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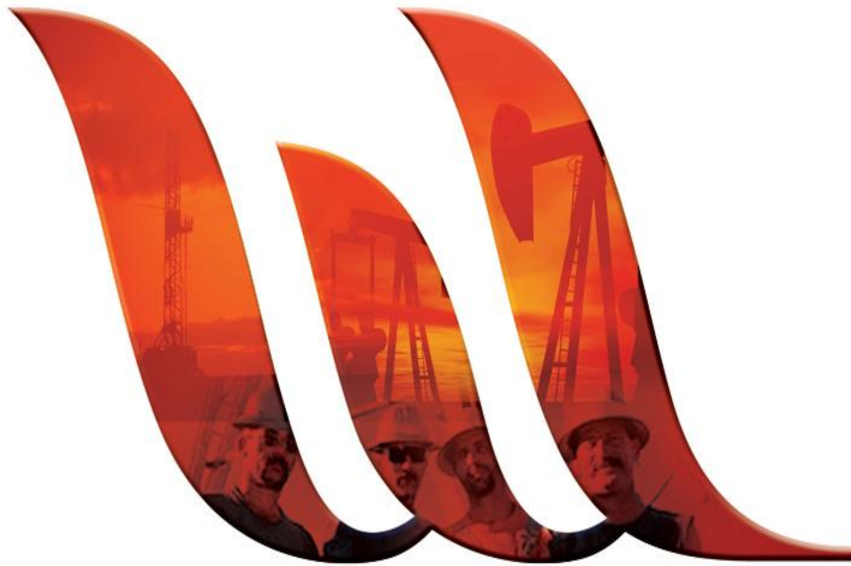

2011 Q2 Report

WestFire
ENERGY LTD

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Profile

WestFire Energy Ltd. is a public intermediate oil and gas company focused on building shareholder value by growing per share production and reserves. WestFire has built, and is now drilling, a large inventory of low risk Viking light oil horizontal locations in its core areas of Redwater and Provost, Alberta and West Central Saskatchewan. The Company also has large working interests in the liquids rich Kaybob South Beaverhill Lake Gas Unit #1 and the Lloydminster, Alberta Lloyd/Sparky heavy oil horizontal project. WestFire is focused on exploiting its assets in each of its core areas by utilizing advanced technical and operational methods. Each of these core areas has the following key attributes:

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

Message to Our Shareholders

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

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

Orion Oil & Gas Corporation

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

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

Operational Review

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

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

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

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

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

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

On behalf of the Board of Directors,

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

Management's Discussion and Analysis

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

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

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

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

Overview

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

Oil and gas production

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

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

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

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

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

Petroleum and natural gas revenues

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

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

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

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

Price risk management

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

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

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

At June 30, 2011, the Company had outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel or GJ (Cdn $)	Commencement date	Termination date
Oil				
Swap (WTI)	100 barrels per day	$88.65	January 2011	December 2011
Swap (WTI)	1,500 barrels per day	$87.35	January 2011	December 2011
Costless Collar (WTI)	100 barrels per day	Floor $85.00 Ceiling $102.00	February 2011	December 2011
Costless Collar (WTI)	100 barrels per day	Floor $95.00 Ceiling $121.80	May 2011	December 2011
Swap (WTI)	150 barrels per day	$84.50	July 2011	September 2011
Swap (WTI)	150 barrels per day	$86.40	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $92.20	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $95.10	July 2011	September 2011
Swap (WTI)	300 barrels per day	$88.20	October 2011	December 2011
Costless Collar (WTI)	300 barrels per day	Floor $80.00 Ceiling $95.25	October 2011	December 2011
Swap (WTI)	350 barrels per day	$90.70	January 2012	March 2012
Costless Collar (WTI)	350 barrels per day	Floor $80.00 Ceiling $99.00	January 2012	March 2012
Swap (WTI)[(1)]	750 barrels per day	$97.45	January 2012	June 2012
Costless Collar (WTI)[(1)]	750 barrels per day	Floor $90.00 Ceiling $102.00	January 2012	June 2012
Swap (WTI)	350 barrels per day	$91.10	April 2012	June 2012
Costless Collar (WTI)	350 barrels per day	Floor $80.00 Ceiling $100.45	April 2012	June 2012
Costless Collar (WTI)	200 barrels per day	Floor $95.00 Ceiling $115.85	January 2012	December 2012
Natural Gas				
Swap (AECO)	500 GJ's per day	$5.76	November 2010	October 2011
Swap (AECO)	2,000 GJ's per day	$5.48	April 2011	October 2011

(1) Entered into subsequent to June 30, 2011

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

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

Crown and other royalties

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

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

Operating costs

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

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

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

Transportation expenses

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

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

Netbacks [1]

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

[1] The reader is referred to the section - "Non-GAAP Measurements".

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

General and administration ("G&A") expenses

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

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

Finance costs

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

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

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

Stock-based compensation

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

Stock-based compensation is a non-cash expense, which represents the estimated fair value of stock-based compensation granted to employees as part of WestFire's incentive package. Compensation costs attributable to the common share stock options granted to employees or directors are measured at fair value at the grant date and expensed to stock-based compensation or capitalized to oil and gas properties over the expected vesting time frame with a corresponding increase to contributed surplus. The Company's stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding common shares of the Company. These options have a term of five years to expiry and have a three year vesting period from the date of grant. In accordance with its accounting policy, WestFire capitalizes stock-based compensation expenses associated with exploration and development activities. During the second quarter of 2011, the Company issued 62,500 options at an average exercise price of $7.51, 43,333 options were forfeited and 16,667 options were exercised, at an exercise price of $8.03. For the six months ended June 30, 2011, the Company issued 82,000 at an average exercise price of $7.60, 60,333 options were forfeited and 29,999 options were exercised, at an average exercise price of $7.11. As at June 30, 2011, there were 3,110,635 options outstanding compared with 3,065,967 options outstanding as at June 30, 2010. The net stock based compensation for the six month ended June 30, 2011 decreased by 48% as a result of the issuance of a 1,257,000 options at the end of the first quarter of 2010. Stock based compensation expense is highest in the first 12 months after grant due to the recognition of expense for one third of the granted options that vest after one year, plus a half of the expense of options granted that vest in year two, plus one third of the expense for options granted that vest in year three.

Depletion and depreciation (Depletion)

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

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

Income taxes

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

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

Income tax provision

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

Net income and comprehensive income

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

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

Liquidity and capital resources

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

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

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

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

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

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

Capital expenditures

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

Capital program for 2011

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

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

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

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

Economic environment

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

Off-balance sheet obligations and financial instruments

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

Summary of quarterly results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Divestitures of assets

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

Exchanges of assets

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

Asset retirement obligations

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

Compensation plans

Under previous GAAP, the Company recognized an expense related to their share based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate. As provided in IFRS 1, the Company elected not to apply IFRS 2 - Share-based payments for share-based payment which vested before January 1, 2010. Accordingly, upon transition to IFRS WestFire recorded an increase to contributed surplus $792 with a corresponding charge to retained earnings. The adoption of this policy did not have a significant impact for the three and six month periods ended June 30, 2010 and resulted in an increase to compensation expense of $449 for the year ended December 31, 2010.

Income taxes

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

Flow-through shares
Under previous GAAP, the premium paid for flow through shares in excess of the market value of the shares without the flow through features at the time of issue is credited to share capital. IFRS provides no guidance and the Company adopted a policy in which it records the premium to accounts payable and accrued liabilities and included in income at the time the qualifying exploration and development expenditures are made. The application of this policy caused an increase to share capital at January 1, 2010 of $909 with an offsetting charge to retained earnings of $1,181 and increase in accounts payable and accrued liabilities of $272. There was no significant impact of the adoption of this policy to the net earnings for the three and six month periods ended June 30, 2010 or the year ended December 31, 2010.

Business combinations
Under IFRS business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, there was no goodwill recognized under the Company's previous GAAP. The acquisition of three companies in 2010 required the restatement of their asset retirement obligations using IFRS which resulted in an increase in the asset retirement obligations of $683. This increase was offset by an increase of goodwill of $497 and an increase to deferred taxes of $186.

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

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

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

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

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

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

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

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

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

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

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

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

Disclosure controls and procedures

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

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

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

Additional information

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

Outlook

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

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

Legal advisories

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

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

Non-GAAP measurements

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

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

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

Forward-looking statements

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

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

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

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

Interim Financial Statements

Interim Balance Sheets

($ thousands) (unaudited)	**June 30, 2011**	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,221**	$ -
Accounts receivable (Note 14)	**22,439**	8,188
Risk management contracts (Note 14)	**-**	184
Prepaid expenses and deposits	**1,228**	480
	29,888	8,852
Oil and gas properties (Note 5)	**566,884**	173,738
Deferred tax asset	**28,835**	58,927
Risk management contracts (Note 14)	**185**	-
Goodwill (Note 6)	**1,986**	1,986
	$ 627,778	$ 243,503
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 35,292**	$ 22,586
Bank debt (Note 7)	**-**	8,089
Risk management contracts (Note 14)	**2,098**	-
	37,390	30,675
Bank debt (Note 7)	**52,800**	-
Risk management contracts (Note 14)	**-**	465
Deferred compensation on farmout agreements (Note 11)	**5,000**	-
Asset retirement obligations (Note 9)	**30,267**	17,098
	125,457	48,238
Shareholders' Equity		
Share capital (Note 10)	**485,871**	182,541
Contributed surplus	**6,944**	5,736
Retained earnings	**9,506**	6,988
	502,321	195,265
	$ 627,778	$ 243,503

Commitments and contingencies (Note 13)

See accompanying notes to interim financial statements.

Interim Statement of Net Income and Comprehensive Income

($ thousands, except per share data)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
(unaudited)	**2011**	2010	**2011**	2010
Revenue				
Oil and natural gas	**$ 21,377**	$ 9,290	**$ 35,062**	$ 20,108
Interest and other revenue	**3**	4	**7**	28
Crown and other royalties	**(1,577)**	(776)	**(2,967)**	(2,026)
	19,803	8,518	**32,102**	18,110
Expenses				
Operating	**4,181**	3,352	**8,529**	6,758
Transportation	**347**	261	**631**	508
Finance costs (Note 8)	**807**	369	**1,110**	548
General and administrative	**3,795**	716	**4,825**	1,479
Recovery of uncollectible amounts	**-**	(8)	**-**	(8)
Stock-based compensation (Note 10)	**429**	821	**1,129**	1,080
Gain on risk management contracts	**(3,462)**	(1,179)	**(212)**	(3,369)
Loss on dispositions of oil and gas properties (Note 11)	**191**	-	**191**	-
Depletion and depreciation	**6,966**	3,462	**11,972**	6,564
	13,254	7,794	**28,175**	13,560
Net income before taxes	**6,549**	724	**3,927**	4,550
Provision for income taxes				
Capital and current income taxes	**59**	56	**115**	130
Deferred income tax expense	**2,103**	446	**1,294**	1,780
	2,162	502	**1,409**	1,910
Net income and comprehensive income	**$ 4,387**	$ 222	**$ 2,518**	$ 2,640
Net income per share (Note 10d)				
Basic and diluted	**$ 0.10**	$ 0.01	**$ 0.06**	$ 0.07

See accompanying notes to interim financial statements.

Interim Statements of Cash Flows

($ thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
(unaudited)	**2011**	2010	**2011**	2010
Cash provided by (used in)				
Operating activities				
Net income for the period	**$ 4,387**	$ 222	**$ 2,518**	$ 2,640
Add (deduct) items not affecting cash:				
Depletion and depreciation	**6,966**	3,462	**11,972**	6,563
Accretion of asset retirement obligations	**166**	158	**315**	298
Unrealized gain on risk management contracts	**(3,601)**	(563)	**(97)**	(2,547)
Loss on dispositions of oil and gas properties	**191**	-	**191**	-
Deferred income taxes recovery	**2,103**	446	**1,294**	1,780
Stock-based compensation	**429**	821	**1,129**	1,080
	10,641	4,546	**17,322**	9,814
Change in non-cash working capital	**(6,399)**	(5,955)	**(6,534)**	1,424
	4,242	(1,409)	**10,788**	11,238
Financing activities				
Increase (decrease) in bank debt	**3**	(4,303)	**(8,086)**	-
Proceeds of share issue net of issue costs	**(448)**	28,514	**41,157**	28,692
	(445)	24,211	**33,071**	28,692
Investing activities				
Oil and gas properties	**(20,543)**	(12,386)	**(48,082)**	(30,070)
Proceeds from the sale of oil and gas assets	**1,704**	-	**1,765**	-
Deferred compensation on farmout agreement	**5,000**	-	**5,000**	-
Corporate acquisitions	**3,679**	(7,468)	**3,679**	(7,186)
	(10,160)	(19,854)	**(37,638)**	(37,256)
Net increase (decrease) in cash and cash equivalents during the period	**(6,363)**	2,948	**6,221**	2,674
Cash and cash equivalents, beginning of the period	**12,584**	-	**-**	274
Cash and cash equivalents, end of the period	**$ 6,221**	$ 2,948	**$ 6,221**	$ 2,948
Supplementary disclosure				
Cash interest paid	**$ 641**	$ 509	**$ 795**	$ 548
Cash taxes paid	**$ 59**	$ 56	**$ 115**	$ 130

See accompanying notes to interim financial statements.

Statement of Changes in Equity

($ thousands)

(unaudited)

	Share Capital (Note 10)	Contributed Surplus	Retained Earnings	Total Equity
Balance at January 1, 2011	$ 182,541	$ 5,736	$ 6,988	$ 195,265
Comprehensive income	-	-	2,518	2,518
Issued for cash	44,001	-	-	44,001
Issued for Orion acquisition	261,270	-	-	261,270
Issued on exercise of options	198	-	-	198
Share issue costs - net of taxes	(2,242)	-	-	(2,242)
Transfer from contributed surplus on exercise of stock options	103	(103)	-	-
Stock-based compensation	-	1,311	-	1,311
Balance at June 30, 2011	$ 485,871	$ 6,944	$ 9,506	$ 502,321
Balance at January 1, 2010	$ 147,270	$ 2,477	$ 6,216	$ 155,963
Comprehensive income	-	-	2,640	2,640
Issued for cash	30,000	-	-	30,000
Issued pursuant to the 2009 Employee Stock Purchase Plan	198	-	-	198
Issued on exercise of options	361	-	-	361
Transfer from contributed surplus on exercise of stock options	134	(134)	-	-
Share issues expenses - net of taxes	(1,291)	-	-	(1,291)
Stock-based compensation	-	1,441	-	1,441
Balance at June 30, 2010	$ 176,672	$ 3,784	$ 8,856	$ 189,312

See accompanying notes to interim financial statements.

1. Corporate information:

WestFire Energy Ltd. ("the Company" or "WestFire") is a public company in the business of exploration and production of crude oil, natural gas and natural gas liquids. The address of its registered office is 1400, 440 2nd Avenue S.W. Calgary, Alberta, Canada, T2P 5E9.

These interim Financial Statements were approved and authorized for issuance by the Board of Directors on August 11, 2011.

2. Basis of presentation

In conjunction with the Company's annual audited Financial Statements to be issued under International Financial Reporting Standards ("IFRS") for the year ending December 31, 2011, these interim Financial Statements present WestFire's initial financial results of operations and financial position under IFRS as at and for the three and six months ended June 30, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim Financial Statements do not include all the necessary disclosure in accordance with IFRS. These interim Financial Statements should be read in conjunction with the interim Financial Statements for the three months ended March 31, 2011. Previously, the Company prepared its interim and annual Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

The preparation of these interim Financial Statements resulted in selected changes to WestFire's accounting policies as compared to those disclosed in the Company's annual Financial Statements for the period ended December 31, 2010 issued under previous GAAP. A summary of the significant changes to WestFire's accounting polices is disclosed in Note 16 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at and for the three and six months ended June 30, 2010, and as at and for the twelve months ended December 31, 2010.

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

These interim Financial Statements have been prepared on a historical cost basis, except for the risk management contracts, share-based payment transactions and the asset retirement obligations. The risk management contracts and share-based payment transactions are measured at fair value and the asset retirement obligations are discounted using a risk free rate.

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

3. Significant accounting policies

(a) Significant accounting estimates and judgements

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

3. Significant accounting policies (continued)

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

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

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

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

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

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

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

(b) Oil and gas properties

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

(c) Intangible exploration assets

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

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

(d) Business combinations and goodwill

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

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

(e) Assets held for sale

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

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

3. Significant accounting policies (continued)

(f) Provisions

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

Asset retirement obligations

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

Onerous contracts

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

(g) Deferred income taxes

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

(h) Flow-through shares

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

(i) Revenue recognition

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

(j) Foreign currency

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

(k) Finance charges

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

3. Significant accounting policies (continued)

(l) Per share amounts

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

(m) Stock-based compensation plan

The Company has a stock-based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 10). Under this method, stock-based compensation is recorded as an expense or capitalized over the vesting period of the option, with a corresponding increase in contributed surplus. Stock-based compensation is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the consideration paid to the Company, along with amounts previously credited to contributed surplus, is credited to share capital. Stock-based compensation for employees that are directly related to exploration for and development of oil and natural gas reserves are capitalized.

(n) Financial instruments

Non-derivative financial assets and liabilities

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

Derivative financial instruments

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

(o) New standards and interpretations not yet adopted

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

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

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

3. **Significant accounting policies (continued)**

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

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

4. **Corporate acquisitions**

(a) Acquisition of Orion Oil & Gas Corporation

On June 30, 2011, the Company acquired all of the issued and outstanding shares of Orion Oil & Gas Corporation ("Orion") for common shares totaling $261,270. This acquisition has been accounted for using the acquisition method.

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

Net assets acquired:	
Cash	$ 3,679
Accounts receivable and prepaid expenses	15,770
Oil and gas properties	353,773
Accounts payable	(20,012)
Fair value of risk management contracts	(1.730)
Bank debt	(52,797)
Deferred tax liability	(29,597))
Asset retirement obligations	(7,816)
Total purchase price	$ 261,270
Consideration given:	
Common shares (38,141,672 at $6.85 per share)	$ 261,270

(b) 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 have been accounted for using the acquisition method. The goodwill recorded upon acquisition is attributed to the Viking oil resources unrecognized in the fair value of the assets and liabilities acquired. The Statement of Net Income and Comprehensive Income for the year ended December 31, 2010 includes $382 of revenues net of royalties and operating expenses for properties associated with this acquisition.

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

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

5. Oil and gas properties

	Oil and Gas Interests	Corporate Assets	Total
At January 1, 2010:			
Cost (Note 16)	$ 130,526	176	$ 130,702
Accumulated depletion and depreciation	(20,683)	(64)	(20,747)
Net book value	$ 109,843	112	$ 109,955
Year ended December 31, 2010:			
Opening net book amount	$ 109,843	112	$ 109,955
Acquisition through business combinations	9,776	-	9,776
Additions	74,429	49	74,478
Disposals	(4,598)	-	(4,598)
Depletion and depreciation	(15,837)	(36)	(15,873)
Closing net book value	$ 173,613	125	$ 173,738
At December 31, 2010:			
Cost	$ 209,277	225	$ 209,502
Accumulated depletion and depreciation	(35,664)	(100)	(35,764)
Net book value	$ 173,613	125	$ 173,738
Period ended June 30, 2011:			
Opening net book amount	$ 173,613	125	$ 173,738
Acquisition through business combinations	353,773	-	353,773
Additions	53,153	149	53,302
Disposals	(1,957)	-	(1,957)
Depletion and depreciation	(11,923)	(49)	(11,972)
Closing net book value	$ 566,659	225	$ 566,884
At June 30, 2011:			
Cost	$ 614,246	374	$ 614,620
Accumulated depletion and depreciation	(47,587)	(149)	(47,736)
Net book value	$ 566,659	225	$ 566,884

During the six months ended June 30, 2011, the Company capitalized general and administrative expenses in the amount of $507 (June 30, 2010 - $361) related to acquisition and development activities.

Future development costs on proved and probable undeveloped reserves of $133,599 (June 30, 2010 - $60,785) are included in the depletion calculation for the 2011 period.

6. Goodwill

At January 1 and December 31, 2010	
Opening net book amount	$ -
Acquisition through business combinations	1,986
Closing net book value	$ 1,986
Period ended June 30, 2011	
Opening and closing net book value	$ 1,986

7. Bank debt

At June 30, 2011 the Company had credit facilities totaling $200,000 (December 31, 2010 - $42,000) with a syndicate of five financial institution. The credit facilities are comprised of a $190,000 syndicated facility and a $10,000 operating facility. Both are revolving facilities with term-out provisions with the initial revolving period ending June 28, 2012. If the credit facilities are not renewed they will convert to 365-day term loans. The credit facilities bear interest at the prime rate, bankers' acceptance rate or LIBOR plus a spread determined by WestFire's debt-to-EBITDA ratio. The facilities will be reviewed semi-annually on November 30, 2011 and May 31, 2012. These facilities are secured by the assets of the Company.

8. Finance costs

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Bank debt interest	**$ 641**	$ 211	**$ 795**	$ 250
Accretion of asset retirement obligations	**166**	158	**315**	298
Finance costs	**$ 807**	$ 369	**$ 1,110**	$ 548

9. Asset retirement obligations

The total future asset retirement obligations were estimated by Management based on the expected cost to abandon and restore the well sites and the facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated that the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2011 was $39,310 (December 31, 2010 - $22,591) which will be incurred between 2011 and 2020. The Company used a risk free rate of 3.50% 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:

	June 30, 2011	December 31, 2010
Balance, beginning of period	**$ 17,098**	$ 13,880
Liabilities incurred	**919**	1,349
Liabilities acquired	**7,816**	2,337
Accretion	**315**	609
Abandonment costs incurred	**-**	(369)
Dispositions	**(307)**	(1,170)
Revision to estimates	**4,426**	462
Balance, end of period	**$ 30,267**	$ 17,098

10. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of voting and non-voting common shares. The non-voting common shares have the same dividend rights as the voting common shares. The holders of the non-voting common shares can attend shareholder's meetings but cannot vote and in the event of liquidation are paid out in advance of the voting common shareholders. The non-voting common shares cannot be transferred to a control person, which is defined as any person or company holding 20% or more of the voting common shares of the Company. Each non-voting common can be converted into one voting common share of the Company. This conversion can be forced by WestFire after June 30, 2014.

(b) Common shares, issued and outstanding

	Number of shares		
	Voting	Non-Voting	Total
Balance, January 1, 2010	35,157,959	-	35,157,959
Issued pursuant to the 2009 Employee Stock Purchase Plan	52,357	-	52,357
Issued on option exercise	79,999	-	79,999
Issued for cash	4,645,000	-	4,645,000
Balance, December 31, 2010	39,935,315	-	39,935,315
Issued for cash	4,862,000	-	4,862,000
Issued on option exercise	29,999	-	29,999
Issued for shares of Orion	22,527,938	15,613,689	38,141,627
Balance, June 30, 2011	67,355,252	15,613,689	82,968,941

10. Share capital (continued)

(c) Stock options

The Company's stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding common shares of the Company. The maximum number of common shares granted to any one optionee during a twelve month period shall not exceed 5% of the outstanding common shares of the Company at the time of granting. These options have a term of five years to expiry and have a three year vesting period from the date of grant. The exercise price of each option is determined by market value on the date the option is granted.

	Number Of Options	Weighted Average Exercise Prices
Balance, January 1, 2010	1,912,300	$ 5.12
Granted	1,519,000	$ 7.62
Forfeited	(232,334)	$ 6.68
Exercised	(79,999)	$ 4.73
Balance, December 31, 2010	3,118,967	$ 6.22
Granted	82,000	$ 7.60
Forfeited	(60,333)	$ 6.95
Exercised	(29,999)	$ 6.60
Balance, June 30, 2011	3,110,635	$ 6.24

	Outstanding options			Exercisable options	
Exercise price ($/share)	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price ($/share)	Number of options exercisable	Weighted average exercise price ($/share)
$3.75 - $4.99	449,400	1.7	$3.75	429,400	$3.75
$5.00 - $5.99	725,568	2.6	$5.09	492,068	$5.00
$6.00 - $6.99	742,667	2.5	$6.00	483,321	$6.00
$7.00 - $7.99	62,500	5.0	$7.31	-	-
$8.00 - $9.25	1,135,500	3.8	$8.04	370,329	$8.03
	3,110,635	2.9	$6.24	1,775,118	$5.60

(d) Per share information

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Weighted average common shares				
Basic	**44,822,186**	36,758,831	**42,968,415**	35,979,044
Diluted	**45,387,687**	37,171,070	**43,599,574**	36,381,230

(e) Stock-based compensation

Compensation costs attributable to share options granted to employees or directors are measured at fair value at the grant date and expensed or capitalized over the expected vesting time frame with a corresponding increase to contributed surplus. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions used for both 2011 and 2010: dividend yield – nil, expected volatility 70%, risk-free interest rate 2.31%, and weighted average life of 5.0 years. A forfeiture rate of 8.6% (2010 – 8.5 %) is used when recording stock compensation expense. This estimate is adjusted to the actual forfeiture rate. The weighted average fair value of stock options granted for the six months ended June 30, 2011 was $4.13 (June 30, 2010 -$5.30) per option.

On July 18th, 2011 WestFire issued 1,812,500 stock options to employees, officers and directors of the company. These options have an exercise price of $7.59, a term of five years to expiry and have a three year vesting period from the date of grant.

10. Share capital (continued)

(f) Cash-settled performance plan

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 $3.9 million at the $12 share price, an additional $4.9 million at the $15 share price, and a further $5.8 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 June 30, 2011 compensation expense and a liability of $23 had been recognized.

11. Deferred compensation and loss on dispositions of oil and gas properties

(a) Farmout agreement

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

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

(b) Other dispositions of oil and gas properties

During the first six months of 2011, the Company disposed of other oil and gas properties for gross proceeds of $515, resulting in a net gain on disposition of oil and gas properties of $9.

12. 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 six months ended June 30, 2011, included in general and administrative expenses and share issue expenses are amounts of $205 (2010 - $80) and $550 (2010 - $97), respectively, charged to the Company by BDP. At June 30, 2011, $699 (June 30, 2010 - $177) was included in accounts payable.

13. Commitments and contingencies

(a) The Company has a commitment to lease office space for $27 per month until November 30, 2013. As part of a corporate acquisition, the Company assumed a commitment for an office lease at $11 per month until December 31, 2012. The Company has sublet this space for the balance of the lease. In addition as part of another corporate acquisition, the Company assumed a commitment for an office lease at $75 per month until July 31, 2015.

Future lease payments are:

Year ending December 31 ($)	Gross lease payments	Sublease recovery	Net lease payments
2011	681	(34)	647
2012	1,363	(68)	1,295
2013	1,123	-	1,123
2014	902	-	902
2015	526	-	526

At June 30, 2011, the Company had committed to vehicle and equipment leases. Future minimum lease payments relating to the leases are:

Year ending December 31 ($)	
2011	73
2012	112
2013	20

13. Commitments and contingencies (continued)

(b) Capital commitments

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

(c) Legal claims

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

(d) Income and other tax uncertainties

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

14. Financial instruments and risk management

(a) Fair value of financial instruments

June 30,2011	Carrying value	Fair value
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ 6,221	$ 6,221
Accounts receivable	22,439	22,439
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	$ 35,292	$ 35,292
Risk management contracts	1,913	1,913

December 31, 2010	Carrying value	Fair value
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ -	$ -
Accounts receivable	8,188	8,188
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	$ 22,586	$ 22,586
Bank debt	8,089	8.089
Risk management contracts	281	281

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

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

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

14. Financial instruments and risk management (continued)

(b) Credit risk

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

	June 30, 2011	December 31, 2010
Oil and natural gas marketers	**$ 16,694**	$ 5,440
Joint venture partners	**1,288**	981
Other trade receivables	**4,457**	1,767
Balance, end of period	**$ 22,439**	$ 8,188

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following the month of production. The Company attempts to mitigate credit risk by establishing marketing relationships with a variety of purchasers. The Company markets its production to customers with investment grade credit ratings, if available in the area of production, or seeks parental guarantees and letters of credit. At June 30, WestFire had receivables from nine different marketing companies. One of these marketing companies owed WestFire $6,440 or 39% of the total, as a result of WestFire's acquisition of Orion. Another marketing company owed WestFire $4,825 or 29% of the total at June 30, 2011. This marketing company marketed oil and gas volumes representing approximately 43% of total oil and gas revenues. A third marketing company owed WestFire $1,937 or 12% of the total at June 30, 2011. This marketing company marketed oil and gas volumes representing approximately 26% of total oil and gas revenues.

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

The carrying amount of accounts receivable represents the maximum credit exposure. As at June 30, 2011 and 2010, the Company's receivables were aged as follows:

Ageing	June 30, 2011	December 31, 2010
Not past due (less than 90 days)	**$ 21,761**	$ 7,986
Past due (90 days to one year)	**678**	202
	$ 22,439	$ 8,188

(c) Liquidity risk

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

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

WestFire's financial liabilities on the balance sheet consist of accounts payable, risk management contracts and bank debt. The Company expects to satisfy obligations under accounts payable in less than one year. WestFire has a revolving reserve based syndicated credit facility as outlined in Note 7. The credit facility is available on a revolving basis and is reviewed semi-annually by the syndicate. The next review by the syndicate is scheduled for November 30, 2011.

14. Financial instruments and risk management (continued)

(d) Market risk

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

(e) Commodity price risk

At June 30, 2011, the Company had outstanding crude oil and natural gas derivatives contracts as follows:

Type	Volume	Price per barrel or GJ (Cdn $)	Commencement date	Termination date
Oil				
Swap (WTI)	100 barrels per day	$88.65	January 2011	December 2011
Swap (WTI)	1,500 barrels per day	$87.35	January 2011	December 2011
Costless Collar (WTI)	100 barrels per day	Floor $85.00 Ceiling $102.00	February 2011	December 2011
Costless Collar (WTI)(1)	100 barrels per day	Floor $95.00 Ceiling $121.80	May 2011	December 2011
Swap (WTI)	150 barrels per day	$84.50	July 2011	September 2011
Swap (WTI)	150 barrels per day	$86.40	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $92.20	July 2011	September 2011
Costless Collar (WTI)	150 barrels per day	Floor $75.00 Ceiling $95.10	July 2011	September 2011
Swap (WTI)	300 barrels per day	$88.20	October 2011	December 2011
Costless Collar (WTI)	300 barrels per day	Floor $80.00 Ceiling $95.25	October 2011	December 2011
Swap (WTI)	350 barrels per day	$90.70	January 2012	March 2012
Costless Collar (WTI)	350 barrels per day	Floor $80.00 Ceiling $99.00	January 2012	March 2012
Swap (WTI)(1)	750 barrels per day	$97.45	January 2012	June 2012
Costless Collar (WTI)(1)	750 barrels per day	Floor $90.00 Ceiling $102.00	January 2012	June 2012
Swap (WTI)	350 barrels per day	$91.10	April 2012	June 2012
Costless Collar (WTI)	350 barrels per day	Floor $80.00 Ceiling $100.45	April 2012	June 2012
Costless Collar (WTI)	200 barrels per day	Floor $95.00 Ceiling $115.85	January 2012	December 2012
Natural Gas				
Swap (AECO)	500 GJ's per day	$5.76	November 2010	October 2011
Swap (AECO)	2,000 GJ's per day	$5.48	April 2011	October 2011

(2) Entered into subsequent to June 30, 2011

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

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

(f) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates.
The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. Assuming all other variables remain constant, an increase or decrease of one percent to the effective interest rate for the Company, given average bank debt for the six months ended June 30, 2011 of approximately $20 million would have increased or decreased net earnings by $51 for the six months ended June 30, 2011.

14. Financial instruments and risk management (continued)

(g) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. As the effects of foreign exchange fluctuations are embedded in the Company's results, the total effect of foreign exchange fluctuations is not separately identifiable The Company had no forward exchange rate contracts in place as at or during the six months ended June 30, 2011 and the year ended December 31, 2010.

15. Capital management

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

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

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

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

16. Explanation of transition to IFRSs

As disclosed in Note 2, these interim Financial Statements represent WestFire's initial presentation of the financial results of operations and financial position under IFRS for the period ended June 30, 2011 in conjunction with the Company's annual audited Financial Statements to be issued under IFRS as at and for the year ending December 31, 2011. As a result, these interim Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously the Company prepared its interim and annual Financial Statements in accordance with previous GAAP.

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

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's Balance Sheets as at June 30, 2010 and December 31, 2010, and Statement of Net Income and Comprehensive Income and Changes in Shareholders' Equity for the three and six months ended June 30, 2010 and for the twelve months ended December 31, 2010. The interim Financial Statements for the three months ended March 31, 2011 should be referred to for the reconciliation of the Company's Balance Sheet as at January 1, 2010.

16. Explanation of transition to IFRSs (continued)
Balance Sheets
As at June 30, 2010
($ thousands)
(unaudited)

		IFRS Adjustments					
	Previous GAAP	**Provisions**	**Share-based Payments**	**Flow-through Shares**	**O&G Properties**	**Reclass**	**IFRSs**
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	(Note 16e)	
Assets							
Current assets							
Cash and cash equivalents	$ 2,948	$ -	$ -	$ -	$ -	$ -	$ 2,948
Accounts receivable	8,126						8,126
Risk management contracts	2,110						2,110
Oil and gas properties held for sale	-					484	484
Current deferred tax asset	9,303					(9,303)	-
Prepaid expenses and deposits	516						516
	23,003	-	-	-	-	(8,819)	14,184
Oil and gas properties	139,825	363	95		3,698	(484)	143,497
Deferred tax asset	50,857	561			(682)	9,303	60,039
Risk management contracts	262						262
Goodwill	1,489	497					1,986
	$ 215,436	$ 1,421	$ 95	$ -	$ 3,016	$ -	$ 219,968
Liabilities							
Current liabilities							
Accounts payable accrued liabilities	$ 13,445	$ -	$ -	$ -	$ -	$ -	$ 13,445
	13,445	-	-		-		13,445
Asset retirement obligations	13,314	3,897					17,211
	26,759	3,897	-	-	-	-	30,656
Shareholders' Equity							
Share capital	175,347		-	1,325			176,672
Contributed surplus	2,668		1,116				3,784
Retained earnings	10,663	(2,477)	(1,021)	(1,325)	3,016		8,856
	188,678	(2,477)	95	-	3,016	-	189,312
	$ 215,437	$ 1,420	$ 95	$ -	$ 3,016	$ -	$ 219,968

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

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

16. **Explanation of transition to IFRSs (continued)**
Statement of Net Income (Loss) and Comprehensive Income (Loss)
Three months ended June 30, 2010
($ thousands)
(unaudited)

		IFRS Adjustments				
	Previous GAAP	**Provisions**	**Share-based Payments**	**Flow-through Shares**	**O&G Properties**	**IFRSs**
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	
Revenue						
Oil and natural gas	$ 9,290	$ -	$ -	$ -	$ -	$ 9,290
Interest and other revenue	4					4
Crown and other royalties	(776)					(776)
	8,518	-	-	-	-	8,518
Expenses						
Operating	3,352					3,352
Transportation	261					261
Finance costs	211	158				369
General and administrative	716					716
Recovery of uncollectible amounts	(8)					(8)
Stock-based compensation	640		181			821
Gain on risk management contracts	(1,179)					(1,179)
Depletion and depreciation	5,449	(164)			(1,823)	3,462
	9,442	(6)	181	-	(1,823)	7,794
Income (loss) before taxes	(924)	6	(181)	-	1,823	724
Provision for (recovery of) income taxes						
Capital and current income taxes	56		-	-	-	56
Deferred income tax	(138)		-	446	138	446
	(82)	-	-	446	138	502
Net income (loss) and comprehensive income (loss)	$ (842)	$ 6	$ (181)	$ (446)	$ 1,685	$ 222
Net income per share:						
Per share basic and diluted	$ (0.02)					$ 0.01
Weighted average common shares						
Basic	36,759					36,759
Diluted	37,171					37,171

16. Explanation of transition to IFRSs (continued)
Statement of Net Income (Loss) and Comprehensive Income (Loss)
Six months ended June 30, 2010
($ thousands)
(unaudited)

	Previous GAAP	Provisions	Share-based Payments	Flow-through Shares	O&G Properties	IFRSs
		IFRS Adjustments				
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	
Revenue						
Oil and natural gas	$ 20,108	$ -	$ -	$ -	$ -	$ 20,108
Interest and other revenue	28					28
Crown and other royalties	(2,026)					(2,026)
	18,110	-	-	-	-	18,110
Expenses						
Operating	6,758					6,758
Transportation	508					508
Finance costs	250	298				548
General and administrative	1,479					1,479
Recovery of uncollectible amounts	(8)					(8)
Stock-based compensation	852		228			1,080
Gain on risk management contracts	(3,369)					(3,369)
Depletion and depreciation	10,569	(304)			(3,701)	6,564
	17,039	(6)	228	-	(3,701)	13,560
Income before taxes	1,071	6	(228)	-	3,701	4,550
Provision for income taxes						
Capital and current income taxes	130	-	-	-	-	130
Deferred income tax	556	-	-	538	686	1,780
	686	-	-	538	686	1,910
Net income and comprehensive income	$ 385	$ 6	$ (228)	$ (538)	$ 3,015	$ 2,640
Net income per share:						
Per share basic and diluted	$ 0.01					$ 0.07
Weighted average common shares						
Basic	36,759					36,759
Diluted	37,171					37,171

16. **Explanation of transition to IFRSs (continued)**
Statement of Net Income (Loss) and Comprehensive Income (Loss)
Twelve months ended December 31, 2010
($ thousands)
(unaudited)

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

16. Explanation of transition to IFRSs (continued)
Statement of Changes in Shareholders' Equity
Three months ended June 30, 2010
($ thousands)
(unaudited)

	Previous GAAP	IFRS Adjustments				IFRSs
		Provisions	Share-based Payments	Flow-through Shares	O&G Properties	
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	
Share capital						
Balance, beginning of period	$ 146,295	$ -	$ -	$ 1,325	$ -	$ 147,620
Issued for cash	30,000					30,000
Issued on option exercise	206					206
Tax effect on flow-through shares	-					-
Transfer from contributed surplus on exercise of stock options	80					80
Share issue expenses – net of taxes	(1,234)					(1,234)
Balance, end of period	$ 175,347	$ -	$ -	$ 1,325	$ -	$ 176,672
Contributed surplus						
Balance, beginning of period	$ 1,909		856			$ 2,765
Transfer from contributed surplus on exercise of stock options	(80)					(80)
Stock based compensation	839		260			1,099
Balance, end of period	$ 2,668	$ -	$ 1,116	$ -	$ -	$ 3,784
Retained earnings						
Balance, beginning of period	$ 11,505	$ (2,089)	$ (840)	$ (1,273)	$ 1,331	$ 8,634
Net income and comprehensive income	(842)	6	(181)	(446)	1,685	222
Balance, end of period	$ 10,663	$ (2,083)	$ (1,021)	$ (1,719)	$ 3,016	$ 8,856
Total Shareholders' Equity	$ 188,678	$ (2,083)	$ 95	$ (394)	$ 3,016	$ 189,312

16. Explanation of transition to IFRSs (continued)
Statement of Changes in Shareholders' Equity
Six months ended June 30, 2010
($ thousands)
(unaudited)

	Previous GAAP	IFRS Adjustments: Provisions	IFRS Adjustments: Share-based Payments	IFRS Adjustments: Flow-through Shares	O&G Properties	IFRSs
		(Note 16b)	(Note 16c)	(Note 16d)	(Note 16a)	
Share capital						
Balance, beginning of year	$ 146,361	$ -	$ -	$ 909	$ -	$ 147,270
Issued for cash	30,000					30,000
Issued pursuant to the 2009 Employee Stock Purchase Plan	198					198
Issued on option exercise	361					361
Tax effect on flow-through shares	(416)			416		-
Transfer from contributed surplus on exercise of stock options	134					134
Share issue expenses – net of taxes	(1,291)					(1,291)
Balance, end of period	$ 175,347	$ -	$ -	$ 1,325	$ -	$ 176,672
Contributed surplus						
Balance, beginning of year	$ 1,685		792			$ 2,477
Transfer from contributed surplus on exercise of stock options	(134)					(134)
Stock based compensation	1,117		324			1,441
Balance, end of period	$ 2,668	$ -	$ 1,116	$ -	$ -	$ 3,784
Retained earnings						
Balance, beginning of year	$ 10,278	$ (2,089)	$ (792)	$ (1,181)		$ 6,216
Net income and comprehensive income	385	6	(229)	(538)	3,016	2,640
Balance, end of period	$ 10,663	$ (2,083)	$ (1,021)	$ (1,719)	$ 3,016	$ 8,856
Total Shareholders' Equity	$ 188,678	$ (2,083)	$ 95	$ (394)	$ 3,016	$ 189,312

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

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

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

16. Explanation of transition to IFRSs (continued)

IFRS Adjustments

(a) Oil and gas properties and intangible exploration assets

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

Depletion

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

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

Divestitures

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

(b) Provisions

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

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

(c) Share-based payments

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

(d) Flow-through shares

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

16. Explanation of transition to IFRSs (continued)

(e) Reclassification

Deferred tax asset

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

Interest income and finance costs

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

Gains/losses on risk management contracts

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

Assets and liabilities classified as held for sale

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

(f) Business combinations

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

(g) Cash flow statement

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

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