared with 509,800 options granted as at March 31, 2008.

Recovery of uncollectible accounts

(\$)	Three Months Ended March 31,	
	2009	2008
Provision for (recovery of) uncollectible accounts	(1,759)	(90,181)

During the first quarter of 2008, WestFire settled a dispute with working interest partners in a well drilled by NCEL in 2006. NCEL had previously written off 100% of the amount to be collected and the recovery relates to the settlement.

Depletion, depreciation and accretion (DD&A)

(\$)	Three Months Ended March 31,	
	2009	2008
Depletion and depreciation	3,225,336	293,476
Accretion	85,914	2,341
Total	3,311,250	295,817
Per boe	24.08	17.63

Depletion is calculated based on the percentage of proved reserves produced during the period multiplied by the full cost pool. The increase in rate is predominantly due to the full cost pool base having a higher cost per proven barrel of reserves.

Income taxes

For the first quarter of 2009, the recovery of income tax was \$583,525, as compared to a recovery of \$1,818,033 for the same period in 2008. The recovery in 2008 was due to the renouncement of flow through shares during the period. In the first quarter of 2009, the recovery is due to a loss from operations. Current taxes of \$199,475 in the first quarter of 2009 are almost entirely Saskatchewan capital taxes and the related resource royalty surcharge. In March 2009, the Company found an error in the 2005 Capital Tax Return for one of the acquired companies. The error resulted in an adjustment in additional tax payable of approximately \$127,000 plus \$30,000 of interest expense. Saskatchewan capital taxes and the related resource royalty surcharge for 2009 approximate \$67,000. As at March 31, 2009, WestFire had in excess of \$163 million in tax deductions as well as over \$18 million in tax credits to shelter future taxable income earned.

Net income (loss) and comprehensive income (loss)

Net income (loss) and comprehensive income (loss) for the three months ended March 31, 2009 was a loss of \$2,113,683 compared to net income of \$2,093,349 during the same period in 2008. The net loss in the current quarter is primarily attributable to the fall in commodity prices. Basic and diluted net loss per share for the three months ended March 31, 2009 was \$0.10 per share. This is compared to basic and diluted net income per share of \$0.36 per share for the same period in 2008.

Liquidity and capital resources

During the three months ended March 31, 2009, the Company arranged a new credit facility with another Canadian financial institution. The new bank facility is a revolving credit facility in the amount of \$20,000,000. The interest rate charged on the bank facility ranges from the bank's prime plus 0.875% to prime plus 1.875% and is dependent on the ratio of the Company's net debt to trailing cash flow. The authorized limit of the new facility will be reviewed on May 31, 2010. This facility is secured by the assets of the Company.

Capital expenditures

(\$)	Three Months Ended March 31,	
	2009	2008
Land	721,333	247,276
Acquisitions	-	5,606,000
Geological and geophysical	231,020	60,681
Drilling and completions	1,453,929	891,278
Equipment and facilities	197,972	134,993
Office equipment	1,350	145,684
Cash funded capital expenditures	2,605,604	7,085,912
Non-cash capital expenditures		
K-Town acquisition	-	24,809,854
Other non-cash acquisition	-	90,181
Additions (adjustments) to asset retirement obligations	(49,576)	99,787
Capitalized stock based compensation	53,316	-
Capital expenditure	2,609,344	32,085,734

Capital program for 2009

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

Current Economic Conditions

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

Related party transactions:

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

- During the three months ended March 31, 2008, the Company agreed to pay a fee to a corporation owned by a director that assisted in raising \$1,002,567 through the issue of 270,000 shares. The fee, which was accrued in accounts payable and included in share issue costs, amounted to \$60,750. This fee was paid during 2008. No amounts have been accrued or paid in 2009.
- A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the three months ended March 31, 2009, included in general and administrative expenses and share issue expenses are amounts totaling \$42,000 (2008 - \$89,364) charged to the Company by BDP. At March 31, 2009, \$42,000 (December 31, 2008 - \$361,062) was included in accounts payable.
- Included in accounts receivable at December 31, 2008 was \$20,049 due from the Chief Executive Officer (CEO) of the Company. The amount relates to the settlement of a lawsuit and the purchase of WestFire shares from a former employee of Racing Resources Ltd. For administrative purposes, the Company advanced one cheque to the former employee for both the severance settlement and the share purchase. The account receivable represents the CEO's commitment to purchase a portion of such shares and was fully repaid in January 2009.

Commitments:

- The Company has a commitment for an office lease at \$42,695 per month until November 30, 2010. A portion of the office space has been subleased on a month by month basis for \$6,000 per month. Future lease payments are:

	Lease
Year ending December 31,	payments
Remainder of 2009	\$384,255
2010	\$469,645

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

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
Remainder of 2009	\$98,854	\$(90,063)	\$8,791
2010	\$131,805	\$(120,089)	\$11,716
2011	\$131,805	\$(10,007)	\$121,798
2012	\$131,805	\$ -	\$131,805

- (c) At March 31, 2009, 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,	
Remainder of 2009	\$78,696
2010	\$86,413
2011	\$4,115

- (d) WestFire has committed to drill 5 wells in Alberta and Saskatchewan. All of these projects are to be drilled during 2009. These commitments are pursuant to three farm-in agreements with industry partners. The Company expects to satisfy this drilling commitment at an estimated cost of \$5,700,000.

Off-balance sheet obligations and financial instruments

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

As of March 31, 2009, the Company had outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel (Cdn \$)	Commencement date	Termination date
Swap (WTI)	50 barrels per day	\$89.40	March 2008	August 2009
Costless Collar (WTI)	150 barrels per day	Floor \$100.00 Ceiling \$128.65	September 2008	August 2009

For the three months ended March 31, 2009, an unrealized derivative loss of \$1,321,645 (2008 - \$0) was included in net loss for the period. In addition, at March 31, 2009, \$937,522 (December 31, 2008 - \$2,259,167) was recorded as a current asset on the Company's balance sheet relating to the risk management contracts.

Subsequent to March 31, 2009, the Company entered into the following derivative contracts:

Type	Volume	Price per barrel or GJ (Cdn \$)	Commencement date	Termination date
Swap (Aeco)	1,250 GJ's per day	\$3.83	May 2009	October 2009
Costless Collar (Aeco)	1,250 GJ's per day	Floor \$3.25 Ceiling \$4.25	May 2009	October 2009
Call (Aeco)	1,250 GJ's per day	\$6.45	May 2009	October 2009
Call (Aeco)	625 GJ's per day	\$5.65	May 2009	October 2009
Swap (WTI)	50 barrels per day	\$74.00	September 2009	December 2009
Swap (Aeco)	1,250 GJ's per day	\$5.35	November 2009	October 2010
Swap (Aeco)	1,250 GJ's per day	\$5.95	November 2009	October 2010

Subsequent Events

(a) Private Placement

Subsequent to March 31, 2009, the Company commenced a private placement to raise equity for the purposes of financing a pending acquisition of oil and gas assets and to provide working capital. As at May 27, 2009, the Company raised \$4,095,555 by issuing of 767,862 common shares at \$3.50 per share and 331,303 flow through common shares at \$4.25 per share.

(b) Asset Acquisition

Subsequent to March 31, 2009, the Company agreed to acquire oil and gas assets for \$9,900,000. The Company will pay \$8,000,000 cash and issue 447,059 common shares at \$4.25 per share as consideration for the purchase. The acquisition is subject to final approval of the board of directors.

New accounting policy

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3064, "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. The adoption of this standard has had no impact on WestFire's financial statements.

Recent accounting pronouncements

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

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

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:

	2009	2008
<i>Cash provided by (used In) operating activities</i>	<i>\$(544,673)</i>	<i>\$304,893</i>
<i>Change in non-cash working capital</i>	<i>2,530,353</i>	<i>208,993</i>
<i>Funds flow from operations</i>	<i>\$1,985,680</i>	<i>\$513,886</i>

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

Forward-Looking Statements

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

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

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

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

Financial Statements

Consolidated Balance Sheets

Unaudited

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,005,212	\$ -
Accounts receivable (note 8)	2,416,906	3,148,584
Risk management contracts (note 8)	937,522	2,259,167
Future tax asset	4,746,000	4,388,000
Prepaid expenses and deposits	467,583	474,885
	9,573,223	10,270,636
Property, plant and equipment (note 2)	73,659,907	74,287,846
Future tax asset	23,121,000	23,069,000
	\$ 106,354,130	\$ 107,627,482
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,655,026	\$ 10,223,698
Bank debt (note 3)	14,957,485	7,491,273
	18,612,511	17,714,971
Asset retirement obligations (note 4)	6,645,494	6,609,156
	25,258,005	24,324,127
Shareholders' Equity		
Shareholders' equity:		
Share capital (note 5)	78,723,127	79,096,127
Contributed surplus (note 5c)	845,052	565,599
Retained earnings	1,527,946	3,641,629
	81,096,125	83,303,355
	\$ 106,354,130	\$ 107,627,482
Commitments (note 7)		
Subsequent Events (note 10)		

See accompanying notes to financial statements.

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

Unaudited

	Three Months Ended March 31,	
	2009	2008
Revenue:		
Petroleum and natural gas	\$ 4,776,535	\$ 1,195,059
Interest and other	(21,230)	44,325
Crown and other royalties	(970,776)	(222,346)
	3,784,529	1,017,038
Realized gain on financial instruments (note 8)	1,629,427	-
Unrealized loss on financial instruments (note 8)	(1,321,645)	-
	4,092,311	1,017,038
Expenses:		
Operating	2,364,455	259,085
Transportation	131,199	8,762
Interest	239,825	43,225
General and administrative	518,412	192,080
Recovery of uncollectible accounts	(1,759)	(90,181)
Stock based compensation (note 9e)	226,137	32,934
Depletion, depreciation and accretion	3,311,250	295,817
	6,789,519	741,722
Income (loss) before taxes	(2,697,208)	275,316
Provision for (recovery of) income taxes		
Capital and income taxes	199,475	-
Future income tax recovery	(783,000)	(1,818,033)
	(583,525)	(1,818,033)
Net income (loss) and comprehensive income (loss)	(2,113,683)	2,093,349
Retained earnings (deficit), beginning of the period	3,641,629	(137,668,379)
Retained earnings (deficit), end of the period	\$ 1,527,946	\$(135,575,030)

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

Unaudited

	Three Months Ended March 31,	
	2009	2008
<hr/>		
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the period	\$ (2,113,683)	\$ 2,093,349
Add (deduct) items not affecting cash:		
Depletion, depreciation and accretion	3,311,250	295,817
Unrealized loss on financial instruments	1,321,645	-
Future income tax recovery	(783,000)	(1,818,033)
Stock based compensation	226,137	32,934
Employee stock savings plan	20,984	-
Provision for uncollectible accounts	-	(90,181)
Loss on sale of non oil and gas assets	2,347	-
	<hr/>	<hr/>
	1,985,680	513,886
Change in non-cash working capital	(2,530,353)	(208,993)
	<hr/>	<hr/>
	(544,673)	304,893
Financing activities:		
Increase (decrease) in bank debt	7,466,212	(1,173,537)
Proceeds of share issue net of issue costs	-	8,816,887
	<hr/>	<hr/>
	7,466,212	7,643,350
Investing activities:		
Petroleum and natural gas properties	(2,605,604)	(1,479,912)
Acquisition of K-Town Energy Ltd.	-	(5,606,000)
Sale of non oil and gas assets	9,600	-
Change in non-cash working capital	(3,320,323)	(662,619)
	<hr/>	<hr/>
	(5,916,327)	(7,748,531)
Net increase in cash during the period	1,005,212	199,712
Cash and cash equivalents, beginning of the period	-	2,735,943
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	\$ 1,005,212	\$ 2,935,655
<hr/>		
Supplementary disclosure		
Cash interest paid	\$ 209,825	\$ 43,225
Cash taxes paid	\$ 199,475	\$ -

See accompanying notes to financial statements.

Notes to the Consolidated Financial Statements

For three months ended March 31, 2009 and 2008

Unaudited

1. Basis of presentation:

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

These consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles following the accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2008. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual report for the year ended December 31, 2008.

New accounting policy

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3064, "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. The adoption of this standard has had no material impact on the Company's financial statements.

Recent accounting pronouncements

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

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

2. Property, plant and equipment

March 31, 2009			
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	\$ 84,921,365	\$ 11,389,725	\$ 73,531,640
Office equipment	158,415	30,148	128,627
	\$ 85,079,780	\$ 11,419,873	\$ 73,659,907

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

During the three months ended March 31, 2009, the Company capitalized general and administrative expenses in the amount of \$204,547 (March 31, 2008 - \$52,825) related to acquisition, exploration and development activities.

As at March 31, 2009, unproved oil and gas properties amounting to \$3,803,005 (2008 - \$779,023) were excluded from the depletion and depreciation calculation. Future development costs on proved undeveloped reserves of \$4,911,000 (2008 - \$870,000) are included in the depletion calculation for the 2009 period.

3. Bank debt

At March 31, 2009, the Company has a revolving credit facility in the amount of \$20,000,000 (2008 - \$19,000,000) with a Canadian financial institution. The interest rate charged on the bank facility ranges from the bank's prime plus 0.875% to prime plus 1.875% and is dependent on the ratio of the Company's net debt to trailing cash flow. The authorized limit of the new facility will be reviewed on May 31, 2010. This facility is secured by the assets of the Company.

4. 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 March 31, 2009 was \$11,490,681 (December 31, 2008 - \$11,619,096) which will be incurred between 2009 and 2020. The Company used a credit adjusted risk free rate of 7.5% to calculate the present value of the asset retirement obligations and an inflation rate of 2% was used to inflate the costs.

Changes to the asset retirement obligations were as follows:

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 6,609,156	\$ 179,194
Liabilities incurred	10,000	332,420
Liabilities acquired	-	5,320,234
Accretion	85,914	160,690
Revision to estimates	(59,576)	616,618
Balance, end of period	\$ 6,645,494	\$ 6,609,156

5. 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, 2007	5,014,706	\$ 12,762,293
Issued for cash ⁽ⁱ⁾	701,800	2,631,750
Issued for cash ⁽ⁱⁱ⁾	306,000	1,377,000
Issued for shares of K-Town Energy Ltd. ⁽ⁱⁱⁱ⁾	1,728,800	8,644,000
Issued for cash ^(iv)	4,344,508	21,722,540
Issued for cash ^(v)	4,191,868	25,151,208
Issued for other corporate acquisitions ^(vi)	127,000	762,000
Issued for shares of Racing Resources Ltd. ^(vii)	4,020,700	16,082,800
Application of deficit to share capital	-	(6,544,879)
Tax effect of flow through shares	-	(1,818,033)
Share issue expenses (net of \$842,000 of taxes)	-	(1,674,552)
Balance, December 31, 2008	20,435,382	\$ 79,096,127
Tax effect of flow through shares	-	(373,000)
Balance, March 31, 2009	20,435,382	\$ 78,723,127

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

- (i) During the first quarter of 2008, the Company completed private placements of 701,800 common shares at a price of \$3.75 per share for proceeds of \$2,631,750 before issue costs. A corporation owned by a director of the Company earned a fee of \$11,250 for arranging this private placement.
- (ii) On March 17, 2008, the Company completed a private placement of 306,000 flow-through shares at an issue price of \$4.50 per share to two employees for gross proceeds of \$1,377,000 before issue costs. This private placement was a term of the offer of employment to these two individuals made in November 2007 which allowed them to acquire shares in WestFire on the same basis as the other employees as long as they were paid for by April 30, 2008.
- (iii) On March 20, 2008, the Company closed the purchase of all of the issued and outstanding shares of K-Town Energy Ltd for \$24,250,000 plus the assumption of \$6,900,000 of debt. WestFire paid \$15,606,000 in cash, and issued 1,728,800 common shares valued at \$5.00 per share.
- (iv) The Company completed private placements in March and April 2008 issuing 4,344,508 common shares at an issue price of \$5.00 per common share raising gross proceeds of \$21,722,540 before issue costs. Included in share issue costs are fees of \$76,346 that were paid to a Corporation owned by a director.
- (v) The Company completed a private placement in July 2008 issuing 4,191,868 common shares at an issue price of \$6.00 per common share raising gross proceeds of \$25,151,208. Included in share issue costs are fees of \$45,600 that were paid to a Corporation owned by a director.
- (vi) On October 7, 2008, the Company closed the purchase of all of the issued and outstanding shares of various unrelated private corporations for \$7,821,203. WestFire paid \$7,059,203 in cash and transaction costs, and issued 127,000 common shares valued at \$6.00 per share.
- (vii) On November 14, 2008, the Company closed the purchase of all of the issued and outstanding shares of Racing Resources Ltd. for \$16,082,800. WestFire issued 4,020,700 in WestFire common shares valued at \$4.00 per share.

5. Share capital (continued)

(c) Contributed surplus

Balance, December 31, 2007	\$ 131,123,500
Application of deficit to contributed surplus	(131,123,500)
Stock based compensation	565,599
Balance, December 31, 2008	\$ 565,599
Stock based compensation	279,453
Balance, March 31, 2009	\$ 845,052

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

(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.

The following tables summarize the information about options to purchase common shares as at March 31, 2009.

	Number Of Options	Weighted Average Exercise Prices
Balance, January 1, 2008	-	\$ -
Granted	1,927,700	\$ 5.12
Forfeited	(75,400)	\$ 4.16
Balance, December 31, 2008 and March 31, 2009	1,852,300	\$ 5.16

Exercise price (\$/share)	Outstanding options			Exercisable options	
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price (\$/share)	Number of options exercisable	Weighted average exercise price (\$/share)
\$3.75	459,400	4.1	\$3.75	153,136	\$3.75
\$5.00	515,400	4.4	\$5.00	-	-
\$6.00	877,500	4.9	\$6.00	-	-
	1,852,300	4.4	\$5.16	153,136	\$3.75

(e) Stock-based compensation

The Company has a stock option plan that is described above. Compensation costs attributable to share options granted to employees or directors are measured at fair value at the grant date and expensed or capitalized over the expected vesting time frame with a corresponding increase to contributed surplus. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions: dividend yield – nil, expected volatility 50%, risk-free interest rate 4.00%, and weighted average life of 5.0 years. Forfeitures are recognized as they occur. The weighted average fair value of stock options granted during the period ended March 31, 2009 was \$0 (2008 - \$1.81) per option.

5. Share capital (continued)
(f) Per share amounts

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

	Three Months Ended March 31,	
	2009	2008
Weighted average common shares		
Basic	20,435,382	5,792,572
Diluted	20,435,382	5,843,919
Net income (loss) per share:		
Net income (loss) for the period	\$ (2,113,683)	\$ 2,093,349
Per share basic	\$ (0.10)	\$ 0.36
Per share diluted	\$ (0.10)	\$ 0.36

6. Related party transactions

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

- (a) During the three months ended March 31, 2008, the Company agreed to pay a fee to a corporation owned by a director that assisted in raising \$1,002,567 through the issue of 270,000 shares. The fee, which was accrued in accounts payable and included in share issue costs, amounted to \$60,750. This fee was paid during 2008. No amounts have been accrued or paid in 2009.
- (b) A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the three months ended March 31, 2009, included in general and administrative expenses and share issue expenses are amounts totaling \$42,000 (2008 - \$89,364) charged to the Company by BDP. At March 31, 2009, \$42,000 (December 31, 2008 - \$361,062) was included in accounts payable.
- (c) Included in accounts receivable at December 31, 2008 was \$20,049 due from the Chief Executive Officer (CEO) of the Company. The amount relates to the settlement of a lawsuit and the purchase of WestFire shares from a former employee of Racing Resources Ltd. For administrative purposes, the Company advanced one cheque to the former employee for both the severance settlement and the share purchase. The account receivable represents the CEO's commitment to purchase a portion of such shares and was fully repaid in January 2009.

7. Commitments

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

Year ending December 31,	Lease payments
Remainder of 2009	\$384,255
2010	\$469,645

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

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
Remainder of 2009	\$98,854	\$(90,063)	\$8,791
2010	\$131,805	\$(120,089)	\$11,716
2011	\$131,805	\$ (10,007)	\$121,798
2012	\$131,805	\$ -	\$131,805

7. Commitments (continued)

(e) At March 31, 2009, 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,	
Remainder of 2009	\$78,696
2010	\$86,413
2011	\$4,115

(f) WestFire has committed to drill 5 wells in Alberta and Saskatchewan during 2009. These commitments are pursuant to three farm-in agreements with industry partners. The Company expects to satisfy this drilling commitment at an estimated cost of \$5,700,000.

8. 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 March 31, the Company's receivables consisted of the following:

	March 31, 2009	December 31, 2008
Petroleum and natural gas marketers	\$ 2,001,030	\$ 2,515,035
Joint venture partners	415,876	567,846
Other trade receivables	-	65,703
Balance, end of year	\$ 2,416,906	\$ 3,148,584

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 long-standing and reputable purchasers. At March 31, 2009, WestFire had receivables from six different marketing companies. One of these marketing companies owed WestFire \$1,238,883 or 51% of the total and another owed WestFire \$576,668 or 24% of the total at March 31, 2009.

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

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

As at March 31, 2009 and December 31, 2008, the Company's receivables were aged as follows:

	March 31, 2009	December 31, 2008
Ageing		
Not past due (less than 90 days)	\$ 2,404,505	\$ 3,064,922
Past due (90 days and over)	12,401	83,662
	\$ 2,416,906	\$ 3,148,584

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

WestFire's financial liabilities on the balance sheet consist of accounts payable and bank debt. The Company expects to satisfy obligations under accounts payable in less than one year. WestFire has a revolving reserve based credit facility as outlined in note 3. The credit facility is available on a revolving basis and is reviewed annually by the bank. The next review by the bank is scheduled for May 2010.

(d) Market risk

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

(e) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2009 or the year ended December 31, 2008.

(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.

As of March 31, 2009, the Company had outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel (Cdn \$)	Commencement date	Termination date
Swap (WTI)	50 barrels per day	\$89.40	March 2008	August 2009
Costless Collar (WTI)	150 barrels per day	Floor \$100.00 Ceiling \$128.65	September 2008	August 2009

For the three months ended March 31, 2009, an unrealized derivative loss of \$1,321,645 (2008 - \$0) was included in net loss for the period. In addition, at March 31, 2009, \$937,522 (December 31, 2008 - \$2,259,167) was recorded as a current asset on the Company's balance sheet relating to the risk management contracts.

8. Financial instruments (continued)

(f) Commodity price risk

Subsequent to March 31, 2009, the Company entered into the following derivative contracts:

Type	Volume	Price per barrel or GJ (Cdn \$)	Commencement date	Termination date
Swap (Aeco)	1,250 GJ's per day	\$3.83	May 2009	October 2009
Costless Collar (Aeco)	1,250 GJ's per day	Floor \$3.25 Ceiling \$4.25	May 2009	October 2009
Call (Aeco)	1,250 GJ's per day	\$6.45	May 2009	October 2009
Call (Aeco)	625 GJ's per day	\$5.65	May 2009	October 2009
Swap (WTI)	50 barrels per day	\$74.00	September 2009	December 2009
Swap (Aeco)	1,250 GJ's per day	\$5.35	November 2009	October 2010
Swap (Aeco)	1,250 GJ's per day	\$5.95	November 2009	October 2010

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the three months ended March 31, 2009 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL (\$/bbl)	\$1.00	\$ 40,988
Natural gas (\$/Mcf)	\$0.10	\$ 41,153

(g) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates.

The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. As at March 31, 2009, if interest rates had been one percent lower with all other variables held constant, net income for the period would have been approximately \$34,309 higher (2008 – \$7,934 higher). An equal and opposite impact would have occurred to net income had interest rates been one percent higher.

The fair value of accounts receivable, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of risk management contracts is determined by calculating the difference between contracted 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.

(h) The carrying and fair value of the Company's financial instruments as at March 31, 2009 is as follows:

Financial assets	Carrying value	Fair value
Held for trading		
Risk management assets	\$937,522	\$937,522
Loans and receivables		
Accounts receivable	\$ 2,416,906	\$2,416,906
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 3,655,026	\$ 3,655,026
Bank debt	\$ 14,957,485	\$ 14,957,485

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

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

The Company's share capital is not subject to external restrictions, however the bank debt facility is based on petroleum and natural gas reserves and contains a working capital and trailing cash flow covenant (see note 3). 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.

10. Subsequent Events

Private Placement

Subsequent to March 31, 2009, the Company commenced a private placement to raise equity for the purposes of financing a pending acquisition of oil and gas assets and to provide working capital. As at May 27, 2009, the Company raised \$4,095,555 by issuing of 767,862 common shares at \$3.50 per share and 331,303 flow through common shares at \$4.25 per share.

Asset Acquisition

Subsequent to March 31, 2009, the Company agreed to acquire oil and gas assets for \$9,900,000. The Company will pay \$8,000,000 cash and issue 447,059 common shares at \$4.25 per share as consideration for the purchase. The acquisition is subject to final approval of the board of directors.

Corporate Information

Directors

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Calgary, Alberta

Robert M. Duguid ⁽¹⁾
Regina, Saskatchewan

Henry J. Dunfield
Calgary, Alberta

Lowell E. Jackson, P.Eng. ⁽²⁾ ⁽³⁾
Calgary, Alberta

Michael McGovern ⁽¹⁾ ⁽³⁾
Houston, Texas

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

Auditors

PricewaterhouseCoopers LLP

Evaluation Engineers

GLJ Petroleum Consultants

Banker

ATB Financial

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Valiant Trust Company

Officers

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

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

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

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

A. Caroline Banks, CA
Controller

Alan T. Pettie, LL.B
Corporate Secretary

Corporate Office

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