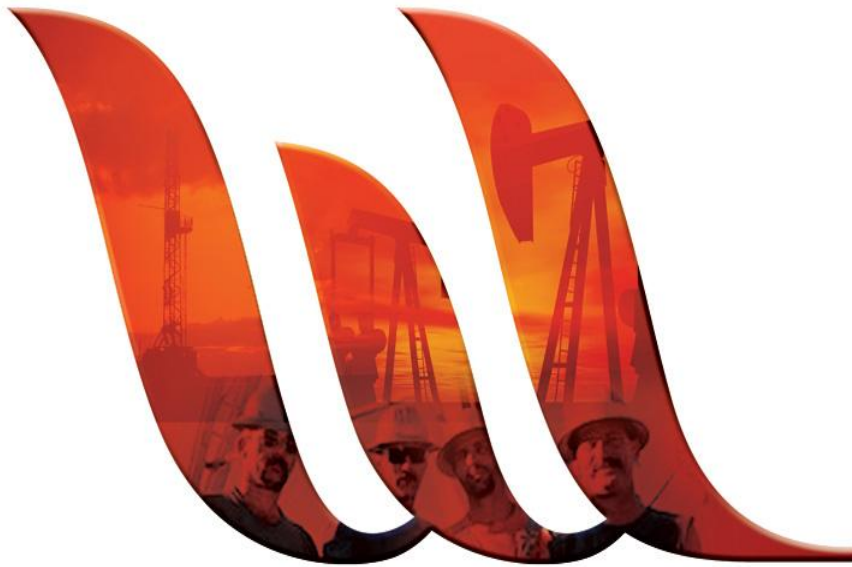

ACQUIRE

ENHANCE

EXPLOIT



2010 Q1 Report

WestFire
ENERGY LTD

Contents

Profile.....	2
Annual General Meeting.....	2
Message to Our Shareholders.....	3
Management’s Discussion and Analysis	4
Financial Statements.....	15
Corporate Information.....	24

Profile

WestFire Energy Ltd. is a public junior oil and gas company focused on building shareholder value by growing per share production and reserves. WestFire has built, and is now drilling, a large inventory of low risk Viking light oil horizontal locations in its core areas of Redwater, Alberta and West Central Saskatchewan. The Company also has the Bashaw, Alberta Mannville multi-zone gas project 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 core areas has the following key attributes:

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

Annual General Meeting

Shareholders are cordially invited to attend the Annual General Meeting of WestFire Energy Ltd., which will be held at 10:00 am Mountain Daylight Time on Wednesday, May 26, 2010 at the Westwinds Meeting Room located on the second floor at 555 – 4th Avenue S.W., Calgary, Alberta, Canada. If unable to attend, shareholders are requested to complete and return the Proxy form to the Corporate Secretary of the Corporation.

Message to Our Shareholders

During the first quarter of 2010, WestFire continued to execute its business strategy and achieved the following:

- Production increased 59% to a record 2,436 barrels of oil equivalent per day (boepd) from 1,528 boepd in the first quarter of 2009;
- Funds flow from operations increased 165% to a record \$5,268,078 during Q1 2010 from \$1,985,680 during Q1 2009;
- Q1 2010 funds flow from operations per share improved 67% to \$0.15 from \$0.09 in the first quarter of 2009;
- Drilled 13 (10.9 net) wells in the first quarter with a 92% success rate;
- Continued to implement disciplined hedging strategy to provide certainty of cash flow;
- On April 30, 2010, WestFire's credit facility was increased to \$42 million;
- On April 30, 2010, WestFire acquired certain long life Viking crude oil and natural gas production and facilities in the Provost area of Alberta complementing WestFire's existing Viking light oil resource asset base;
- On May 3, 2010, WestFire entered into a bought deal financing agreement for an offering of 3.75 million shares at \$8.00 per share to raise gross proceeds of \$30 million; and
- Since year-end 2009, WestFire increased its Viking land inventory to 202 (180 net) sections from 183 (161 net) sections through acquisitions, crown land sales and farm-in agreements representing a future drilling inventory in excess of 500 potential horizontal Viking oil development locations.

Operational Review

WestFire achieved record production in the first quarter of 2010 of 2,436 boepd while increasing the oil and liquids component to 44% from the 2009 average of 37%. Since the bulk of this year's drilling activities will be directed towards oil projects, the Company anticipates this trend to continue.

A total of 13 (10.9 net) wells were drilled in the first quarter with a success rate of 92%. At Redwater, Alberta, an active Viking oil drilling program resulted in 10 (8.4 net) horizontal and one (0.7 net) vertical successful wells. At Bashaw, Alberta, two wells were drilled for liquids-rich natural gas resulting in one (0.5 net) gas well and one (1.0 net) dry hole.

Outlook

WestFire continues to be successful in achieving its goal of cost effective per share growth in reserves, production and funds flow from operations through its integrated strategy of acquisitions, enhancement and exploitation. The Company believes that it is well positioned to execute its business strategy with an extensive, resource-based drilling inventory focused on the Viking formation. This drilling inventory includes in excess of 500 potential horizontal Viking oil development locations which represents numerous years of drilling. WestFire is in the enviable position of having a clean balance sheet, unused bank lines, a large inventory of light oil drilling opportunities and a growing production base that is oriented towards light oil.

Based on the first quarter drilling success, the acquisition at Provost, the increased credit facility and an equity financing, WestFire has upwardly revised its 2010 capital expenditure budget to \$80 million. This capital program includes the drilling of 49 (45 net) wells which represents 73% of the total capital expenditures. The focus will be on the Viking light oil resource play and will result in a total of 40 (36.4 net) wells being drilled. Based on this expanded capital budget, the Company has increased its 2010 guidance of average production to 2,750 boepd (greater than 50% oil) and December 2010 average production rate to 3,600 boepd (greater than 60% oil).

WestFire is in its first year of operations as a public entity and believes that it is well positioned to deliver superior per share growth. The Company has a strong balance sheet, high netback production, significant development drilling inventory and a dedicated operating team guided by an experienced board of directors. The Company has established itself as a premier exploitation and production company in the growing Viking resource play in the Western Canadian Sedimentary Basin. By enhancing our capital efficiencies through a larger focused program and maintaining our low cost structure on all fronts, including operating and general and administrative costs, we believe we can continue to grow the underlying asset value of the Company. In closing, we are delighted to welcome Christopher L. Fong as a new addition to the Board of Directors.

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 consolidated interim financial statements and the related notes for the period ended March 31, 2010 of WestFire and the audited consolidated financial statements and related notes and MD&A for the year ended December 31, 2009. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Readers should read the Legal Advisories section at the end of this MD&A. WestFire's Board of Directors has reviewed and, on the recommendation of the Audit Committee, has approved the financial statements and MD&A. This MD&A is effective May 14, 2010.

Financial (\$'s except share and production information)	Three Months Ended March 31,	
	2010	2009
Oil and gas revenues	10,818,117	4,776,535
Cash provided by operating activities	6,677,617	(544,673)
Funds flow from operations ⁽¹⁾	5,268,078	1,985,680
Per share – basic and diluted ⁽¹⁾	0.15	0.09
Net income (loss)	1,227,052	(2,113,683)
Per share – basic and diluted	0.03	(0.10)
Capital expenditures (including non-cash)	17,420,707	2,609,344
Common shares outstanding – basic	35,241,982	20,435,382
Common shares outstanding – diluted	35,572,022	20,435,382
Weighted average common shares – basic	35,190,593	20,435,382
Weighted average common shares – diluted	35,498,791	20,435,382
Sales Volumes		
Oil and NGL (bbls per day)	1,076	572
Natural gas (Mcf per day)	8,161	5,739
Barrels of oil equivalent (boe per day) ⁽²⁾	2,436	1,528

⁽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

As a result of acquisitions to date, WestFire has built a large base of opportunities on an emerging Viking oil resource play in the West Central Saskatchewan and Redwater, Alberta areas. During the first quarter of 2010, WestFire drilled and completed 10 (8.4 net) horizontal oil wells with multi-stage fracs in the Redwater area. In addition, the Company drilled one (0.7 net) vertical oil well in Redwater Alberta and two (1.5 net) gas wells in Bashaw, Alberta. Except for one (1.0 net) dry and abandoned well in the Bashaw Area of Alberta, all of the horizontal oil wells drilled were either recovering load oil or being equipped and tied in for production. The vertical oil well in Redwater and vertical gas well in Bashaw are awaiting completion.

WestFire continues to pursue accretive acquisitions. Subsequent to March 31, 2010, WestFire completed the acquisition of three private companies holding working interests in a Viking oil pool near Provost, Alberta. The Provost property has significant development potential with little exploration risk as it is currently drilled on quarter section spacing with the opportunity to down space and infill drill either horizontally or vertically on the 13 sections of undeveloped spacing units. Also included in the acquisition are wholly owned processing facilities.

Oil and gas production

	Three Months Ended March 31,	
	2010	2009
Sales Volumes		
Oil and NGL (bbls per day)	1,076	572
Natural gas (Mcf per day)	8,161	5,739
Barrels of oil equivalent (boe per day)	2,436	1,528

Volumes have increased during the first quarter of 2010 compared to the same period of 2009 as a result of new production from WestFire's 2009 capital program combined with the acquisition of assets in June and December of 2009. In addition, one multi-stage sand fracture stimulated horizontal well in the Redwater area was completed in the fourth quarter and commenced production in January 2010. Natural gas volumes increased during the first quarter of 2010 as a result of one well in Bashaw, Alberta that was completed and tied in during the quarter. Production is expected to increase throughout the second quarter of 2010 as a result of the wells drilled during the first quarter of 2010.

Petroleum and natural gas revenues

	Three Months Ended March 31,	
(\$)	2010	2009
Oil and NGL revenues	6,881,555	2,087,618
Per barrel before hedging	71.10	33.75
Natural gas	3,936,562	2,688,917
Per Mcf before hedging	5.36	5.21

Oil revenues increased 230% in the first quarter of 2010 over the same period of 2009. The increase is primarily a result of volume increases of 88% and a 120% increase in oil prices from the first quarter of 2009. During Q1 2010, WestFire's oil and NGL volumes consisted of 31% (2009 - 33%) heavy crude oil for which pricing differentials have improved significantly compared to historical levels. The West Texas Intermediate price averaged \$78.71US per bbl for Q1 2010, which increased 83% from the \$43.08US per bbl for Q1 2009.

Gas revenues increased 46% in the first quarter of 2010 over the same period of 2009. The increase is a result of volume increases of 42% and a result of increased gas prices of 3% from the average price received during Q1 2009. The average AECO daily reference price of \$4.69 per GJ for Q1 2010 represents a 1% increase from Q1 2009 price of \$4.66 per GJ. Most of WestFire's gas volumes receive a premium to the AECO reference price due to its high heat content.

Price Risk Management

WestFire has entered into contracts to manage the volatility of commodity prices. For Q1 2010, the Company had a net realized gain of \$206,258 (Q1 2009 – gain of \$1,629,427).

At March 31, 2010, a current asset of \$1,422,272 and a long term asset of \$387,257 (December 31, 2009 – current liability of \$174,730) was recorded on the Company's balance sheet, representing the change in the unrealized derivative gain of \$1,984,259 as at March 31, 2010 (March 31, 2009 – loss of \$1,321,645).

WestFire has hedged oil prices on 450 barrels per day for Q2 2010 and 600 barrels per day from Q3 2010 through to Q2 2011. The Company has used a combination of fixed price swaps and costless collars.

The Company has hedged natural gas prices on 3,250 GJs per day through fixed price swaps for the remainder of 2010 at an average of \$5.50Cdn per GJ through October 2010 increasing to \$5.63Cdn per GJ for November and December 2010. In addition, WestFire has hedged natural gas prices on 2,500 GJs per day from January 2011 to October 31, 2011 through fixed price swaps at an average of \$5.82Cdn per GJ from January 2011 to March 2011, decreasing to \$5.54Cdn per GJ from April 2011 to October 2011.

As of March 31, 2010, 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 and NGL				
Swap (WTI)	50 barrels per day	\$82.00	January 2010	June 2010
Swap (WTI)	100 barrels per day	\$81.10	January 2010	June 2010
Costless Collar (WTI)	100 barrels per day	Floor \$75.00 Ceiling \$86.15	January 2010	June 2010
Swap (WTI) ⁽¹⁾	200 barrels per day	\$83.60	April 2010	September 2010
Swap (WTI)	150 barrels per day	\$85.10	July 2010	September 2010
Costless Collar (WTI)	100 barrels per day	Floor \$75.00 Ceiling \$96.00	July 2010	December 2010
Swap (WTI)	250 barrels per day	\$85.50	October 2010	December 2010
Costless Collar (WTI)	250 barrels per day	Floor \$75.00 Ceiling \$97.00	October 2010	December 2010
Swap (WTI) ⁽¹⁾	200 barrels per day	\$85.40	January 2011	June 2011
Costless Collar (WTI)	200 barrels per day	Floor \$75.00 Ceiling \$95.00	January 2011	June 2011
Costless Collar (WTI) ⁽¹⁾	150 barrels per day	Floor \$75.00 Ceiling \$98.35	July 2010	September 2010
Costless Collar (WTI) ⁽¹⁾	100 barrels per day	Floor \$80.00 Ceiling \$96.80	January 2011	June 2011
Swap (WTI) ⁽¹⁾	100 barrels per day	\$89.00	January 2011	June 2011
Natural Gas				
Swap (AECO)	1,250 GJ's per day	\$5.35	November 2009	October 2010
Swap (AECO)	1,250 GJ's per day	\$5.95	November 2009	October 2010
Swap (AECO)	750 GJ's per day	\$5.02	January 2010	December 2010
Swap (AECO)	2,000 GJ's per day	\$5.83	November 2010	March 2011
Swap (AECO)	500 GJ's per day	\$5.76	November 2010	October 2011
Swap (AECO)	2,000 GJ's per day	\$5.48	April 2011	October 2011

⁽¹⁾ Entered into subsequent to March 31, 2010

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

Commodity	Price Change	Net income change
Oil and NGL (\$/bbl)	\$1.00	\$ 85,613
Natural gas (\$/Mcf)	\$0.10	\$ 64,963

Crown and other royalties

(\$)	Three Months Ended March 31,	
	2010	2009
Total	1,249,967	907,776
Per boe	5.70	7.06
% of revenue	11.6%	20.3%

Total royalties in the first quarter of 2010 increased from the same periods in 2009 largely due to the increased revenues. Royalties have decreased on a per boe basis and as a percentage of revenue. Crown royalties have declined on a per boe and percent of revenue as a result of the Company's production in Alberta benefitting from the maximum 5% Crown royalty during the first year of production from new wells.

Operating expenses

(\$)	Three Months Ended March 31,	
	2010	2009
Total	3,406,399	2,364,455
Per boe	15.54	17.19
% of revenue	31.5%	49.5%

Operating costs were \$15.54 per boe during Q1 2010 which is a decrease of 10% from Q1 2009. Operating costs in total are higher than 2009 as WestFire acquired properties in June and December of 2009. Operating costs as a percent of revenue decreased partially due to the increase in commodity prices but has also been impacted by new production, particularly in the Redwater and Bashaw areas. Production from new wells drilled in 2009 is reducing the average cost per boe.

Transportation expenses

(\$)	Three Months Ended March 31,	
	2010	2009
Total	246,961	131,199
Per boe	1.13	0.95
% of revenue	2.3%	2.7%

Transportation expenses are incurred for services related to moving production to sales points, including oil hauling, and pipeline tariffs. The large increase from 2008 to 2009 is a result of the increase in volumes resulting from the 2009 acquisitions and drilling program. On a per boe basis and on a percentage of revenue basis, transportation costs are fairly consistent.

Netbacks ⁽¹⁾

\$ per boe	Three Months Ended March 31,	
	2010	2009
Revenue	49.35	34.73
Realized derivative gains	0.94	11.85
Royalties	(5.70)	(7.06)
Operating expenses	(15.54)	(17.19)
Transportation expenses	(1.13)	(0.95)
Netbacks	27.92	21.38

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

Netbacks have improved in the first quarter of 2010 over the same period of 2009 as a result of higher oil prices, a lower crown royalty rate on new production, and lower operating costs, which on an aggregate basis, more than offset the impact of a 92% decrease in realized derivative gains.

General and administration ("G&A") expenses

(\$)	Three Months Ended March 31,	
	2010	2009
Gross G&A expenses	1,168,914	721,200
Less: capitalized	(405,280)	(204,547)
Net G&A expenses	763,634	516,653
Per boe	3.48	3.76

G&A expenses decreased on a per boe basis due to the growth in production. At the end of March 2010, WestFire had twenty one office staff. In accordance with its full cost accounting policy, WestFire capitalizes G&A expenses associated with exploration and development activities. Gross and net general and administration expenses increased during Q1 2010 compared with Q1 2009 as a result of the various acquisitions which required additional staffing, office space and overhead.

Interest expense

(\$)	Three Months Ended March 31,	
	2010	2009
Interest expense	39,731	239,825

The Company raised money during the fourth quarter of 2009 and used some of the proceeds to apply against bank debt. In addition, interest expense in the first quarter of 2009 included a one-time bank fee of \$50,000 related to the change to a new financial institution and a one-time \$30,506 interest charge on unpaid Saskatchewan Resource Surcharges for 2005 on a company acquired by WestFire in 2008.

Stock based compensation

(\$)	Three Months Ended March 31,	
	2010	2009
Gross stock based compensation	277,732	279,453
Less: capitalized	(66,322)	(53,316)
Net stock based compensation	211,410	226,137

Stock based compensation is a non-cash expense, which represents the estimated fair value of stock based compensation granted to employees as part of WestFire's incentive package. Compensation costs attributable to the common share stock options granted to employees or directors are measured at fair value at the grant date and expensed to stock based compensation or capitalized to property, plant and equipment over the expected vesting time frame with a corresponding increase to contributed surplus. The Company's stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding common shares of the Company. The maximum number of common shares granted to any one option recipient during a twelve month period shall not exceed 5% of the outstanding common shares of the Company at the time of granting. These options have a term of five years to expiry and have a three year vesting period from the date of grant. In accordance with its full cost accounting policy, WestFire capitalizes stock based compensation expenses associated with exploration and development activities. On March 23, 2010 the Company granted 1,257,000 options at an exercise price of \$8.03 per share. Also during March 2010, 31,366 options were exercised while an additional 43,334 options were forfeited. As at March 31, 2010, there were 3,094,300 options outstanding compared with 1,852,300 options outstanding as at March 31, 2009.

Depletion, depreciation and accretion (DD&A)

(\$)	Three Months Ended March 31,	
	2010	2009
Depletion and depreciation	4,976,660	3,225,336
Accretion	143,215	85,914
Total	5,119,875	3,311,250
Per boe	23.36	24.08

Depletion is calculated based on the percentage of proved reserves produced during the period multiplied by the adjusted full cost pool. The adjusted full cost pool includes future development costs and excludes the cost of undeveloped lands and salvage value of equipment. The decrease in rate for Q1 2010 is predominantly due to the asset acquisitions in June and December 2009 being completed at more favorable valuations for proved reserves than the historical average.

Income taxes

For Q1 2010, the income tax expense was \$767,477, as compared to a recovery of \$583,525 for Q1 2009. Higher netbacks in Q1 2010 and lower costs per unit have resulted in net income as opposed to the net loss for Q1 2009. At March 31, 2010, WestFire has approximately \$284 million in tax pools and \$18 million in investment tax credits to offset against future taxable income.

Current taxes of \$73,477 for Q1 2010 were related to Saskatchewan capital taxes and the related resource royalty surcharge.

Net income and comprehensive income

Net income and comprehensive income for the three months ended March 31, 2010 was \$1,227,052 compared to a net loss of \$2,113,683 during the same period in 2009. The net income in 2010 is attributable to a combination of higher production volumes and oil prices and lower costs. Basic and diluted net income per share for the three months ended March 31, 2010 was \$0.03. This is compared to basic and diluted net loss per share of \$0.10 per share for the same period in 2009.

Liquidity and capital resources

During the first quarter of 2010, the Company's bank facility was a revolving credit facility in the amount of \$20,000,000. The interest rate charged on the bank facility ranged from the bank's prime plus 0.875% to prime plus 1.875% depending on the ratio of the Company's net debt to trailing cash flow. On April 30, 2010, the credit facility was increased to \$42,000,000. The interest rate charged on the bank facility ranged from the bank's prime plus 1.0% to prime plus 2.0% and is dependent on the ratio of the Company's net debt to trailing cash flow. The authorized limit of the facility will be reviewed on May 31, 2011. This facility is secured by the assets of the Company.

At March 31, 2010, the Company's bank line was drawn by \$4,303,055 while accounts payable exceeded current assets (excluding the future tax asset of \$9,302,000) by \$9,336,184 resulting in total net debt at \$13,639,239.

On April 30, 2010, WestFire completed the acquisition of three private companies for \$7,500,000. Simultaneously, WestFire entered into a "bought deal" financing agreement to raise gross proceeds of \$30,000,000 by issuing 3,750,000 shares at \$8.00 per share. These funds will be used to fund the acquisition of these private companies and to accelerate the Company's Viking development program.

Capital expenditures

(\$)	Three Months Ended March 31,	
	2010	2009
Land	631,855	721,333
Acquisitions	(282,078)	-
Geological and geophysical	368,972	231,020
Drilling and completions	15,612,413	1,453,929
Equipment and facilities	1,061,035	197,972
Office equipment	10,095	1,350
Cash funded capital expenditures	17,402,292	2,605,604
Additions to asset retirement obligations	(47,907)	(49,576)
Capitalized stock based compensation	66,322	53,316
Capital expenditures	17,420,707	2,609,344

Capital program for 2010

During Q1 2010, WestFire drilled 13 (10.6 net) wells of which 12 (9.6 net) wells were cased and or completed for a 92% success rate. Of the 13 wells drilled, 10 (8.4 net) were horizontally drilled in the Redwater area of Alberta, 1 (0.7) was vertically drilled in the Redwater area and two (1.5 net) were drilled in the Bashaw area of Alberta. Of the 10 horizontal wells drilled in Redwater, seven (5.4 net) were multi-stage fraced before March 31, 2010 while three (3.0 net) were multi stage fraced in April 2010. All of the wells fraced prior to March 31, 2010 were equipped and recovering completion fluid. The three wells fraced in April 2010 are just being equipped and will commence recovery of completion fluid in May 2010. The one (0.7 net) vertical well drilled in Redwater is awaiting completion which should occur after spring break-up. In Bashaw, one (0.5 net) well will be completed and tied in after spring break-up while the other well was dry and abandoned.

On March 3, 2009, The Alberta government also introduced a drilling royalty credit for new conventional oil and gas wells up to \$200 per meter drilled. As at March 31, 2010, approximately \$1,640,679 in Alberta drilling credits have been earned and recognized as a reduction to capital spending. As at March 31, 2010, WestFire had \$360,050 in credits that will be used to offset future Alberta Crown royalties' payable through to the end of March 2011.

During the second quarter, WestFire will drill three (3.0 net) horizontal wells and two (2.0 net) vertical wells on its West Central Saskatchewan Viking prone lands. In addition, the Company plans to drill five (5.0 net) horizontal wells on its Lloydminster Alberta heavy oil prospect. WestFire will commence drilling additional horizontal wells in Redwater but the number of wells will be dependent on the extent of the spring break-up.

With WestFire's expanding production base and successful first quarter drilling program of 13 gross (10.9 net) wells, primarily on the Viking light oil resource trend, the Company has increased its 2010 exploration, development and acquisitions budget from \$40 million to \$80 million. This increase will allow WestFire to accelerate the development of its large inventory of low risk, light oil projects. The expanded drilling program will result in 40 gross (36.4 net) Viking light oil horizontal wells being drilled in 2010.

In April 2010, WestFire closed the acquisition of three private companies which owned Viking Oil production and lands in the Provost Area of Alberta for a cash cost of \$7,500,000.

Economic Environment

The current economic environment outlook continues to show signs of recovery from the recent financial crisis. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity and debt. Maintaining our financial flexibility is of great importance in case the current commodity and credit markets deteriorate again. In addition, financial flexibility allows WestFire to capitalize on farm-in and acquisition opportunities in the Company's core areas of operations while profitably expanding the productive capacity of WestFire.

Related party transactions:

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

- (a) A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the three months ended March 31, 2010, included in general and administrative expenses and share issue expenses are amounts totaling \$0 (2009 - \$42,000) and \$64,248 (2009 - \$0) respectively, charged to the Company by BDP. At March 31, 2010, \$64,248 (December 31, 2009 - \$560,934) was included in accounts payable.

Commitments

- (a) The Company has a commitment to lease office space for \$46,883 per month from March 1, 2010 to November 30, 2010. The Company negotiated an extension to this lease for \$27,094 per month from December 1, 2010 to November 30, 2013. A portion of the office space has been subleased until November 30, 2010 for \$6,000 per month. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2010	\$400,630	\$(48,000)	\$352,630
2011	\$325,128	-	\$325,128
2012	\$325,128	-	\$325,128
2013	\$298,034	-	\$298,034

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

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2010	\$98,856	\$(90,063)	\$8,793
2011	\$131,805	\$(10,007)	\$121,798
2012	\$131,805	-	\$131,805

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

Year ending December 31,	
2010	\$90,735
2011	\$41,486

- (d) During the first quarter of 2010, WestFire committed to drill one well in Alberta. The commitment is pursuant to a farm-in agreement with an industry partner. The Company expects to satisfy this drilling commitment at an estimated cost of \$1,400,000. There will be a penalty of \$500,000 if the well is not drilled by June 30, 2010.

- (e) During the second quarter of 2009, the Company issued flow-through common shares and has until December 31, 2010 to expend \$1,541,938 on qualifying flow-through expenditures and to renounce those expenditures to the investors. The Company has incurred approximately \$1,200,000 of these expenditures as of March 31, 2010 and renounced the related tax benefits in February of 2010.

Off-balance sheet obligations and financial instruments

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

Disclosure Controls and Procedures

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

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

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

Additional Information

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

International Financial Reporting Standards

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

Management is continuing to finalize its accounting policies and is unable to quantify the impact on the financial statements of adopting IFRS at this time. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to WestFire's adoption of IFRS, certain items may be subject to change based on new facts and circumstances that arise after the date of this MD&A.

Management is currently determining the amount of its exploration and evaluation assets ("E&E") that will be classified separately from PP&E and is allocating the carrying value of its PP&E to the underlying assets using the January 1, 2010 reserve report as it is allowed under IFRS 1 described below.

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

- Business Combinations – IFRS 1 would allow WestFire to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.
- Share-based payments – IFRS 1 allows WestFire an exemption on IFRS 2, "Share-Based Payments" to equity instruments which vested before WestFire's transition date to IFRS.

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

- Exploration and Evaluation ("E&E") expenditures – On transition to IFRS, WestFire will re-classify all E&E expenditures that are currently included in the PP&E balance on the Consolidated Balance Sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.
- Depletion expense – On transition to IFRS WestFire has the option to base the depletion calculation using either proved reserves or proved and probable reserves. WestFire has not concluded at this time which method it will use.
- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed on specific portions of PP&E as opposed to the entire PP&E balance which is currently required under Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves.
- Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets in January 2010, Management is still determining the impact of these revised standards on its IFRS transition.

Outlook

WestFire continues to be successful in achieving its goal of cost effective per share growth in reserves, production and funds flow from operations through its integrated strategy of acquisitions, enhancement and exploitation. The Company believes that it is well positioned to execute its business strategy with an extensive, resource-based drilling inventory focused on the Viking formation. This drilling inventory includes in excess of 500 potential horizontal Viking oil development locations which represents numerous years of drilling. WestFire is in the enviable position of having a clean balance sheet, unused bank lines, a large inventory of light oil drilling opportunities and a growing production base that is oriented towards light oil.

Based on the first quarter drilling success, the acquisition at Provost, the increased credit facility and an equity financing, WestFire has upwardly revised its 2010 capital expenditure budget to \$80 million. This capital program includes the drilling of 49 (45 net) wells which represents 73% of the total capital expenditures. The focus will be on the Viking light oil resource play and will result in a total of 40 (36.4 net) wells being drilled. Based on this expanded capital budget, the Company has increased its 2010 guidance of average production to 2,750 boepd (greater than 50% oil) and December 2010 average production rate to 3,600 boepd (greater than 60% oil).

WestFire is in its first year of operations as a public entity and believes that it is well positioned to deliver superior per share growth. The Company has a strong balance sheet, high netback production, significant development drilling inventory and a dedicated operating team guided by an experienced board of directors. The Company has established itself as a premier exploitation and production company in the growing Viking resource play in the Western Canadian Sedimentary Basin. By enhancing our capital efficiencies through a larger focused program and maintaining our low cost structure on all fronts, including operating and general and administrative costs, we believe we can continue to grow the underlying asset value of the Company. WestFire trades on the Toronto Stock Exchange under the symbol "WFE".

Summary of Quarterly Results

(\$000, except per share amounts)	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and gas sales	10,818	6,957	4,271	4,225	4,777	5,967	8,005	6,157
Net income (loss)	1,227	11,829	(1,812)	(1,267)	(2,114)	934	4,041	(3,427)
Net income (loss) per share								
– basic and diluted	0.03	0.43	(0.07)	(0.06)	(0.10)	0.06	0.25	(0.30)
Cash flow from operating activities	6,678	2,585	1,671	2,871	(545)	3,869	3,267	2,384
Cash flow from operating activities per share								
– basic and diluted	0.19	0.09	0.06	0.13	(0.03)	0.24	0.20	0.21
Funds flow from operations	5,268	2,674	681	2,054	1,986	2,895	2,943	1,850
Funds flow from operations per share								
– basic and diluted	0.15	0.10	0.03	0.09	0.09	0.18	0.18	0.16
Working capital (deficiency) ⁽¹⁾	(4,337)	6,592	(2,562)	3,342	(9,039)	(7,444)	1,286	(25,069)
Total assets	194,257	179,927	117,938	113,115	106,354	107,627	79,324	67,841
Total liabilities	34,546	21,604	17,553	11,199	25,258	24,324	14,769	31,780
Weighted average shares – basic (000s)	35,191	27,734	26,513	21,887	20,435	16,327	15,970	11,541
Weighted average shares – diluted (000s)	35,499	27,734	26,513	21,887	20,435	16,327	16,095	11,575
Capital expenditures (including non-cash)	17,421	32,998	6,750	6,722	2,609	14,079	5,059	26,665

⁽¹⁾ Working capital is calculated as current assets less current liabilities.

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 March 31	
	2010	2009
Cash provided by operating activities	\$6,677,617	\$ (544,673)
Change in non-cash working capital	(1,409,539)	2,530,353
Funds flow from operations	\$5,268,078	\$ 1,985,680

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

Forward-Looking Statements

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

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

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

Financial Statements

Consolidated Balance Sheets

Unaudited

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 273,871
Accounts receivable (note 9)	7,821,716	6,455,647
Risk management contracts (note 9)	1,422,272	-
Future tax asset	9,302,000	9,971,000
Prepaid expenses and deposits	549,511	476,831
	19,095,499	17,177,349
Property, plant and equipment (note 3)	122,398,917	109,954,870
Future tax asset	52,375,000	52,795,000
Risk management contracts (note 9)	387,257	-
	\$ 194,256,673	\$ 179,927,219
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,129,683	\$ 10,410,495
Bank debt (note 4)	4,303,055	-
Risk management contracts (note 9)	-	174,730
	23,432,738	10,585,225
Asset retirement obligations (note 5)	11,113,751	11,018,443
	34,546,489	21,603,668
Shareholders' Equity		
Share capital (note 6)	146,296,430	146,360,515
Contributed surplus (note 6c)	1,908,674	1,685,008
Retained earnings	11,505,080	10,278,028
	159,710,184	158,323,551
	\$ 194,256,673	\$ 179,927,219
Commitments (note 8)		

See accompanying notes to financial statements.

Consolidated Statements of Income, Comprehensive Income and Retained Earnings

Unaudited

	Three Months Ended March 31,	
	2010	2009
Revenue:		
Petroleum and natural gas	\$ 10,818,117	\$ 4,776,535
Interest and other revenue	23,872	(21,230)
Crown and other royalties	(1,249,967)	(970,776)
	9,592,022	3,784,529
Realized gain on financial instruments (note 9)	206,258	1,629,427
Unrealized gain (loss) on financial instruments (note 9)	1,984,259	(1,321,645)
	11,782,539	4,092,311
Expenses:		
Operating	3,406,399	2,364,455
Transportation	246,961	131,199
Interest	39,731	239,825
General and administrative	763,634	516,653
Stock based compensation (note 6e)	211,410	226,137
Depletion, depreciation and accretion	5,119,875	3,311,250
	9,788,010	6,789,519
Income (loss) before taxes	1,994,529	(2,697,208)
Provision for (recovery of) income taxes		
Capital and current income taxes	73,477	199,475
Future income tax expense (recovery)	694,000	(783,000)
	767,477	(583,525)
Net income (loss) and comprehensive income (loss)	1,227,052	(2,113,683)
Retained earnings, beginning of the period	10,278,028	3,641,629
Retained earnings, end of the period	\$ 11,505,080	\$ 1,527,946
Net income (loss) per share:		
Per share basic and diluted	\$ 0.03	(\$ 0.10)
Weighted average common shares		
Basic	35,190,593	20,435,382
Diluted	35,498,791	20,435,382

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

Unaudited

	Three Months Ended March 31,	
	2010	2009
<hr/>		
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the year	\$ 1,227,052	\$ (2,113,683)
Add (deduct) items not affecting cash:		
Depletion, depreciation and accretion	5,119,875	3,311,250
Unrealized loss (gain) on financial instruments	(1,984,259)	1,321,645
Future income taxes (recovery)	694,000	(783,000)
Stock based compensation	211,410	226,137
Loss on sale of non-oil and gas assets	-	2,347
Employee stock purchase plan	-	20,984
	<hr/> 5,268,078	1,985,680
Change in non-cash working capital	1,409,539	(2,530,353)
	<hr/> 6,677,617	(544,673)
Financing activities:		
Increase in bank debt	4,303,055	7,466,212
Proceeds of share issue net of issue costs	178,139	-
	<hr/> 4,481,194	7,466,212
Investing activities:		
Petroleum and natural gas properties	(17,402,292)	(2,605,604)
Proceeds from the sale of assets	-	9,600
Change in non-cash working capital	5,969,610	(3,320,323)
	<hr/> (11,432,682)	(5,916,327)
Net increase (decrease) in cash during the period	(273,871)	1,005,212
Cash and cash equivalents, beginning of the period	273,871	-
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	\$ -	\$ 1,005,212
<hr/>		
Supplementary disclosure		
Cash interest paid	\$ 39,731	\$ 209,825
Cash taxes paid	\$ 73,477	\$ 199,475
	<hr/>	<hr/>

See accompanying notes to financial statements.

Notes to the Consolidated Financial Statements

For three months ended March 31, 2010 and 2009

1. Basis of presentation

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.

These consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles following the accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual report for the year ended December 31, 2009.

2. Corporate acquisition

Acquisition of Exceed Energy Inc.

The Company acquired all of the issued and outstanding shares of Exceed Energy Inc. ("EEI") pursuant to a share exchange on December 18, 2009 whereby the Company issued 645,229 common shares valued at \$5.00 per common share, in exchange for all of the issued and outstanding shares of EEI. The acquisition is accounted for by the purchase method, with the assets and liabilities recorded at their fair value as follows:

Net assets acquired:	
Accounts receivable and prepaid expenses	\$ 355,841
Property, plant and equipment	4,584,674
Future tax asset	1,661,000
Accounts payable	(1,191,548)
Bank overdraft	(1,830,000)
Asset retirement obligations	(353,822)
Total purchase price	\$ 3,226,145

Consideration given:

Common shares (645,229 shares at \$5.00 per share)	\$ 3,226,145
--	--------------

As a condition of the acquisition of EEI, 25% of the 645,229 shares issued representing approximately 161,306 shares have been placed in escrow pending the resolution of an audit by the Canada Revenue Agency as to the renounced flow through expenditures for flow through shares issued by EEI.

3. Property, plant and equipment

March 31, 2010			
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	\$ 147,936,142	\$ 25,650,725	\$ 122,285,417
Office equipment	186,599	73,099	113,500
	\$ 148,122,741	\$ 25,723,824	\$ 122,398,917

December 31, 2009			
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	\$ 130,525,570	\$ 20,682,725	\$ 109,842,845
Office equipment	176,464	64,439	112,025
	\$ 130,702,034	\$ 20,747,164	\$ 109,954,870

During the three months ended March 31, 2010, the Company capitalized general and administrative expenses in the amount of \$405,280 (March 31, 2009 - \$204,547) related to acquisition, exploration and development activities.

As at March 31, 2010, unproved oil and gas properties amounting to \$10,964,388 (2009 - \$3,803,005) were excluded from the depletion and depreciation calculation. Future development costs on proved undeveloped reserves of \$16,814,000 (2009 - \$4,911,000) are included in the depletion calculation for the 2010 period.

4. Bank debt

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

5. Asset retirement obligation

The total future asset retirement obligation was estimated by management based on the expected cost to abandon and restore the well sites and the facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated that the total undiscounted amount of cash flows required to settle its asset retirement obligations at March 31, 2010 was \$18,725,245 (December 31, 2009 - \$18,793,885) which will be incurred between 2010 and 2020. The Company used a credit adjusted risk free rate of 7.5% to calculate the present value of the asset retirement obligations and an inflation rate of 2% was used to inflate the costs.

Changes to the asset retirement obligations were as follows:

	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 11,018,443	\$ 6,609,156
Liabilities incurred	69,829	234,683
Liabilities acquired	-	4,859,788
Accretion	143,215	363,761
Dispositions	-	(71,968)
Revision to estimates	(117,736)	(976,977)
Balance, end of period	\$ 11,113,751	\$ 11,018,443

6. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of non-voting common shares.

(b) Common shares, issued and outstanding

	Number of shares	Amount
Balance, December 31, 2008	20,435,382	\$ 79,096,127
Issued for cash ⁽ⁱ⁾	5,267,480	18,436,180
Issued for cash ⁽ⁱⁱ⁾	362,809	1,541,938
Issued for oil and gas properties ⁽ⁱⁱⁱ⁾	447,059	1,900,001
Issued for cash ^(iv)	8,000,000	45,040,000
Issued for shares of Exceed Energy Inc. ^(v)	645,229	3,226,145
Tax effect of flow through shares	-	(373,000)
Share issue expenses (net of \$932,000 of taxes)	-	(2,506,876)
Balance, December 31, 2009	35,157,959	\$ 146,360,515
Issued pursuant to the 2009 Employee Stock Purchase Plan ^(vi)	52,357	197,509
Issued on option exercise ^(vii)	31,666	156,664
Tax effect of flow through shares	-	(416,000)
Transfer from contributed surplus on exercise of stock options	-	54,065
Share issue expenses (net of \$21,000 of taxes)	-	(56,323)
Balance, March 31, 2010	35,241,982	\$ 146,296,430

(i) During the second quarter of 2009, the Company completed private placements issuing 5,267,480 common shares at an issue price of \$3.50 per common share raising gross proceeds of \$18,436,180 before issue costs.

(ii) During the second quarter of 2009, the Company completed private placements issuing 362,809 flow through common shares at an issue price of \$4.25 per common share raising gross proceeds of \$1,541,938 before issue costs.

(iii) On June 18, 2009, the Company acquired oil and natural gas assets for \$9,846,458 paying cash of \$7,946,457 and issuing 447,059 common shares valued at \$4.25 per share.

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

(v) On December 18, 2009, the Company closed the purchase of all of the issued and outstanding shares of Exceed Energy Inc. for \$3,226,145. WestFire issued 645,229 common shares valued at \$5.00 per share.

(vi) On February 15, 2010, the Company issued 52,357 common shares at a value of \$197,509 pursuant to the 2009 Employee Stock Savings Plan.

(vii) On March 11, 2010, the Company issued 31,666 common shares for cash of \$156,664 upon the exercise of options.

(c) Contributed surplus

Balance, December 31, 2008	\$ 565,599
Stock based compensation	1,119,409
Balance, December 31, 2009	\$ 1,685,008
Stock based compensation	277,731
Reclass to share capital upon stock option exercise	(54,065)
Balance, March 31, 2010	\$ 1,908,674

6. Share capital (continued)

(d) Stock options

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

	Number Of Options	Weighted Average Exercise Prices
Balance, December 31, 2008	1,852,300	\$ 5.16
Granted	60,000	\$ 3.63
Balance, December 31, 2009	1,912,300	\$ 5.12
Granted	1,257,000	\$ 8.03
Forfeited	(43,334)	\$ 5.50
Exercised	(31,666)	\$ 4.95
Balance, March 31, 2010	3,094,300	\$ 6.30

Outstanding options			Exercisable options		
Exercise price (\$/share)	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price (\$/share)	Number of options exercisable	Weighted average exercise price (\$/share)
\$3.50	30,000	4.4	\$3.50	-	-
\$3.75	469,400	2.9	\$3.75	292,932	\$3.75
\$5.00	505,400	3.1	\$5.00	168,459	\$5.00
\$6.00	832,500	3.7	\$6.00	277,498	\$6.00
\$8.03	1,257,000	5.0	\$8.03	-	-
	3,094,300	4.0	\$6.30	738,889	\$4.88

(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 the options granted in the first quarter of 2010: dividend yield – nil, expected volatility 75%, risk-free interest rate 2.3%, and weighted average life of 5.0 years. Forfeitures are recognized as they occur. The weighted average fair value of stock options granted during the quarter ended March 31, 2010 was \$5.29 per option. There were no options granted during the first quarter of 2009.

7. Related party transactions

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

- A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the three months ended March 31, 2010, included in general and administrative expenses, share issue expenses, and transaction costs are amounts totaling \$ 0 (2009 - \$42,000) and \$64,248 (2009 - \$0) respectively, charged to the Company by BDP. At March 31, 2010, \$64,248 (December 31, 2009 - \$560,934) was included in accounts payable.

8. Commitments

- (a) The Company has a commitment to lease office space for \$46,883 per month from March 1 to November 30, 2010. The Company negotiated an extension to this lease for \$27,094 per month from December 1, 2010 to November 30, 2013. A portion of the office space has been subleased until November 30, 2010 for \$6,000 per month. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2010	\$ 400,630	\$ (48,000)	\$ 352,630
2011	\$ 325,128	-	\$ 325,128
2012	\$ 325,128	-	\$ 325,128
2013	\$ 298,034	-	\$ 298,034

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

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
2010	\$ 98,856	\$ (90,063)	\$ 8,793
2011	\$ 131,805	\$ (10,007)	\$ 121,798
2012	\$ 131,805	\$ -	\$ 131,805

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

Year ending December 31,	
2010	\$ 90,735
2011	\$ 41,486

- (d) During the first quarter of 2010, WestFire committed to drill one well in Alberta. The commitment is pursuant to a farm-in agreement with an industry partner. The Company expects to satisfy this drilling commitment at an estimated cost of \$1,400,000. There will be a penalty of \$500,000 if the well is not drilled by June 30, 2010.
- (e) During the second quarter of 2009, the Company issued flow-through common shares and has until December 31, 2010 to expend \$1,541,938 on qualifying flow-through expenditures and to renounce those expenditures to the investors. The Company had incurred approximately \$1,200,000 of these expenditures as of March 31, 2010 and renounced the related tax benefits in February of 2010.

9. Financial instruments

Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The use of these risk management contracts is governed by a formal policy and is subject to maximum limits established by the Board of Directors. The Company has entered into the following financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital. For the three months ended March 31, 2010, the Company's risk management program had a net realized gain of \$206,258 (2009 – \$1,629,427).

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 and NGL				
Swap (WTI)	50 barrels per day	\$82.00	January 2010	June 2010
Swap (WTI)	100 barrels per day	\$81.10	January 2010	June 2010
Costless Collar (WTI)	100 barrels per day	Floor \$75.00 Ceiling \$86.15	January 2010	June 2010
Swap (WTI) ⁽¹⁾	200 barrels per day	\$83.60	April 2010	September 2010
Swap (WTI)	150 barrels per day	\$85.10	July 2010	September 2010
Costless Collar (WTI)	100 barrels per day	Floor \$75.00 Ceiling \$96.00	July 2010	December 2010
Swap (WTI)	250 barrels per day	\$85.50	October 2010	December 2010
Costless Collar (WTI)	250 barrels per day	Floor \$75.00 Ceiling \$97.00	October 2010	December 2010
Swap (WTI) ⁽¹⁾	200 barrels per day	\$85.40	January 2011	June 2011
Costless Collar (WTI) ⁽¹⁾	200 barrels per day	Floor \$75.00 Ceiling \$95.00	January 2011	June 2011
Costless Collar (WTI)	150 barrels per day	Floor \$75.00 Ceiling \$98.35	July 2010	September 2010
Costless Collar (WTI)	100 barrels per day	Floor \$80.00 Ceiling \$96.80	January 2011	June 2011
Swap (WTI)	100 barrels per day	\$89.00	January 2011	June 2011
Natural Gas				
Swap (AECO)	1,250 GJ's per day	\$5.35	November 2009	October 2010
Swap (AECO)	1,250 GJ's per day	\$5.95	November 2009	October 2010
Swap (AECO)	750 GJ's per day	\$5.02	January 2010	December 2010
Swap (AECO) ⁽¹⁾	2,000 GJ's per day	\$5.83	November 2010	March 2011
Swap (AECO)	500 GJ's per day	\$5.76	November 2010	October 2011
Swap (AECO) ⁽¹⁾	2,000 GJ's per day	\$5.48	April 2011	October 2011

⁽¹⁾ Entered into subsequent to March 31, 2010

At March 31, 2010, a current asset of \$1,442,272 and a long term asset of \$387,257 (December 31, 2009 – current liability of \$174,730) was recorded on the Company's balance sheet resulting in an unrealized derivative gain of \$1,984,259 for the three months ended March 31, 2010 (2009 – loss of \$1,321,645).

10. Subsequent events

- (a) In April 2010, WestFire closed the acquisition of three private companies which owned Viking Oil production and lands in the Provost Area of Alberta for a cash cost of \$7,500,000.
- (b) On May 3, 2010 the Company entered into an agreement with a syndicate of underwriters to issue 3,750,000 common shares at an issue price of \$8.00 per share for gross proceeds of \$30 million on a bought-deal basis.

Corporate Information

Directors

Ed Chwyl, ^{(2) (3)}
Victoria, B.C.

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

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

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

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

Michael McGovern ^{(1) (2) (3)}
Houston, Texas

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

Auditors

PricewaterhouseCoopers LLP

Evaluation Engineers

GLJ Petroleum Consultants

Banker

ATB Financial

Legal Counsel

Burnet, Duckworth and Palmer LLP

Officers

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

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

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

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

A. Caroline Banks, CA
Controller

Alan T. Pettie, LL.B.
Corporate Secretary

Corporate Office

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

Website: www.westfireenergy.com

Contact: Lowell E. Jackson
Email: ljackson@westfireenergy.com

Contact: D. Stephen Burttt
Email: sburttt@westfireenergy.com