



Annual Report

Financial Statements Restated (note 15)

December 31, 2007

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Profile

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

- Significant undeveloped land with high working interests and operatorship;
- Multi-zone potential and/or capacity for large, scalable reserves;
- Available infrastructure; and
- All-season access.

WestFire's 2008 capital budget of approximately \$36.5 million (which includes a \$24.4 million acquisition) is forecast to generate average 2008 production of 1,000 boe per day, weighted approximately 50 percent to oil with an exit rate of 1600 to 1900 boe per day. Cash flow is forecast at \$10 to \$12 million, based on a crude oil price of US\$100.00 per barrel WTI and an AECO natural gas price of \$8.30 per mcf. WestFire forecasts strong financial flexibility with its bank line expected to be increased to \$20 million, forecast year-end debt of \$12 million and forecast debt to December 2008 annualized cash flow of 0.65 times.

Annual General Meeting

Shareholders are cordially invited to attend the Annual General Meeting of WestFire Energy Ltd., which will be held at 2:00 pm Mountain Daylight Time on June 25, 2008 at the offices of Burnet, Duckworth and Palmer at Suite 1400, 350 – 7th Avenue S.W., Calgary, Alberta, Canada. If unable to attend, shareholders are requested to complete and return the Proxy form to the Corporate Secretary of the Corporation.

Message to our Shareholders

The Transformation

I am pleased to report that during 2007, WestFire Energy Ltd. completed the transformation from a company that did research and development of plasma television technology into an organization focused on oil and gas exploration and development. The conversion commenced in March 2007 with the appointment of Daryl Gilbert as interim president and the first acquisition of two small non-operated natural gas wells. On December 13, 2007, WestFire made a second acquisition; a small oil and natural gas company, Northern Challenger Exploration Ltd. ("NCEL") which was assembling an experienced oil and gas management team. The transformation was completed subsequent to year end with a third transaction in which WestFire acquired K-Town Energy Ltd. ("K-Town") The K-Town acquisition boosted WestFire's daily production to the 800 to 1000 boe/d range. This transformation will have a profound effect on WestFire's future fortunes.

At the same time, WestFire reorganized the Board of Directors with an emphasis on directors with oil and gas experience. The new Board of Directors has an extensive and impressive background in creating value for oil and gas companies. The Chairman of the Board is Ed Chwyl, a petroleum engineer with in excess of 40 years of oil and gas experience. Ed was formerly president and CEO of Tarragon Oil and Gas Limited and from 1989 to 1998, built Tarragon from 300 boe/d to over 40,000 boe/d. Ed is also the Chairman of the Board at Baytex Energy Trust. Also joining the Board from NCEL was Chuck Charlton, an investment banker with over 30 years of oil and gas investment experience. Experienced oil and gas directors who were early shareholders of WestFire included John Brussa, a partner at the law firm of Burnet Duckworth and Palmer, and Paul Colborne, who has started and grown four significant companies including Startech Energy, Crescent Point Energy, StarPoint Energy and TriStar Oil and Gas Ltd. Ray Chan CA and the CEO of Baytex Energy Trust joined the Board and is Chairman of the Company's audit committee. Henry Dunfield joined in March 2008 after WestFire completed the acquisition of Henry's company, K-Town. Finally, on April 29, 2008, Rob Duguid, the Vice President, Investments of PFM Capital inc. in Regina, Saskatchewan agreed to join the board. Rob invests and manages portfolios for a group of investment funds and sits on numerous boards. More detailed biographies of our directors are available on the Company's website.

During 2007, the Company raised \$11.4 million of flow-through and common equity to a broad group of new shareholders. The shares were consolidated on a 7 for 1 basis leaving 5,014,706 shares outstanding at December 31, 2007 with only one shareholder holding slightly more than 10%. At the same time, management and directors have also stepped in to assist in the recapitalization of WestFire. After completion of the K-Town acquisition and equity placement, management and directors directly owned 31% of the outstanding shares of the Company.

The three acquisitions have increased the size of WestFire and have created a critical mass from which the Company can survive and grow in an environment of volatile commodity prices and equity markets plus rapidly changing regulatory requirements. This growth has also meant people changes, not only at the board level, but at the operational level as well. Today, WestFire has 12 employees at its Calgary, Alberta head office and an additional 8 employees at its operational center of Kindersley Saskatchewan. I am pleased to say that each and every member of our staff is also a shareholder.

Although WestFire is now larger in terms of assets and people, our primary goal remains the creation of shareholder value. Since the oil and gas industry is going through a cycle of acquisition and consolidation of assets, our strategy is to concentrate on acquiring and enhancing oil and gas reserves through technical, operational and financial activities. Exploration projects will be limited for the time being to identifying and capturing an inventory of internally generated opportunities which will complement the acquisitions. Our technical efforts will incorporate extensive regional geological analysis, meticulous geophysical interpretation and advanced reservoir engineering, all of which utilize state of the art technology. Our guiding principles are to:

- 1 pursue oil and gas prospects in the Western Canadian sedimentary basin;
- 2 assemble large land interests in diversified core areas and maintain large working interests and operatorship;
- 3 generate prospects internally; and
- 4 manage levels of debt.

By adhering to these principles, we will develop an inventory of exploration and development prospects that will have a meaningful impact on the Company now and in the future.

What's Next

Entering 2008, the year promises to be very active and exciting. It is anticipated that the market will be very strong for both corporate and asset acquisitions. Any acquisition that can add significant values, complements current programs and will provide low finding and development costs will be pursued. The inventory of exploration projects will be built up adjacent to the properties acquired.

The above noted acquisitions, people changes and application of our growth strategy has created profound changes for WestFire. We look forward to reporting on the impact of these changes as 2008 progresses.

Acknowledgements

WestFire has undergone a dramatic change in the past year which could not have been accomplished without the hard work and dedication of our staff. We would like to thank our employees for their efforts and for working together to create value for the Company's shareholders.

In closing, I would like to thank our Board of Directors for their wisdom and guidance throughout the year. I would also like to thank our many shareholders for their support.

On behalf of the Board of Directors

(signed)

Lowell E. Jackson, P.Eng.

President and Chief Executive Officer

Reserves

GLJ Petroleum Consultants (GLJ) has completed an independent reserves assessment and evaluation of the oil and gas properties of WestFire Energy Ltd. This includes the properties recently acquired from K-Town. The effective date of the evaluation is December 31, 2007. (the "GLJ Report"). GLJ January 2008 price forecasts have been utilized in the analysis. As this is WestFire's first Reserves Report, a reconciliation of the reserves was not completed.

The evaluation has been prepared in accordance with reserves definitions, standards and procedures contained as set out by NI51-101 and contained in the Canadian Oil and Gas Evaluation Handbook.

WestFire has a reserves committee comprised of independent board members which reviews the qualifications and appointment of the independent reserve evaluators and reviews the process for providing information to the evaluators. The GLJ Report was reviewed by the reserves committee of WestFire and was approved March 26, 2008.

Proved plus probable reserves were 3.23 million barrels of oil equivalent while total proved were 1.95 million barrels of oil equivalent at December 31, 2007. On a proved plus probable basis, the Company's current mix of reserves are 47% light/medium crude and natural gas liquids, 35% heavy crude and 18% natural gas.

The net present value (before tax discounted at 10 percent) of the Company's reserves on a proved plus probable basis is \$49.9 million.

Breakdown of Reserves (Forecast Prices and Costs)

Company Working Interest Reserves:

	Proved Developed Producing	Proved Developed Non- Producing	Proved Undeveloped	Total Proved	Total Probable	Total Proved plus Probable
Light and Medium Crude Oil (mdbl)	1,031	0	20	1,051	400	1,451
Heavy Crude Oil (mdbl)	425	85	0	509	630	1,139
Natural Gas (mmcf)	1,606	591	7	2,204	1,293	3,497
Natural Gas Liquids (mdbl)	25	0	0	26	27	53
Barrels of Oil Equivalent (mboe) ⁽¹⁾	1,748	183	22	1,953	1,273	3,226

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

Numbers in this table are subject to round off error.

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

	Future Net Revenue Before Income Tax				
	0%	5%	10%	15%	20%
Proved Developed Producing	43,149	34,608	28,974	25,093	22,259
Proved Developed Non-Producing	3,135	2,717	2,385	2,116	1,895
Proved Undeveloped	1,037	933	848	777	718
Total Proved	47,320	38,258	32,207	27,976	24,873
Probable	31,069	22,669	17,681	14,418	12,111
Total Proved plus Probable	78,389	60,927	49,888	42,394	36,984

Net present value of future net revenue does not represent fair market value of the reserves.
Numbers in this table are subject to round off error.

Additional Information Concerning Future Net Revenue (Forecast Prices and Costs)

	Revenue	Royalties	Operating Costs	Development Costs	Abandonment Costs	Future Net Revenue Before Income Tax
	\$M	\$M	\$M	\$M	\$M	\$M
Total Proved Reserves	127,740	16,331	58,702	870	4,517	47,320
Total Proved plus Probable Reserves	205,914	29,329	87,969	4,783	5,444	78,389

Numbers in this table are subject to round off error.

Breakdown of Reserves by Corporate Entity (Forecast Prices and Costs)

Company Working Interest Reserves:

	WestFire Energy Ltd.		K-Town Energy Ltd.	
	Barrels of Oil Equivalent (mboe) ⁽¹⁾	Future Net Revenue Before Income Tax (disc @ 10%)	Barrels of Oil Equivalent (mboe) ⁽¹⁾	Future Net Revenue Before Income Tax (disc @ 10%)
Proved Developed Producing	117	2,771	1,631	26,203
Proved Developed Non-Producing	9	153	174	2,231
Proved Undeveloped	22	848	0	0
Total Proved	148	3,772	1,805	28,435
Probable	125	1,722	1,148	15,960
Total Proved plus Probable	273	5,494	2,952	44,394

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

Numbers in this table are subject to round off error.

GLJ Petroleum Consultants
Crude Oil and Natural Gas Liquids
Price Forecast
Effective January 1, 2008 (1)

Year	Inflation %	Bank of Canada	Alberta Natural Gas Liquids									
		Average Noon Exchange Rate \$US/\$Cdn	WTI \$US/bbl	Edmonton \$Cdn/bbl	Lloyd Blend at Hardisty \$Cdn/bbl	Heavy Crude at Hardisty \$Cdn/bbl	Medium Crude at Cromer \$Cdn/bbl	Spec Ethane \$Cdn/bbl	Edmonton Propane \$Cdn/bbl	Edmonton Butane \$Cdn/bbl	Edmonton Pentanes Plus \$Cdn/bbl	
			(2)	(3)	(4)	(5)	(6)					
2008	2.0	1.000	92.00	91.10	63.77	54.02	79.26	22.73	58.30	72.88	92.92	
2009	2.0	1.000	88.00	87.10	60.97	51.61	75.78	25.49	55.74	69.68	88.84	
2010	2.0	1.000	84.00	83.10	58.17	49.19	72.30	25.66	53.18	66.48	84.76	
2011	2.0	1.000	82.00	81.10	56.77	47.98	70.56	25.66	51.90	64.88	82.72	
2012	2.0	1.000	82.00	81.10	56.77	47.98	70.56	25.66	51.90	64.88	82.72	
2013	2.0	1.000	82.00	81.10	57.58	49.04	70.56	25.66	51.90	64.88	82.72	
2014	2.0	1.000	82.00	81.10	58.39	50.09	70.56	26.35	51.90	64.88	82.72	
2015	2.0	1.000	82.00	81.10	59.20	51.15	70.56	26.94	51.90	64.88	82.72	
2016	2.0	1.000	82.02	81.12	60.03	52.21	70.57	27.52	51.91	64.89	82.74	
2017	2.0	1.000	83.66	82.76	61.24	53.29	72.00	28.11	52.97	66.21	84.42	
2018+	2.0	1.000	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr		Escalate at 2.0 % per year			

- (1) Then Current Dollars
- (2) NYMEX WTI Near Month Futures Contract Crude Oil at Cushing Oklahoma
- (3) Light, Sweet Crude Oil (40 API, 0.3%S) at Edmonton
- (4) Lloyd Blend Stream Quality at Hardisty
- (5) Heavy Crude Oil Proxy (12 API) at Hardisty
- (6) Medium Crude Oil (29 API, 2.0%S) at Cromer

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

Revised: 31-Dec-07

GLJ Petroleum Consultants
Natural Gas
Price Forecast
Effective January 1, 2008

Year	NYMEX		Alberta Plant Gate					Saskatchewan Plant Gate	
	Futures Contract	Midwest Price @ Chicago	AECO/ NIT Spot	Spot	ARP	Aggregator	Alliance	Sask Energy	Spot
	Last 3 Day Price								
	\$US/mmbtu	\$US/mmbtu	\$Cdn/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu
2008	7.50	7.40	6.75	6.53	6.44	6.17	5.92	6.57	6.69
2009	8.25	8.20	7.55	7.33	7.24	6.99	6.68	7.37	7.49
2010	8.25	8.25	7.60	7.37	7.31	7.11	6.73	7.44	7.54
2011	8.25	8.35	7.60	7.37	7.31	7.11	6.83	7.44	7.54
2012	8.25	8.35	7.60	7.37	7.31	7.11	6.83	7.44	7.54
2013	8.25	8.35	7.60	7.37	7.31	7.11	6.83	7.44	7.54
2014	8.45	8.55	7.80	7.57	7.51	7.30	7.02	7.64	7.74
2015	8.62	8.72	7.97	7.74	7.67	7.47	7.18	7.80	7.91
2016	8.79	8.89	8.14	7.91	7.84	7.63	7.34	7.97	8.05
2017	8.96	9.06	8.31	8.08	8.01	7.79	7.51	8.14	8.22
2018	9.14	9.24	8.48	8.24	8.17	7.95	7.66	8.30	8.38
2019+	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr					Escalate at 2.0 % per year

Then Current Dollars

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

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

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

Historical futures contract price is an average of the daily settlement price over the last 3 days of the near month contract.

Revised: 31-Dec-07

GLJ Petroleum Consultants has prepared its January 1, 2008, price and market forecasts as summarized in the Tables above after a comprehensive review of information. Information sources include numerous government agencies, industry publications, Canadian oil refiners and natural gas marketers. The forecasts presented herein are based on an informed interpretation of currently available data. While these forecasts are considered reasonable at this time, users of these forecasts should understand the inherent high uncertainty in forecasting any commodity or market. These forecasts will be revised periodically as market, economic and political conditions change. These future revisions may be significant.

Management's Discussion and Analysis

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

This Management's Discussion & Analysis ("MD&A") is a review of how WestFire performed during the period covered by the financial statements, and of WestFire's financial condition and future prospects. The MD&A complements and supplements the financial statements of WestFire, and should be read in conjunction with the audited financial statements for the year ended December 31, 2007, together with the notes related thereto. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Readers should read the Legal Advisories section at the end of this MD&A. WestFire's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A.

Highlights	Year Ended December 31, 2007	
Financial		
Oil and natural gas revenues	\$	198,997
Cash provided by (used in) operating activities	\$	(659,166)
Funds flow from operations ⁽¹⁾	\$	100,724
Per share – basic and diluted ⁽¹⁾	\$	0.05
Net loss	\$	(114,706)
Per share – basic and diluted	\$	(0.05)
Total assets	\$	8,714,814
Shareholders' equity	\$	6,217,414
Capital expenditures	\$	4,584,000
Common shares outstanding - basic and diluted		5,014,706
Weighted average - basic and diluted		2,221,016
Sales Volumes		
	Dec-07	Average
Oil and NGL's (bbls per day)	9	1
Natural gas (mcf per day)	212	75
Barrels of oil equivalent (boe per day) ⁽²⁾	44	14

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

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

Overview

On March 14, 2007, the Company raised \$5.685 million of equity, acquired certain oil and natural gas interests for \$0.6 million and shifted its focus towards oil and gas production and exploration. The Company had formerly engaged in the design and sale of plasma television technology.

On December 13, 2007, WestFire continued its reorganization by issuing flow-through shares, raising additional equity and acquiring 100% of the shares of Northern Challenger Exploration Ltd. At this time, the management and board of directors were also re-organized as the Company continued to transform into an operational oil and gas company.

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

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

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

The Company believes that the current oil and gas operating environment contains many opportunities to transact on quality drilling prospects and acquisitions. In the near term, WestFire has focused on oil weighted exploitation projects, which has culminated in the acquisition in March 2008 of K-Town Energy Ltd.

Results of Operations

	Year Ended December 31, 2007
Sales Volumes	
Oil and NGL's (bbls per day)	1
Natural gas (mcf per day)	75
Barrels of oil equivalent (boe per day)	14

The Company acquired two small non-operated gas wells in March 2007. On December 13, 2007, the acquisition of Northern Challenger increased WestFire's consolidated volumes to approximately 100 BOE per day. Northern Challenger owns a 100% working interest in the 4-12 well in Peco, Alberta. This well produces light oil and associated gas and NGL's and, at December 31, 2007, was the Company's predominant producing well. The results of Northern Challenger are included in the results of WestFire from December 14, 2007. The Company plans to drill one exploratory well in the Peco area in 2008.

In February 2008, WestFire completed a participation agreement and farm-in on approximately 50 sections in the gas prone area of Chipman, Alberta. The Company acquired a 35% non-operated working interest in one producing well and a 50% interest in the farm-in for cash of \$250,000 and the commitment to drill three wells. Two of the three wells were drilled in March 2008. Both wells have been cased and the first well has been production tested. At the equipping and tie-in stage, the Farmor can elect to convert to a 30% working interest or stay with a non-convertible gross overriding royalty. After spring break-up, the Company will drill the third well, and will equip and tie in the first well and complete and test the second well. The acquired well is producing at approximately 100 mcf per day net to WestFire. Upon completing the earning phase of the farm-in, WestFire will have continuing options to drill and earn additional lands from the Farmor. WestFire has budgeted to drill six wells in total in this area in 2008. These wells will qualify for CEE for flow-through purposes.

Also in February 2008, WestFire participated in a recompletion of a shut-in Northern Challenger well in the Willesden Green area of Alberta. The results were positive and the well was equipped in March and produced at approximately 75 barrels per day of light oil net rate to WestFire. This production rate is expected to level off in the first year and stabilize at the budgeted 10 barrels per day net. The Company is reviewing its remaining lands on this prospect for follow up locations.

On March 20, 2008, WestFire closed the acquisition of K-Town Energy Ltd. K-Town was a privately held company with substantially all of its operations in western Saskatchewan. K-Town produces approximately 850 BOE per day. Its two main fields are the Plato North Pool, which is currently producing approximately 190 barrels per day of 32 API oil, and Driver which at March 20, 2008 was producing 325 barrels per day of 12 API heavy oil. Several minor assets, in aggregate, produce 335 boe per day of gas, oil and NGL's.

The Plato North pool produces from the Viking formation and the Government of Saskatchewan has estimated that the field contains 107 million barrels of oil in place. Approximately 7.3 million barrels or 7% of the oil in place has been recovered to date. K-Town owns approximately 65% of this field. Analog pools to the north of Plato have demonstrated recovery factors between 20% and 30% employing various enhanced recovery schemes including infill drilling and waterflood. WestFire expects to begin testing these various enhance recovery techniques in 2008.

The Driver pool produces from the Bakken formation and WestFire has estimated that this field contains 15 million barrels of oil in place. About 0.6 million barrels or 4% of the oil in place has been recovered to date. K-Town owns substantially all of this field. Analog pools to the east and west of Driver have demonstrated recovery factors up to 20% employing infill drilling and waterfloods. WestFire plans to drill six additional infill wells in 2008 and will commence reviewing waterflood possibilities.

Immediately after the K-Town acquisition, the Company was producing between 900 and 1,000 BOE per day. WestFire's capital budget was projected to be between \$8 and \$10 million.

Net Earnings and Funds Flow From Operations	Year Ended December 31, 2007
Net loss	\$ (114,706)
Per share - basic and diluted	\$ (0.05)
Funds flow from operations	\$ 100,724
Per share - basic and diluted	\$ 0.05

Reconciliation of "Funds flow from operations" to "Cash provided by operating activities":

	Year Ended December 31, 2007
Funds flow from operations	\$ 100,724
Change in non-cash working capital	(759,890)
Cash provided by (used in) operating activities	\$ (659,166)

In 2007, the Company generated funds from the operations of its various minor properties in Alberta. With the K-Town acquisition and the Chipman farm-in, WestFire plans to further develop these oil and natural gas prospects, while at the same time pursuing additional acquisition opportunities.

Petroleum and Natural Gas Revenues	Year Ended December 31, 2007
Oil and NGL's revenue	\$ 36,635
Per barrel	\$ 82.16
Natural gas revenue	\$ 162,362
Per mcf	\$ 7.03

WestFire's 2007 revenues were generated primarily by its two non-operated wells in Alberta with an increase in December from the Northern Challenger acquisition. In 2008, revenue is increased by the K-Town acquisition and is expected to grow with the Company's capital program. WestFire expects oil and gas prices to exceed those of 2007.

WestFire's Peco oil property produces 41 API gravity light oil. This type of oil sells at a price equivalent to Edmonton par price. The Plato North oil property produces 32 API oil and sells at a discount of approximately \$10 per barrel to the price of Edmonton par crude. The Driver field produces 12 API heavy oil and this oil sells at a price equivalent to Hardisty heavy oil.

	Year Ended December 31,
Interest Income	2007
Interest income	\$ 141,078

Since March 2007, WestFire has invested cash on hand in interest bearing instruments earning approximately 4% per annum. Interest income is expected to decline in 2008 as WestFire executes its capital program.

	Year Ended December 31,
Royalty Expense	2007
Total	\$ 36,133
Per boe	\$ 8.41
% of revenue	18.2%

Royalty rates are dependent on the prices of oil and gas and production rates. WestFire anticipates that its royalty rate for production in Alberta in 2008 will average in the 25 - 30% range. For its recently acquired Saskatchewan properties, royalty rates are expected to average approximately 18%.

	Year Ended December 31,
Operating Expenses	2007
Total	\$ 46,447
Per boe	\$ 10.82

WestFire expects operating expenses to increase in 2008 on a per boe basis as K-Town has numerous low productivity wells which have a high fixed cost component. Going forward, WestFire's strategy is to operate its properties and invest in facilities whenever possible in order to maintain a low operating cost structure.

	Year Ended December 31,
Transportation Expenses	2007
Total	\$ 1,591
Per boe	\$ 0.37

Transportation expenses are incurred for services related to moving production to sales points, including oil hauling, pipeline tolls and third-party or custom processing charges.

Netbacks ⁽¹⁾	Year Ended December 31,
\$ per boe	2007
Revenue	\$ 46.34
Royalty	8.41
Operating expenses	10.82
Transportation expenses	0.37
Netbacks	\$ 26.74

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

General and Administrative ("G&A") Expenses	Year Ended December 31,
	2007
Gross G&A expenses	\$ 56,326
Capitalization	-
Net G&A expenses	\$ 56,326
Per boe	\$ 13.12

G&A expenses are expected to decrease on a per boe basis due to the growth in production. At the end of 2007, WestFire had 3 office staff. The President and CEO as well as the Senior Vice President of Exploration did not receive salaries until after the K-Town acquisition was closed in March 2008. In accordance with its full cost accounting policy, WestFire capitalizes G&A expenses associated with exploration and development activities.

Interest Expense	Year Ended December 31,
	2007
Total	\$ 179,450

WestFire did not have any bank debt until the Northern Challenger acquisition in December 2007. WestFire had a convertible debenture of approximately \$8 million. This debenture was partly redeemed in March with \$4 million in cash and, in July 2007, the remaining \$4 million was converted prior to the 7 for 1 consolidation of shares, into 4,000,000 voting common shares and 4,000,000 non-voting common shares. The Company intends to prudently use bank loans, cash flow and new equity to fund its capital programs.

**Depletion, Depreciation and
Accretion (DD&A)**Year Ended December 31,
2007

Depletion and depreciation	\$	133,943
Accretion		891
Total	\$	134,834
Per boe	\$	31.40

Depletion of petroleum and natural gas properties and depreciation of production equipment, excluding costs related to unproved properties, are calculated using the unit-of production method based on proved reserves before royalties, as determined by independent petroleum engineers at corporate year ends and by internal estimates in the interim periods. Using the 8% net present value of proved and probable reserves from the independent December 31, 2007 reserve report, the Company determined that there was no ceiling test impairment for the period ended December 31, 2007. The cash flows were estimated using the following expected future product prices:

	Oil - WTI \$CDN	Natural Gas - AECO
2008	\$ 92.00	\$ 6.75
2009	88.00	7.55
2010	84.00	7.60
2011	82.00	7.60
2012	82.00	7.60
2013	82.00	7.60
2014	82.00	7.80
2015	82.00	7.97
2016	82.02	8.14
2017	83.66	8.31

Income Taxes

The difference between the expected income tax provision based on the combined federal and provincial statutory tax rate and the amount actually provided for is as follows:

	Year Ended December 31, 2007
Combined federal and provincial statutory rate	32.12%
Expected future income tax recovery	\$ (36,844)
Change in valuation allowance	36,844
Future income taxes	\$ -

WestFire has not paid any cash taxes and has accumulated sufficient tax deductions such that it does not anticipate paying any income taxes for the foreseeable future. However, WestFire is not able to forecast future changes in federal and provincial tax regimes.

The Company has not recognized the amount of the potential tax recoveries from the following items in these financial statements due to the uncertainty of realization:

(a) WestFire has certain non-capital losses carry forward available to reduce taxable income in future years with the following expiries:

December 31	
2008	\$ 3,273,317
2009	8,463,394
2010	4,088,784
2014	23,483
2015	261,800
2026	735,370
2027	402,997
	\$ 17,249,145

(b) The Company has \$75,593,825 of scientific research and experimental development expenditures available to reduce taxable income in future years which are not subject to expiry.

(c) The Company has certain scientific research and experimental development investment tax credits available to reduce taxes payable in future years with the following expiries:

December 31	
2019	\$ 1,335,202
2020	3,045,563
2021	3,765,980
2022	3,061,460
2023	3,452,121
2024	3,537,905
	\$ 18,198,231

(d) The Company has \$406,761 of share issue expenses available to reduce taxable income in future years which are not subject to expiry.

(e) The Company has the following oil and gas tax pools available to reduce taxable income in future years not subject to expiry:

Cumulative Canadian Exploration Expense	\$ 1,104,249
Cumulative Canadian Development Expense	622,378
Cumulative Canadian Oil and Gas Property Expense	628,676
Undepreciated Capital Cost	1,295,790
	\$ 3,651,093

Total tax deductions available	\$ 115,099,055
Less book value of assets:	
Property, plant and equipment	4,461,057
Asset retirement obligations	(179,194)
Excess of tax deductions over book value	110,817,192
Estimated future expected tax rate	29.00%
Potential value of excess tax deductions	32,136,986
Valuation allowance	(32,136,986)
Tax asset	\$ -

Liquidity and Capital Resources

On March 14, 2007, the Company completed a private placement with gross proceeds of \$5,685,000. The Company reorganized on December 13, 2007, raising equity on a flow-through basis and acquiring Northern Challenger Exploration Ltd. ("NCEL"). NCEL was 17% owned by certain of the Company's current directors and officers.

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

Net assets acquired:	
Accounts receivable	\$ 448,559
Oil and natural gas properties, plant and equipment	4,000,000
Accounts payable	(1,770,280)
Bank debt	(1,328,638)
Asset retirement obligations	(167,303)
<hr/> Total consideration paid in shares	<hr/> \$ 1,182,338

The Company also closed a \$4.683 million private placement of flow-through shares on December 13, 2007. Also on December 13, 2007, the company raised \$1.021 million in common equity and completed an issuer bid of \$5.756 million.

In late December 2007, the Company raised \$1.002 million by issuing 270,000 shares. This issue and the subsequent issues in January and February 2008 were necessary to replace working capital used for the issuer bid.

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

	December 31, 2007
Current assets	\$ 4,253,757
Less:	
Accounts payable and accrued liabilities	1,093,206
Bank debt	1,225,000
<hr/> Working capital	<hr/> \$ 1,935,551

	Year Ended December 31, 2007
Capital Expenditures	
Land	\$ 438,000
Acquisitions	4,000,000
Equipment and facilities	146,000
Total	\$ 4,584,000

The Board of Directors has approved a capital expenditure budget of \$9.3 million for the year ending December 31, 2008 in addition to the acquisition of K-Town Energy Ltd.

Related Party Transactions

The following transactions with related parties were recorded at the exchange amount, which was done on a fair value basis defined as the amounts that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Company had the following related party transactions:

The Company acquired all of the issued and outstanding shares of NCEL pursuant to a share exchange on December 13, 2007 whereby the Company issued 1,630,700 common shares valued at \$0.73 per common share, in exchange for all of the 1,630,700 shares of NCEL. Current directors and officers of the Company owned 17% of the common shares of NCEL.

The Company agreed to pay a fee to a corporation owned by a director that assisted in raising \$1,002,567 through the issue of 270,000 shares. The fee was accrued in accounts payable and included in share issue costs in the amount of \$60,750.

The Company paid \$15,000 for rent and accounting fees to a corporation that holds shares in WestFire.

The Company's Corporate Secretary is a partner of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). Included in general and administrative expenses and share issue expenses for the period are amounts totalling \$67,428 charged to the Company by BDP. At the end of the period, \$207,229 was accrued in accounts payable related to NCEL for legal expenses incurred prior to the acquisition.

Contractual Obligations

WestFire has the following commitments:

(a) Future minimum lease payments relating to the office lease are:

Year ending December 31		
2008	\$	452,480
2009	\$	477,480
2010	\$	437,690

The Company entered into a commitment for an office lease at \$27,290 per month for January and February 2008 and increasing to \$39,790 per month until November 30, 2010.

(b) Included in the NCEL acquisition is an obligation whereby the Company has until December 31, 2008 to expend \$1,378,000 on qualifying flow-through expenditures and to renounce those expenditures to the investors. In January 2008, tax benefits of \$1,378,000 were renounced to investors, with an effective date of December 31, 2007.

(c) In December 2007, Company issued flow-through shares and has until December 31, 2008 to expend \$4,683,443 on qualifying flow-through expenditures and to renounce those expenditures to the investors. In January 2008, tax benefits of \$4,683,443 were renounced to investors, with an effective date of December 31, 2007.

Off-Balance Sheet Obligations and Financial Instruments

The Company has not entered into any off-balance sheet transactions and does not have any financial instruments other than accounts receivable and accounts payable and accrued liabilities.

Outstanding Share Data

WestFire's outstanding share capital consists of:	Year Ended December 31, 2007	
	Shares	Amount
Common shares, basic and diluted	5,014,706	\$ 12,762,293

Subsequent Events

(a) On January 18, 2008, the Company completed a private placement of 501,800 common shares at a price of \$3.75 per share for proceeds of \$1,881,750 before share issue expenses of \$150,000.

(b) On January 25, 2008, the Company approved a stock option plan and the granting of 509,800 stock options to directors and employees at \$3.75 per share. The option plan calls for the options to vest over a three year period with a term of five years.

On January 25, 2008, the Company terminated the Performance Warrant Plan that was in place in its 100% owned subsidiary, Northern Challenger Exploration Ltd.

(c) During February 2008, the Company completed a private placement to a new director and all of the employees issuing in aggregate 150,000 common shares at a price of \$3.75 per common share for gross proceeds of \$562,500 before issue costs of \$5,000.

(d) On February 4, 2008, the Company completed a private placement of 50,000 common shares at an issue price of \$3.75 per share for gross proceeds of \$187,500. A corporation owned by a director of the Company earned a fee of \$11,250 for arranging this private placement. Total issue costs including the fee were \$16,250.

(e) On March 17, 2008, the Company completed a private placement of 306,000 flow-through shares at a an issue price of \$4.50 per share to two employees for gross proceeds of \$1,377,000. Issue costs of \$5,000 were also accrued. This private placement was a term of the offer of employment to these two individuals made in November 2007 which allowed them to acquire shares in WestFire on the same basis as the other employees as long as they were paid for by April 30, 2008.

(f) On March 20, 2008, The Company closed the purchase of all of the issued and outstanding shares of K-Town Energy Ltd for a total purchase price of \$32.6 million. The purchase price consisted of the assumption of \$7.2 million in debt, \$6.8 million in cash, a \$10 million promissory note, and \$8.644 million in WestFire common shares valued at \$5.00 per share. The purchase price allocation is being determined by the Company.

(g) The Company engaged a syndicate of underwriters lead by Tristone Capital Inc. ("the Agents") to broker a private placement of up to 3,000,000 common shares at an issue price of \$5.00 per common shares. The Agents have the option to increase the size of the private placement by up to an additional 1,000,000 common shares at an issue price of \$5.00. The Company closed this private placement on two separate dates. On April 4, 2008 WestFire issued 1,960,400 common shares at an issue price of \$5.00 per common share raising gross proceeds of \$9,802,000 before share issue costs of approximately \$625,000. On April 30, 2008, the Company issued 1,127,000 shares at an issue price of \$5.00 for gross proceeds of \$5,635,000 before share issue costs of \$390,000.

(h) The Company completed a private placement in April 2008 issuing 1,002,620 common shares at an issue price of \$5.00 per common share raising gross proceeds of \$5,013,100. Share issue costs are approximately \$125,000.

(i) The Company completed a private placement in April 2008 issuing 254,488 common shares at an issue price of \$5.00 per common share raising gross proceeds of \$1,272,440 before share issue costs of \$90,000. Included in share issue costs are fees of \$76,346 that were paid to a Corporation owned by a director.

(j) In February 2008, WestFire completed a participation agreement and farm-in on approximately 50 sections in the gas prone area of Chipman, Alberta. The Company acquired a 35% non-operated working interest in one producing well and a 50% interest in the farm-in for cash of \$250,000 and the commitment to drill three wells. Two of the three wells were drilled in March 2008. Both wells have been cased and the first well has been production tested. At the equipping and tie-in stage, the Farmor can elect to convert to a 30% working interest or stay with a non-convertible gross overriding royalty. After spring break-up, the Company will drill the third well, and will equip and tie in the first well and complete and test the second well. The acquired well is producing at approximately 100 mcf per day net to WestFire. Upon completing the earning phase of the farm-in, WestFire will have continuing options to drill and earn additional lands from the Farmor.

(k) In April 2008, the Company agreed to a financing proposal from a Canadian chartered bank to provide a \$13,500,000 extendible revolving credit facility. The facility will bear interest at the bank's prime interest rate and will be secured by all of the oil and gas assets of WestFire.

Internal Controls Over Financial Reporting

There have been significant changes to the internal controls of the Company since December 13, 2007, including new personnel, computer systems and policies and procedures.

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 can be found in this MD&A and also in the statements of cash flows. 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.

These measures do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Management believes that funds flow from operations and netbacks are useful supplemental measures as they provide an indication of the ability of WestFire to fund future growth through capital investment and/or repay debt. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding WestFire's liquidity and its ability to generate funds to finance its operations.

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 harbour" 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.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: projections with respect to growth of production and reserves; projections relating to the volatility of oil and natural gas prices and the reasons therefore; WestFire's projected capital investment levels and the source of funding therefore; the effect of WestFire's risk management program, including the impact of derivative financial instruments; the adequacy of WestFire's provision for taxes; and the impact of changes in accounting principles on future financial statements.

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.

Legal Advisories

Forward-Looking Statements continued

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 Venturion; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by WestFire.

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

MANAGEMENT'S REPORT

To the Shareholders of WestFire Energy Ltd.

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

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

(signed)
Lowell E. Jackson
President and CEO

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

Calgary, Alberta, Canada
May 6, 2008

AUDITORS' REPORT

To the Directors of WestFire Energy Ltd.

We have audited the consolidated balance sheet of WestFire Energy Ltd. as at December 31, 2007 and the consolidated statements of operations, comprehensive income (loss), and deficit and cash flows for the year ended December 31, 2007. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Our previous report in respect to these consolidated financial statements, dated May 6, 2008, has been withdrawn and the consolidated financial statements in Note 15 of these consolidated financial statements have been restated as described.

(signed) "PricewaterhouseCoopers LLP"
Chartered Accountants

Calgary, Alberta, Canada
May 6, 2008, except as to Note 15 which is as of July 7, 2008

WestFire Energy Ltd.
Consolidated Balance Sheet

As at December 31, 2007

Restated (note 15)

ASSETS	
Current assets	
Cash	\$ 2,735,943
Accounts receivable	1,517,814
	<hr/> 4,253,757
Property, plant and equipment (note 4)	4,461,057
	<hr/>
	\$ 8,714,814
<hr/>	
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued liabilities	\$ 1,093,206
Bank loan (note 5)	1,225,000
	<hr/> 2,318,206
Asset retirement obligations (note 6)	179,194
	<hr/> 2,497,400
<hr/>	
SHAREHOLDERS' EQUITY	
Share capital (note 9)	12,762,293
Contributed surplus (note 10)	131,123,500
Deficit	(137,668,379)
	<hr/> 6,217,414
	<hr/>
	\$ 8,714,814

Commitments and Subsequent Events (notes 12 & 14)

Approved by the Board of Directors:

(signed)
Ed Chwyl
Director

(signed)
Lowell Jackson
Director

WestFire Energy Ltd.

Consolidated Statement of Operations, Comprehensive Income and Deficit Year Ended December 31, 2007

Restated (note 15)

REVENUES		
Petroleum and natural gas	\$	198,997
Royalty expense		(36,133)
Interest income		141,078
		303,942
EXPENSES		
Operating		46,447
Transportation		1,591
General and administrative		56,326
Interest		179,450
Depletion, depreciation and accretion (note 6)		134,834
		418,648
Loss before income taxes		(114,706)
Future income taxes (note 8)		-
NET LOSS AND COMPREHENSIVE INCOME		(114,706)
Deficit, beginning of year		(137,553,673)
Deficit, end of year	\$	(137,668,379)
Net loss per share (note 9):		
Basic	\$	(0.05)
Diluted	\$	(0.05)
Weighted average number of common shares outstanding - basic and diluted		2,221,016
See accompanying notes to financial statements		

WestFire Energy Ltd.
Consolidated Statement of Cash Flows
Year Ended December 31, 2007

Restated (note 15)

Cash provided by (used in):

OPERATING

Net loss	\$ (114,706)
Add (deduct) items not affecting cash:	
Depletion, depreciation and accretion	134,834
Non-cash interest expense	80,596
	100,724
Change in non-cash working capital	(759,890)
	(659,166)

FINANCING

Issue of common shares, net of costs	11,154,157
Acquisition of shares by way of issuer bid	(5,756,506)
Repayment of convertible debenture	(4,000,000)
	1,397,651

INVESTING

Property, plant and equipment	(292,000)
	(292,000)

Increase in cash	446,485
Cash, beginning of year	2,289,458
Cash, end of year	\$ 2,735,943

Supplementary disclosure:

Cash interest paid	\$ 98,854
Cash taxes paid	\$ -

See accompanying notes to financial statements

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 1 Basis of presentation

WestFire Energy Ltd. ("WestFire" or "the Company") is a private company which was continued under the Business Corporations Act (Alberta). The Company is engaged in the exploration for, and the development and production of, petroleum and natural gas in Western Canada.

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

The Company's business activity transitioned to an oil and natural gas business during the year. In addition, the Company acquired Northern Challenger Exploration Ltd. ("NCEL") and NCEL's wholly owned subsidiary 1020684 Alberta Ltd. on December 13, 2007 (Note 3). These consolidated financial statements include the accounts of the Company and its subsidiaries.

Comparative results have not been presented as this information is not considered to be meaningful due to the change in business of the Company.

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 2 Significant Accounting Policies

(a) Property, plant and equipment

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

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

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

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 2 Significant Accounting Policies continued

(a) Property, plant and equipment continued

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

(b) Interests in joint operations

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

(c) Cash and cash equivalents

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

Asset retirement obligations are the future costs associated with removal, site restoration and asset retirement. The fair value of the liability for the Company's asset retirement obligations is recorded in the period in which it is incurred, discounted to its present value using the Company's credit-adjusted, risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of petroleum and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligations. Actual costs incurred upon settlement of the retirement obligations are charged against the obligation to the extent of the liability recorded.

(e) Future income taxes

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

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 2 Significant Accounting Policies continued

(f) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through shares are renounced to investors in accordance with tax legislation. The future tax liability and share capital are adjusted by the estimated cost of the renounced tax deductions when the expenditures are renounced.

(g) Revenue recognition

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

(h) Per share amounts

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

(i) Measurement uncertainty

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

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

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 2 Significant Accounting Policies continued

(i) Measurement uncertainty continued

The calculation of asset retirement obligations include estimates of the future costs to settle the asset retirement obligation, the timing of the cash flows to settle the obligation, and the future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the consolidated financial statements of future periods could be material.

The determination of the fair value of the purchase price allocation is subject to uncertainty associated with the future recoverability of oil and natural gas reserves, commodity prices and timing of future events.

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

(j) Changes in accounting policies

On January 1, 2007, the Company adopted the CICA Handbook Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments– Recognition and Measurement", and Section 3865 "Hedges".

Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables, and investments that are held to maturity and certain equity investments, which may be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives. Gains and losses on financial instruments measured at fair value will be recognized in the income statements in the periods they arise with the exception of gains and losses arising from:

- Financial assets available for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- Certain financial instruments that qualify for hedge accounting.

WestFire Energy Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2007

Note 2 Significant Accounting Policies continued

(j) Changes in accounting policies continued

Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income. Unrealized gains and losses on financial instruments available for sale are included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components are a required disclosure under the new standards. These standards were adopted by WestFire as of January 1, 2007 on a prospective basis and did not have an impact on the Company's financial statements. Under the new standards deferred financing charges are netted against long term debt.

(k) Recent accounting pronouncements

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Company:

- In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB confirmed that the standards will become effective for all publicly accountable enterprises in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.
- As of January 1, 2008, WestFire will be required to adopt two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation", which will replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard is expected to increase WestFire's disclosure regarding the risks associated with financial instruments and how those risks are managed but will not impact the amounts reported in the Company's financial statements. These standards are effective for periods beginning on or after October 1, 2007.
- As of January 1, 2008, WestFire will be required to adopt CICA Handbook Section 1535 "Capital Disclosures", which will require the Company to disclose its objectives, policies and processes for managing capital. The standard is effective for periods beginning on or after October 1, 2007.

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 3 Acquisition

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

Net assets acquired:	
Accounts receivable	\$ 448,559
Oil and natural gas properties, plant and equipment	4,000,000
Accounts payable	(1,770,280)
Bank debt	(1,328,638)
Asset retirement obligations	(167,303)
<hr/>	
Total consideration paid in shares	<hr/> \$ 1,182,338

Included in the acquisition is an obligation whereby the Company has until December 31, 2008 to expend \$1,378,000 on qualifying flow-through expenditures and to renounce those expenditures to the investors.

The tax pools related to this acquisition amounted to \$4,068,470, which is greater than the cost of the related assets. Westfire has unrecorded tax assets and this acquisition had the effect of increasing the tax asset valuation allowance (note 8).

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 4 Property, plant and equipment

	December 31 2007
Petroleum and natural gas properties	\$ 4,595,000
Less: accumulated depletion and depreciation	133,943
	<u>\$ 4,461,057</u>

During the year, the Company did not capitalize any general and administrative and interest costs related to acquisition, exploration and development activities. As at December 31, 2007, WestFire did not exclude any unproved oil and gas properties from the depletion and depreciation calculation. No future development costs on proved undeveloped reserves are included in the depletion calculation for 2007.

The net book value of petroleum and natural gas properties are subject to a ceiling test, which was calculated at December 31, 2007 using the following benchmark reference prices for the years 2008 to 2017.

	Oil - WTI	Natural Gas AECO
2008	\$ 92.00	\$ 6.75
2009	88.00	7.55
2010	84.00	7.60
2011	82.00	7.60
2012	82.00	7.60
2013	82.00	7.60
2014	82.00	7.80
2015	82.00	7.97
2016	82.02	8.14
2017	83.66	8.31

The Company's estimated undiscounted future net cash flows associated with proved reserves plus the cost less impairment of unproved properties exceeded the net book value of the petroleum and natural gas properties.

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 5 Bank debt

	December 31 2007
Bank debt	\$ 1,225,000

At December 31, 2007, the Company had in place a revolving demand credit facility in the amount of \$1,925,000 with a Canadian chartered bank, bearing interest at prime plus 0.75% per annum. On February 11, 2008, the bank amended the credit facility to a \$1,475,000 revolving demand loan. In addition, the Company had an undrawn \$500,000 non-revolving acquisition/development facility, bearing interest at prime plus 1.00% per annum. The facilities are secured by all of the oil and gas assets of NCEL.

Note 6 Asset retirement obligations

Balance, December 31, 2006	\$ -
Liabilities incurred	11,000
Liabilities acquired (note 3)	167,303
Accretion	891
Balance, December 31, 2007	\$ 179,194

The Company's asset retirement obligations result from net ownerships in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is \$0.24 million, which will be incurred between 2011 and 2018. An inflation rate of 2.0% and a credit-adjusted risk-free rate of 7.5% were used to calculate the fair value of the asset retirement obligations.

Note 7 Convertible debenture

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

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 8 Taxes

The difference between the expected income tax provision based on the combined federal and provincial statutory tax rate and the amount actually provided for is as follows:

	Year ended December 31, 2007
Combined federal and provincial statutory rate	32.12%
Expected future income tax recovery	\$ (36,844)
Change in valuation allowance	36,844
Future income taxes	\$ -

The Company has not recognized the amount of the potential tax savings from the following items in these financial statements due to the uncertainty of realization:

- (a) Non-capital losses carry forward available to reduce taxable income in future years with the following expiries:

December 31	
2008	\$ 3,273,317
2009	8,463,394
2010	4,088,784
2014	23,483
2015	261,800
2026	735,370
2027	402,997
	<u>\$ 17,249,145</u>

- (b) Scientific research and experimental development expenditures available to reduce taxable income in future years not subject to expiry:

	<u>\$ 75,593,825</u>
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WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 8 Taxes continued

- (c) Scientific research and experimental development investment tax credits available to reduce taxes payable in future years with the following expiries:

December 31	
2019	\$ 1,335,202
2020	3,045,563
2021	3,765,980
2022	3,061,460
2023	3,452,121
2024	3,537,905
	\$ 18,198,231

- (d) Share issue expenses available to reduce taxable income in future years and which are not subject to expiry:

	\$ 406,761
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- (e) Exploration (CEE), development (CDE), property (COGPE) and undepreciated capital costs (UCC) available to reduce taxable income in future years and which are not subject to expiry:

CEE	\$ 1,104,249
CDE	622,378
COGPE	628,676
UCC	1,295,790
	\$ 3,651,093

Total tax deductions available	\$ 115,099,055
Less book value of assets:	
Property, plant and equipment	4,461,057
Asset retirement obligations	(179,194)
Excess of tax deductions over book value	110,817,192
Future expected tax rate	29.00%
Potential value of excess tax deductions	32,136,986
Valuation allowance	(32,136,986)
Tax asset	\$ -

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 9 Share capital

(a) Authorized

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

(b) Common shares issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2006	3,400,000	\$ 307,100
Issued for cash ⁽ⁱ⁾	11,370,000	5,685,000
Issued for properties ⁽ⁱⁱ⁾	584,000	292,000
Conversion of debenture ⁽ⁱⁱⁱ⁾	4,000,000	2,000,000
Flow through shares issued for cash ^(iv)	7,295,086	4,683,443
Issued for cash ^(v)	1,908,639	1,021,122
Conversion of non-voting common shares ^(vi)	4,000,000	2,000,000
Issuer bid ^(vii)	(10,759,825)	(5,283,006)
Share consolidation ^(viii)	(18,683,894)	-
Subtotal	3,114,006	10,705,659
Issued for acquisition ^(ix)	1,630,700	1,182,338
Issued for cash ^(x)	270,000	1,002,475
Share issue expenses	-	(128,179)
Balance, December 31, 2007	5,014,706	\$ 12,762,293

(i) On March 14, 2007, the Company completed a private placement of 11,370,000 pre-consolidation common shares at a price of \$0.50 per common share for proceeds of \$5,850,000 before share issue expenses.

(ii) On March 14, 2007, the Company issued 584,000 pre-consolidation common shares at \$0.50 per common share for \$292,000 as partial consideration for the acquisition of oil and gas properties.

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 9 Share capital continued

(b) Common shares issued and outstanding continued:

(iii) On July 12, 2007, the Company retired the convertible debentures by issuing 4,000,000 pre-consolidation common shares at \$0.50 per share and 4,000,000 non-voting common shares at \$0.50 per share.

(iv) On December 13, 2007, the Company completed a private placement of 7,295,086 pre-consolidation flow through common shares at a price of \$0.642 per common share for proceeds of \$4,683,443 before share issue expenses.

(v) On December 13, 2007, the Company completed a private placement of 1,908,639 pre-consolidation common shares at a price of \$0.535 per common share for proceeds of \$1,021,122 before share issue expenses.

(vi) On December 13, 2007, the Company converted the 4,000,000 non-voting common shares into 4,000,000 pre-consolidation common shares.

(vii) On December 13, 2007, the Company completed an issuer bid repurchasing 10,759,825 pre-consolidation common shares at a price of \$0.535 per common share for a cash outlay of \$5,756,506. The Company has reduced capital stock by \$5,283,006 with the remaining \$473,500 being applied to contributed surplus.

(viii) On December 13, 2007, the common shares were consolidated on a seven for one basis reducing the number of shares outstanding to 3,114,006.

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007

Note 9 Share capital continued

(b) Common shares issued and outstanding continued:

(ix) On December 13, 2007, the Company acquired all of the issued and outstanding shares of Northern Challenger Exploration Ltd. pursuant to a share exchange whereby the Company issued 1,630,700 post consolidation common shares valued at \$0.73 per common share, in exchange for all of the shares of Northern Challenger Exploration Ltd. (note 3).

Included in the acquisition of Northern Challenger Exploration Ltd. is an obligation whereby the Company has until December 31, 2008 to expend \$1,378,000 on qualifying flow-through expenditures and to renounce those expenditures to the investors. In January 2008, tax benefits of \$1,378,000 were renounced to investors, with an effective date of December 31, 2007.

(x) On December 28, 2007, the Company completed a private placement of 270,000 post-consolidation common shares at a price of \$3.71 per common share for proceeds of \$1,002,475 before share issue expenses. The Company accrued share issue costs of \$60,750.

(c) Non-voting common shares

	Number of shares	Amount
Balance, December 31, 2006	-	\$ -
Conversion of debenture	4,000,000	2,000,000
Conversion to common shares	(4,000,000)	(2,000,000)
Balance, December 31, 2007	-	\$ -

(d) Per share amounts

	Year ended December 31 2007
Weighted average common shares outstanding - basic	2,221,016
Weighted average common shares outstanding - diluted	2,221,016
Net loss per share:	
Net loss	(114,706)
Basic and diluted (\$/share)	(0.05)

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
December 31, 2007

Note 10 Contributed surplus

Balance, December 31, 2006	\$ 131,597,000
Reduction for shares acquired pursuant to an issuer bid	(473,500)
<hr/> Balance, December 31, 2007	<hr/> \$ 131,123,500

Note 11 Related party transactions

The following transactions with related parties were recorded at the exchange amount, which was done on a fair value basis defined as the amounts that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Company had the following related party transactions:

The Company acquired all of the issued and outstanding shares of NCEL pursuant to a share exchange on December 13, 2007 whereby the Company issued 1,630,700 common shares valued at \$0.73 per common share, in exchange for all of the 1,630,700 shares of NCEL. Current directors and officers of the Company owned 17% of the common shares of NCEL (note 3).

The Company agreed to pay a fee to a corporation owned by a director that assisted in raising \$1,002,567 through the issue of 270,000 shares. The fee was accrued in accounts payable and included in share issue costs in the amount of \$60,750.

The Company paid \$15,000 for rent and accounting fees to a corporation that holds shares in WestFire.

The Company's Corporate Secretary is a partner of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). Included in general and administrative expenses and share issue expenses for the period are amounts totalling \$67,428 charged to the Company by BDP. At the end of the period, \$207,229 was accrued in accounts payable related to NCEL for legal expenses incurred prior to the acquisition.

WestFire Energy Ltd.
Notes to the Consolidated Financial Statements
December 31, 2007

Note 12 Commitments

(a) Future minimum lease payments relating to the office lease are:

Year ending December 31		
2008	\$	452,480
2009	\$	477,480
2010	\$	437,690

The Company entered into a commitment for an office lease, at \$27,290 per month for January and February 2008 and increasing to \$39,790 per month until November 30, 2010.

(b) Included in the NCEL acquisition (note 3) is an obligation whereby the Company has until December 31, 2008 to expend \$1,378,000 on qualifying flow-through expenditures and to renounce those expenditures to the investors. In January 2008, tax benefits of \$1,378,000 were renounced to investors, with an effective date of December 31, 2007.

(c) In December 2007, Company issued flow-through common shares and has until December 31, 2008 to expend \$4,683,443 on qualifying flow-through expenditures and to renounce those expenditures to the investors. In January 2008, tax benefits of \$4,683,443 were renounced to investors, with an effective date of December 31, 2007.

WestFire Energy Ltd.

Notes to the Consolidated Financial Statements

December 31, 2007

Note 13 Financial instruments

The Company's financial instruments recognized in the balance sheet consist of cash, accounts receivable and accounts payable and accrued liabilities.

The estimated fair values of the financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies. However, these estimates may not be necessarily indicative of the amounts that could be realized or settled in a current market transaction.

The carrying values of the Company's financial instruments approximate their fair market values due to their demand nature or relatively short periods to maturity.

The Company is exposed to foreign currency fluctuations as oil and natural gas prices received are referenced to U.S. dollar denominated prices.

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks.

WestFire Energy Ltd.

Notes to the Consolidated Financial Statements

December 31, 2007

Note 14 Subsequent Events

(a) On January 18, 2008, the Company completed a private placement of 501,800 common shares at a price of \$3.75 per share for proceeds of \$1,881,750 before share issue expenses of approximately \$150,000.

(b) On January 25, 2008, the Company approved a stock option plan and the granting of 509,800 stock options to directors and employees at \$3.75 per share. The option plan calls for the options to vest over a three year period with a term of five years.

(c) During February 2008, the Company completed a private placement to a new director and all of the employees issuing in aggregate 150,000 common shares at a price of \$3.75 per common share for gross proceeds of \$562,500 before issue costs of approximately \$5,000.

(d) On February 4, 2008, the Company completed a private placement of 50,000 common shares at an issue price of \$3.75 per share for gross proceeds of \$187,500. A corporation owned by a director of the Company earned a fee of \$11,250 for arranging this private placement. Total issue costs including the fee were approximately \$16,250.

(e) On March 17, 2008, the Company completed a private placement of 306,000 flow-through shares at a an issue price of \$4.50 per share to two employees for gross proceeds of \$1,377,000. Issue costs were approximately \$5,000. This private placement was a term of the offer of employment to these two individuals made in November 2007 which allowed them to acquire shares in WestFire on the same basis as the other employees as long as they were paid for by April 30, 2008.

WestFire Energy Ltd.

Notes to the Consolidated Financial Statements

December 31, 2007

Note 14 Subsequent Events continued

(f) On March 20, 2008, The Company closed the purchase of all of the issued and outstanding shares of K-Town Energy Ltd for an approximate purchase price of \$32.6 million pending closing adjustments. The purchase price consisted of the assumption of \$7.2 million in debt, \$6.8 million in cash, a \$10 million promissory note, and \$8.644 million in WestFire common shares valued at \$5.00 per share. The purchase price allocation is being determined by the Company.

(g) The Company engaged a syndicate of underwriters lead by Tristone Capital Inc. ("the Agents") to broker a private placement of up to 3,000,000 common shares at an issue price of \$5.00 per common shares. The Agents have the option to increase the size of the private placement by up to an additional 1,000,000 common shares at an issue price of \$5.00. The Company closed this private placement on two separate dates. On April 4, 2008 WestFire issued 1,960,400 common shares at an issue price of \$5.00 per common share raising gross proceeds of \$9,802,000 before share issue costs of approximately \$625,000. On April 30, 2008, the Company issued 1,127,000 shares at an issue price of \$5.00 for gross proceeds of \$5,635,000 before share issue costs of \$390,000.

(h) The Company completed a private placement in April 2008 issuing 1,002,620 common shares at an issue price of \$5.00 per common share raising gross proceeds of \$5,013,100. Share issue costs are approximately \$125,000.

(i) The Company completed a private placement in April 2008 issuing 254,488 common shares at an issue price of \$5.00 per common share raising gross proceeds of \$1,272,440 before share issue costs of \$115,000. Included in share issue costs are fees of \$76,346 that were paid to a Corporation owned by a director.

WestFire Energy Ltd.

Notes to the Consolidated Financial Statements

December 31, 2007

Note 14 Subsequent Events continued

(j) In February 2008, WestFire completed a participation agreement and farm-in on approximately 50 sections in the gas prone area of Chipman, Alberta. The Company acquired a 35% non-operated working interest in one producing well and a 50% interest in the farm-in for cash of \$250,000 and the commitment to drill three wells. Two of the three wells were drilled in March 2008. Both wells have been cased and the first well has been production tested. At the equipping and tie-in stage, the Farmor can elect to convert to a 30% working interest or stay with a non-convertible gross overriding royalty. Upon completing the earning phase of the farm-in, WestFire will have continuing options to drill and earn additional lands from the Farmor.

(k) In April 2008, the Company agreed to a financing proposal from a Canadian chartered bank to provide a \$13,500,000 extendible revolving credit facility. The facility will bear interest at the bank's prime interest rate and will be secured by all of the oil and gas assets of WestFire.

Note 15 Restatement of Consolidated Statement of Cash Flows

Subsequent to the release of the December 31, 2007 financial statements, two clerical errors were noted on the Consolidated Statement of Cash Flows. Under the "Financing" heading, the amount recorded for "Issue of common shares, net of costs" was reduced by \$1,475,957 to \$11,154,157 and under the "Operating" heading, the amount recorded for "Change in non-cash working capital" was increased by \$1,002,475 to \$(759,890). This correction affects the following balances: "Cash used in operating" was reduced to \$(659,166), "Cash provided by financing" was reduced to \$1,397,651, "Increase in cash" was reduced to \$446,485, and the "Cash, end of year" was reduced to to \$2,735,943. The "Cash" balance on the Consolidated Statement of Cash Flows now agrees to the "Cash" balance reported on the Consolidated Balance Sheet. No other amounts in the financial statements were affected.

WestFire Energy Ltd.

Corporate Information

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PricewaterhouseCoopers LLP

Evaluation Engineers

GLJ Petroleum Consultants

Banker

Canadian Imperial Bank of Commerce

Legal Counsel

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Caution to the Reader

Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks, uncertainties and other factors that could influence actual results are described in the Company's annual reports to the shareholders and other documents filed with regulatory authorities.

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