



2009 Q3 Report

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Message to Our Shareholders

The third quarter of 2009 saw WestFire commence further development of its Viking resource play. The results from our Viking horizontal drilling program continue to improve as we modify the completion techniques to maximize oil recoveries. We are beginning to see wells that meet or exceed our economic parameters of 60 barrels per day of initial production.

On November 2, 2009, WestFire announced that it has agreed to acquire a TSXV listed public company, Exceed Energy Inc. (EX.A), on a share exchange basis whereby WestFire will issue one share for each 100 Exceed shares issued and outstanding. The transaction received the approval of the directors of Exceed and an information circular was mailed calling an Exceed shareholders meeting on December 17, 2009. In addition, 53% of the Exceed shareholders have agreed to tender their shares in favor of the transaction. The acquisition of Exceed is expected to close on December 18, 2009. Concurrently with the Exceed acquisition, WestFire has applied for a listing on the TSX exchange.

Also on November 2, 2009, WestFire announced that it has agreed to acquire certain oil and gas assets in Alberta and Saskatchewan for \$30 million from a court appointed receiver. This acquisition provides WestFire with additional production of approximately 625 BOE per day and will allow the Company to exit 2009 at approximately 2,100 BOE per day. On November 27, 2009, the Court granted WestFire a vesting order and this acquisition is expected to close on December 18, 2009. In conjunction with these transactions, the Company has agreed to a bought deal with a syndicate of underwriters to raise \$45 million in common equity in Exceed Energy Inc. at \$0.0563 per share. This financing will close on December 18, 2009. The final result of this series of transactions is that WestFire will be a publicly listed company on the TSX with 2,100 BOE per day of production, over 600 Viking horizontal drilling locations and \$5.0 million of debt. In addition, WestFire should have approximately 35.2 million shares issued and outstanding.

WestFire’s achievements during the third quarter of 2009 include the following:

- Increased production to 1,388 barrels of oil equivalent per day (Boepd) from 712 Boepd in the third quarter of 2008 representing a 95% year over year increase;
- Drilled four successful Viking oil horizontal wells;

Outlook

The initial business plan of WestFire contemplated a liquidity event for shareholders within the first couple of years of operation. The Exceed acquisition accomplishes this goal. Upon the completion of the two acquisitions in mid December, WestFire will have completed 12 corporate or asset acquisitions in its last eight quarters. WestFire has captured through these acquisitions, a significant inventory of Viking lands. In the fourth quarter, WestFire drilled an additional four multi-stage sand fracture stimulated horizontal Viking oil wells. WestFire plans to concentrate its efforts on developing its inventory on this emerging light oil resource. Our challenge going forward will be to convert this land base into production and reserves.

On October 30, 2009, Henry Dunfield, Rob Duguid and Chuck Charlton resigned from the Board of Directors. I would like to thank each of these individuals for their valuable contributions of time and advice.

On behalf of the Board of Directors,

(signed)

Lowell E. Jackson, P.Eng.

President & Chief Executive Officer

Management's Discussion and Analysis

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

This Management's Discussion & Analysis ("MD&A") is a review of how WestFire performed during the period covered by the financial statements, and of WestFire's financial conditions and future prospects. The MD&A complements and supplements the financial statements of WestFire, and should be read in conjunction with the audited financial statements for the year ended December 31, 2008 and the interim financial statements for the nine months ended September 30, 2009, together with the notes related thereto. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in Canadian dollars. Readers should read the Legal Advisories section at the end of this MD&A. WestFire's Board of Directors has reviewed and, on the recommendation of the Audit Committee, has approved the financial statements and MD&A. This MD&A is effective December 9, 2009.

Financial (\$'s except share and production information)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Oil and gas revenues	4,270,959	8,004,420	13,272,125	15,356,747
Cash provided by operating activities	1,671,070	3,267,337	3,997,073	5,956,692
Funds flow from operations ⁽¹⁾	681,355	2,943,200	4,721,606	5,307,194
Per share – basic ⁽¹⁾	0.03	0.18	0.21	0.48
Per share – diluted ⁽¹⁾	0.03	0.18	0.21	0.47
Net income (loss)	(1,811,984)	4,040,980	(5,193,067)	2,707,650
Per share - basic	(0.07)	0.25	(0.23)	0.24
Per share – diluted	(0.07)	0.25	(0.23)	0.24
Capital expenditures (including non-cash)	6,749,855	5,059,201	16,080,945	63,810,173
Common shares outstanding – basic	26,512,730	16,287,682	26,512,730	16,287,682
Common shares outstanding – diluted	26,512,730	17,287,482	26,512,730	17,287,482
Weighted average – basic	26,512,730	15,970,259	22,967,349	11,118,630
Weighted average - diluted	26,512,730	16,095,602	22,967,349	11,243,973
Sales Volumes				
Oil and NGL (bbls per day)	453	521	491	380
Natural gas (Mcf per day)	5,610	3,996	5,536	1,993
Barrels of oil equivalent (boe per day) ⁽²⁾	1,388	1,187	1,414	712

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

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

Overview

WestFire's primary goal is to build asset value initially through acquisitions, exploitation and development. The Company seeks acquisitions with exploitation and exploration potential. These acquisitions can be in the form of buyouts of corporations or the direct acquisition of oil and gas properties. The ideal acquisition will have a high, operated working interest with large reserves in place and low recoveries to date. The Company will enhance value through increased recovery by infill drilling, applying new geophysical and horizontal drilling technology or employing secondary recovery techniques such as water floods. Exploration is 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 is performed. WestFire is patient and selective of opportunities which demonstrate the potential for superior returns on capital expended. With this approach, the Company plans to maximize our capital efficiency and thereby achieve low finding and development costs and high recycle ratios (field netback per boe divided by finding and development costs per boe).

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. Recently, WestFire has shifted its exploitation focus to economically developing its extensive land base in these areas. In the meantime, WestFire will continue to pursue accretive acquisitions.

Oil and gas production

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Sales Volumes				
Oil and NGL (bbls per day)	453	521	491	380
Natural gas (Mcf per day)	5,610	3,996	5,536	1,993
Barrels of oil equivalent (boe per day)	1,388	1,187	1,414	712

Volumes have increased during the third quarter of 2009 compared to the same period of 2008 as a result of acquisitions that were completed throughout 2008. Volumes have increased from Q2 of 2009 as a result of workovers of heavy oil wells in the Redwater area, offset by declines in heavy oil volumes at Driver and Kerrobert. Two multi-stage sand fracture stimulated horizontal wells were completed in the third quarter and came on production in the later part of the quarter. Natural gas volumes increased from the second quarter of 2009 as a result of the completion and tie in of two wells in Bashaw, Alberta.

Petroleum and natural gas revenues

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Oil and NGL revenues	2,657,797	5,052,559	7,207,925	10,645,392
Per barrel	63.77	105.47	53.75	92.97
Natural gas	1,613,162	2,951,861	6,064,200	4,711,355
Per Mcf	3.13	8.03	4.01	8.63

Oil prices received by WestFire during the third quarter of 2009 declined 42% from the prices received during the same period of 2008. During the first nine months of 2009, WestFire's oil and NGL volumes consisted of 23% (2008 -47%) heavy crude oil which is subject to an additional pricing differential from Edmonton Light Sweet crude oil. The Edmonton Light Sweet price averaged \$71.53 per bbl in the third quarter of 2009, which decreased 41% from the \$121.92 per bbl in the third quarter of 2008.

The Company's average natural gas price of \$3.13 per Mcf received in the third quarter of 2009 declined 61% from the average price received during the third quarter of 2008. This compares to an average Alberta Plant Gate reference price of \$2.92 per Mcf in the third quarter of 2009 and represents a 67% decrease from the third quarter of 2008 price of \$8.03 per Mcf. Most of WestFire's gas volumes receive a premium to the Alberta Plant Gate price due to its high heat content.

Interest and other

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest and other	4,979	17,192	354	87,959

Interest and other income declined as WestFire used its cash on hand and operating lines of credit to execute its capital program. In the first quarter of 2009, WestFire realized a loss on the sale of two trucks in the amount of \$22,123, which is offset by realized other income of \$22,477 earned throughout the first nine months of 2009.

Crown and other royalties

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Total	430,751	1,720,431	1,547,826	3,188,295
Per boe	3.37	15.76	4.01	16.35
% of revenue	10.1%	21.5%	11.7%	20.8%

Total royalties in the third quarter and the first nine months of 2009 declined from the same periods in 2008 predominantly due to a decrease in commodity prices. In addition, during the second quarter of 2009, the Company received \$241,031 in gas cost allowances and capital cost adjustments, relating to both 2008 and 2009, from the Alberta Government for processing facilities in Bashaw. As royalties under the New Royalty Framework are sensitive to both commodity prices and production levels, the estimated corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled. With gas prices expected to be very low at least until the coming winter season, WestFire expects its Crown royalty rates will remain low for this period as well. The Company has taken full advantage of the drilling royalty credits and reduced royalty rate incentives announced earlier in the year and anticipates that drilling royalty credits earned to date will offset any additional Alberta crown royalties payable through to the end of 2009.

Operating expenses

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Total	2,952,160	2,209,214	7,207,838	3,743,545
Per boe	23.12	20.23	18.67	19.19
% of revenue	69.1%	27.6%	54.3%	24.4%

Operating costs per boe were higher in the third quarter of 2009 on a boe basis as result of the payment of approximately \$790,000 of property taxes to the various municipalities in which WestFire operates. In addition, many one-time costs were incurred in January 2009 after the closing of the Racing acquisition. Operating costs in total are higher than 2008 as WestFire acquired numerous properties in 2008. Operating costs as a percent of revenue increased largely due to the decline in commodity prices.

Transportation expenses

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Total	136,996	84,083	431,284	150,973
Per boe	1.07	0.77	1.12	0.77
% of revenue	3.2%	1.1%	3.2%	1.0%

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 2008 acquisitions. During the first nine months of 2009, WestFire trucked its North Plato Saskatchewan sales volumes a greater distance in order to obtain a better sales price. This resulted in higher per boe transportation costs. Transportation costs as a percentage of revenue have increase due to the additional transportation distance and as a result of the lower commodity prices.

Netback ⁽¹⁾

\$ per boe	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue	33.44	73.31	34.39	78.74
Realized derivative gain (loss)	3.45	(4.40)	6.84	(6.89)
Royalties	(3.37)	(15.76)	(4.01)	(16.35)
Operating expenses	(23.12)	(20.23)	(18.67)	(19.19)
Transportation expenses	(1.07)	(0.77)	(1.12)	(0.77)
Netback	9.33	32.15	17.43	35.54

The dramatic decline in commodity prices was cushioned by gains resulting from the Company's risk management program. The Company realized derivative gains in the first nine months of 2009 of \$2,639,190 (2008 – loss of \$1,343,554).

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

General and administration ("G&A") expenses

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Gross G&A expenses	803,373	451,317	1,987,723	1,311,991
Less: capitalized	(398,682)	(94,000)	(603,229)	(292,325)
Net G&A expenses	404,691	357,317	1,384,494	1,019,666
Per boe	3.17	3.27	3.59	5.23

G&A expenses decreased on a per boe basis due to the growth in production. At the end of September 2009, WestFire had fourteen 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 the first nine months of 2009 compared with the same period of 2008 as a result of the numerous acquisitions which required additional staffing and overhead. The first acquisition was not completed until March 2008 and so expense levels did not start to increase until the second quarter of 2008.

Interest expense

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest expense	33,955	101,398	346,003	395,454

The Company raised money during the second quarter and used some of the proceeds to apply against bank debt. In addition, 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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Gross stock based compensation	281,565	165,081	841,175	365,661
Less: capitalized	(53,316)	-	(159,948)	-
Net stock based compensation	228,249	165,081	681,227	365,661

Stock based compensation is a non-cash expense, which represents the estimated fair value of stock based compensation granted to employees as part of WestFire's incentive package. Compensation costs attributable to the common share stock options granted to employees or directors are measured at fair value at the grant date and expensed to stock based compensation or capitalized to property, plant and equipment over the expected vesting time frame with a corresponding increase to contributed surplus. The Company's stock option plan provides for granting of options to directors, employees and consultants to a maximum of 10% of the total issued and outstanding common shares of the Company. The maximum number of common shares granted to any one option recipient during a twelve month period shall not exceed 5% of the outstanding common shares of the Company at the time of granting. These options have a term of five years to expiry and have a three year vesting period from the date of grant. The exercise price of each option is set by the Board of Directors on the date of grant. In accordance with its full cost accounting policy, WestFire capitalizes stock based compensation expenses associated with exploration and development activities. As at September 30, 2009, there were 1,867,300 options outstanding compared with 999,800 options outstanding as at September 30, 2008.

Provision for uncollectible accounts

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Provision for uncollectible accounts	199	106,299	1,791	72,703

WestFire has had relatively minor problems with collecting accounts receivable in 2009.

Depletion, depreciation and accretion (DD&A)

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Depletion and depreciation	3,130,566	2,748,522	9,075,353	4,903,947
Accretion	93,720	47,640	266,793	93,173
Total	3,224,286	2,796,162	9,342,146	4,997,120
Per boe	25.25	25.61	24.20	25.62

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. The decrease in rate for 2009 is predominantly due to the asset acquisition in June 2009 being completed at a more favorable valuation for proved reserves than the historical average.

Income taxes

For the first nine months of 2009, the recovery of income tax was \$2,011,000, as compared to a recovery of \$1,818,033 for the same period in 2008. The recovery in 2008 was due to the renouncement of tax deductions associated with flow through shares during the period. In the first nine months of 2009, the recovery is due to a loss from operations. Current taxes of \$336,116 in the first nine months of 2009 were almost entirely Saskatchewan capital taxes and the related resource royalty surcharge. In March 2009, the Company found an error in the 2005 Capital Tax Return for one of the acquired companies. The error resulted in additional tax payable of \$126,794. Saskatchewan capital taxes and the related resource royalty surcharge for the nine months ended September 30, 2009 was approximately \$173,000.

Net income (loss) and comprehensive income (loss)

Net income (loss) and comprehensive income (loss) for the nine months ended September 30, 2009 was a loss of \$5,193,067 compared to a net income of \$2,707,650 during the same period in 2008. The net loss in the first nine months of 2009 is primarily attributable to the fall in commodity prices. Basic and diluted net loss per share for the nine months ended September 30, 2009 was \$0.23 per share. This is compared to basic and diluted net income per share of \$0.24 per share for the same period in 2008.

Liquidity and capital resources

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

During the second quarter of 2009, the Company issued \$21,806,976 (net of issue costs) in new equity. This equity was raised by issuing 5,267,480 shares at \$3.50 per share and 362,809 flow through shares at \$4.25 per share. In addition, on June 18, 2009, the Company closed an asset acquisition for \$9,846,458 by paying cash of \$7,946,457 and issuing 447,059 shares valued at \$4.25 per share. At September 30, 2009, the Company had negative working capital of \$2,561,259.

Capital expenditures

(\$)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Land	181,438	87,730	923,079	568,757
Acquisitions	(34,090)	-	7,912,367	23,216,556
Geological and geophysical	200,828	214,708	675,234	475,952
Drilling and completions	5,119,960	3,439,129	7,189,861	6,420,810
Equipment and facilities	1,172,665	1,192,977	1,553,948	2,077,174
Office equipment	-	-	1,350	123,948
Cash funded capital expenditures	6,640,801	4,934,544	18,255,839	32,883,197
Non-cash capital expenditures				
K-Town acquisition	-	-	-	30,415,854
Asset acquisition (future tax effect net of shares issued)	-	-	(2,678,999)	-
Additions to asset retirement obligations	55,738	124,657	344,157	420,941
Assets acquired in settlement of an account receivable	-	-	-	90,181
Capitalized stock based compensation	53,316	-	159,948	-
Capital expenditure	6,749,855	5,059,201	16,080,945	63,810,173

Capital program for 2009

WestFire drilled, completed and placed on production two Viking light oil wells and completed and tied in two gas wells in the Bashaw area during the third quarter of 2009. Both of the Viking wells were eligible for the Alberta Government Drilling Incentive Credits. As at September 30, 2009 WestFire had earned \$632,800 in credits from drilling these wells that are eligible to offset future Alberta Crown royalties' payable through to the end of March 2011. During the second quarter of 2009 WestFire's major capital expenditure was the acquisition of assets predominantly located in the Company's Redwater area for a total purchase price of \$9,846,458. The Company paid for the assets with cash of \$7,946,457 and issued 447,059 common shares valued at \$4.25 per share. In addition to the oil and gas assets, WestFire received tax pools totaling in excess of \$22 million. To the extent that the pools exceed the purchase price, they become a future tax asset with the offset a reduction of the purchase price of the assets. The addition to future tax assets as a result of this transaction was \$4,579,000.

Related Party Transactions

- During the nine months ended September 30, 2008, the Company agreed to pay a fee to a corporation owned by a director that assisted in raising \$2,069,948 through the issue of 406,156 shares. Fees in the amount of \$113,196 have been included in share issue costs. These fees were paid during 2008. No amounts have been accrued or paid in 2009.
- A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the nine months ended September 30, 2009, included in general and administrative expenses and share issue expenses are amounts totaling \$49,563 (2008 - \$85,659) and \$113,898 (2008 - \$272,078) respectively, charged to the Company by BDP. At September 30, 2009, \$34,497 (December 31, 2008 - \$361,062) was included in accounts payable.
- Included in accounts receivable at December 31, 2008 was \$20,049 due from the Chief Executive Officer (CEO) of the Company. The amount relates to the settlement of a lawsuit and the purchase of WestFire shares from a former employee of Racing Resources Ltd. For administrative purposes, the Company advanced one cheque to the former

employee for both the severance settlement and the share purchase. The account receivable represents the CEO's commitment to purchase a portion of such shares and was fully repaid in January 2009.

Commitments

- (a) The Company has a commitment for an office lease at \$42,695 per month until November 30, 2010. Future lease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
Remainder of 2009	\$128,085	\$(6,000)	\$122,085
2010	\$469,645	\$(66,000)	\$403,645

Subsequent to September 30, 2009, the Company entered into an office sublease from November 1, 2009 to February 28, 2010 to rent additional office space for \$3,766 per month for a total commitment of \$15,064. WestFire has in turn sublet this space on a month to month basis for the lease amount of \$3,766 per month from November 1, 2009 to another party.

- (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 subleased this space for a period of 24 months at a monthly rate of \$10,007. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
Remainder of 2009	\$32,951	\$(30,021)	\$2,930
2010	\$131,805	\$(120,089)	\$11,716
2011	\$131,805	\$(10,007)	\$121,798
2012	\$131,805	\$ -	\$131,805

- (c) At September 30, 2009, the Company had committed to vehicle leases for the purposes of field operations. Future minimum lease payments relating to the vehicle leases are:

Year ending December 31,	
Remainder of 2009	\$27,649
2010	\$95,967
2011	\$15,667

- (d) WestFire has committed to drill three wells in Alberta and Saskatchewan by December 31, 2009. These commitments are pursuant to two farm-in agreements with industry partners. The Company expects to satisfy this drilling commitment at an estimated cost of \$2,900,000. Subsequent to September 30, 2009, the Company drilled two wells in Saskatchewan and reduced this commitment by \$2,150,000.
- (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 \$124,000 of these expenditures but has not renounced the related tax benefits as at September 30, 2009.

Off-balance sheet obligations and financial instruments

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

As of September 30, 2009, 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	\$74.00	September 2009	December 2009
Swap (WTI)	50 barrels per day	\$80.00	September 2009	December 2009
Swap (WTI)	50 barrels per day	\$81.30	September 2009	December 2009
Costless Collar (WTI)	100 barrels per day	Floor \$70.00 Ceiling \$92.80	September 2009	December 2009
Put (WTI)	250 barrels per day	\$70.00	September 2009	December 2009
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)	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
Natural Gas				
Swap (Aeco)	1,250 GJ's per day	\$3.83	May 2009	October 2009
Costless Collar (Aeco)	1,250 GJ's per day	Floor \$3.25 Ceiling \$4.25	May 2009	October 2009
Call (Aeco)	1,250 GJ's per day	\$6.45	May 2009	October 2009
Call (Aeco)	625 GJ's per day	\$5.65	May 2009	October 2009
Swap (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

For the nine months ended September 30, 2009, an unrealized derivative loss of \$1,837,011 (2008 – gain of \$855,023) was included in net loss for the period. In addition, at September 30, 2009, unrealized derivative gain of \$422,156 (December 31, 2008 - \$2,259,167) was recorded as a current asset on the Company's balance sheet relating to the risk management contracts.

Subsequent to September 30, 2009, the Company entered into the following derivative contracts:

Type	Volume	Price per barrel (Cdn \$)	Commencement date	Termination date
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

Subsequent events

- On November 2, 2009 the Company entered into an Arrangement Agreement with Exceed Energy Inc. to effect an exchange of all of the issued and outstanding Exceed shares for WestFire shares. Upon the approval of two-thirds of the shareholders of Exceed at a special shareholder meeting to be held December 17, 2009, Exceed shareholders are expected to receive, for each Exceed share held on the effective date of the Arrangement Agreement, 0.01 of a WestFire share with the result that Exceed will become a wholly-owned subsidiary of WestFire. Concurrent with the Exceed acquisition, the Company has applied to list its shares on the Toronto Stock Exchange.
- On October 30, 2009 the Company entered into an agreement to acquire certain oil and gas properties for \$30.0 million. In conjunction with the acquisition, the Company and Exceed Energy Inc. entered into an agreement on December 2, 2009 with a syndicate of underwriters to issue \$45.0 million of equity on a bought-deal basis. Exceed will issue 800,000,000 common shares at a price of \$0.0563 per common share. These common shares will be exchanged for 8,000,000 WestFire shares pursuant to the Plan of Arrangement.

New accounting policy

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

Recent accounting pronouncements

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

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has determined that Canadian public companies will be required to adopt International Financial Reporting Standards (IFRS) as of January 1, 2011. Some existing Canadian standards will converge with IFRS before the transition date. Other IFRS will be adopted for the first time on January 1, 2011. The Company's financial statements up to and including the December 31, 2010 financial statements will be reported in accordance with Canadian GAAP as they exist on each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared in accordance with IFRS. A transition plan has been developed to convert the financial statements to IFRS. Training has been, and will continue to be, provided to key employees and the Company is monitoring the effect of the transition on information systems. An analysis of the difference between IFRS and the Company's current accounting policies is underway, and the impact of various alternatives will continue to be assessed. Changes in accounting policy are likely and may materially impact the financial statements. Due to anticipated changes in IFRS prior to the conversion date, the final impact of the conversion on the Company's financial statements cannot be measured at this time.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<i>Cash provided by (used In) operating activities</i>	\$ 1,671,070	\$3,267,337	\$3,997,073	\$5,956,692
<i>Change in non-cash working capital</i>	(989,715)	(324,137)	724,533	(649,498)
<i>Funds flow from operations</i>	\$681,355	\$2,943,200	\$4,721,606	\$5,307,194

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. Netback is also presented, which represents WestFire's revenue per boe, less per boe royalties, operating expenses and transportation expenses, in order to determine the amount of funds generated by each boe produced.

Forward-Looking Statements

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

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

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

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

Financial Statements

Balance Sheets

Unaudited

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Accounts receivable (note 8)	2,183,504	3,148,584
Risk management contracts (note 8)	422,156	2,259,167
Future tax asset	4,886,000	4,388,000
Prepaid expenses and deposits	279,879	474,885
	7,771,539	10,270,636
Restricted cash	71,068	-
Property, plant and equipment (note 2)	81,281,491	74,287,846
Future tax asset	28,814,000	23,069,000
	\$ 117,938,098	\$ 107,627,482
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,600,659	\$ 10,223,698
Bank debt (note 3)	4,732,139	7,491,273
	10,332,798	17,714,971
Asset retirement obligations (note 4)	7,220,106	6,609,156
	17,552,904	24,324,127
Shareholders' Equity		
Shareholders' equity:		
Share capital (note 5)	100,529,858	79,096,127
Contributed surplus (note 5c)	1,406,774	565,599
Retained earnings (deficit)	(1,551,438)	3,641,629
	100,385,194	83,303,355
	\$ 117,938,098	\$ 107,627,482
Commitments (note 7)		

See accompanying notes to financial statements.

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

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue:				
Petroleum and natural gas	\$ 4,270,959	\$ 8,004,420	\$ 13,272,125	\$ 15,356,747
Interest and other	4,979	17,192	354	87,959
Crown and other royalties	(430,751)	(1,720,431)	(1,547,826)	(3,188,295)
	3,845,187	6,301,181	11,724,653	12,256,411
Realized gain (loss) on financial instruments (note 8f)	440,698	(480,529)	2,639,190	(1,343,554)
Unrealized gain (loss) on financial instruments (note 8f)	205,475	4,059,023	(1,837,011)	855,023
	4,491,360	9,879,675	12,526,832	11,767,880
Expenses:				
Operating	2,952,160	2,209,214	7,207,838	3,743,545
Transportation	136,996	84,083	431,284	150,973
Interest	33,955	101,398	346,003	395,454
General and administrative	404,691	357,317	1,384,494	1,019,666
Provision for uncollectible accounts	199	106,299	1,791	72,703
Stock based compensation (note 5e)	228,249	165,081	681,227	365,661
Depletion, depreciation and accretion	3,224,286	2,796,162	9,342,146	4,997,120
	6,980,536	5,819,554	19,394,783	10,745,122
Income (loss) before taxes	(2,489,176)	4,060,121	(6,867,951)	1,022,758
Provision for (recovery of) income taxes				
Capital and income taxes	98,808	19,141	336,116	133,141
Future income tax recovery	(776,000)	-	(2,011,000)	(1,818,033)
	(677,192)	19,141	(1,674,884)	(1,684,892)
Net income (loss) and comprehensive income (loss)	(1,811,984)	4,040,980	(5,193,067)	2,707,650
Retained earnings (deficit), beginning of the period	260,546	(1,333,330)	3,641,629	(137,668,379)
Application of share capital to deficit	-	-	-	6,544,879
Application of share capital to contributed surplus	-	-	-	131,123,500
Retained earnings (deficit), end of the period	\$ (1,551,438)	\$ 2,707,650	\$ (1,551,438)	\$ 2,707,650

See accompanying notes to financial statements.

Statements of Cash Flows

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating activities:				
Net income (loss) for the period	\$ (1,811,984)	\$ 4,040,980	\$ (5,193,067)	\$ 2,707,650
Add (deduct) items not affecting cash:				
Depletion, depreciation and accretion	3,224,286	2,796,162	9,342,146	4,997,120
Unrealized loss (gain) on financial instruments	(205,475)	(4,059,023)	1,837,011	(855,023)
Future income tax recovery	(776,000)	-	(2,011,000)	(1,818,033)
Stock based compensation	228,249	165,081	681,227	365,661
Employee stock savings plan	22,279	-	62,942	-
Recovery of uncollectible accounts	-	-	-	(90,181)
Loss on sale of non oil and gas assets	-	-	2,347	-
	681,355	2,943,200	4,721,606	5,307,194
Change in non-cash working capital	989,715	324,137	(724,533)	649,498
	1,671,070	3,267,337	3,997,073	5,956,692
Financing activities:				
Increase (decrease) in bank debt	2,868,692	(15,932,781)	(2,759,134)	(4,291,420)
Proceeds of share issue net of issue costs	(245)	24,287,971	19,880,730	49,440,858
Restricted cash	(71,068)	-	(71,068)	-
	2,797,379	8,355,190	17,050,528	45,149,438
Investing activities:				
Petroleum and natural gas properties	(6,640,801)	(4,934,544)	(18,255,839)	(32,883,197)
Acquisition of K-Town Energy Ltd.	-	-	-	(15,606,000)
Sale of non oil and gas assets	-	-	9,600	-
Change in non-cash working capital	2,126,808	1,585,311	(2,801,363)	2,920,418
	(4,513,993)	(3,349,233)	(21,047,602)	(45,568,779)
Net increase (decrease) in cash during the period	(45,544)	8,273,294	-	5,537,351
Cash and cash equivalents, beginning of the period	45,544	-	-	2,735,943
Cash and cash equivalents, end of the period	\$ -	\$ 8,273,294	\$ -	\$ 8,273,294
Supplementary disclosure				
Cash interest paid	\$ 33,955	\$ 101,398	\$ 346,003	\$ 395,454
Cash taxes paid	\$ 98,808	\$ 19,141	\$ 336,116	\$ 133,141

See accompanying notes to financial statements.

Notes to the Financial Statements

For nine months ended September 30, 2009 and 2008

Unaudited

1. Basis of presentation:

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

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

New accounting policy

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

Recent accounting pronouncements

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

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB confirmed that the standards will become effective for all publicly accountable enterprises in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company has completed its initial phase of the implementation which included conceptual application of the new rules; diagnostic analysis of WestFire's accounting data and a high level assessment of key areas that may be impacted by the adoption of IFRS. The next phase will include the determination of the Company's cash generating units, the analysis of accounting policy alternatives under IFRS as well as the determination of changes required to existing information systems and business processes.

2. Property, plant and equipment

	September 30, 2009		
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties	\$ 98,392,966	\$ 17,218,725	\$ 81,174,241
Office equipment	158,415	51,165	107,250
	\$ 98,551,381	\$ 17,269,890	\$ 81,281,491

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

During the nine months ended September 30, 2009, the Company capitalized general and administrative expenses in the amount of \$603,229 (September 30, 2008 - \$292,325) related to acquisition, exploration and development activities.

As at September 30, 2009, unproved oil and gas properties amounting to \$5,314,640 (September 30, 2008 - \$553,611) were excluded from the depletion and depreciation calculation. Future development costs on proved undeveloped reserves of \$5,748,000 (September 30, 2008 - \$2,462,900) were included in the depletion calculation for the 2009 period.

3. Bank debt

At September 30, 2009, the Company had a revolving credit facility in the amount of \$20,000,000 (2008 - \$19,000,000) with a Canadian financial institution. The interest rate charged on the bank facility ranges from the bank's prime plus 0.875% to prime plus 1.875% and is dependent on the ratio of the Company's net debt to trailing cash flow. The authorized limit of the facility will be reviewed on May 31, 2010. This facility is secured by the assets of the Company.

4. Asset retirement obligation

The total future asset retirement obligation was estimated by management based on the expected cost to abandon and restore the well sites and the facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated that the total undiscounted amount of cash flows required to settle its asset retirement obligations at September 30, 2009 was \$12,095,496 (December 31, 2008 - \$11,619,096) which will be incurred between 2009 and 2020. The Company used a credit adjusted risk free rate of 7.5% to calculate the present value of the asset retirement obligations and an inflation rate of 2% was used to inflate the costs.

Changes to the asset retirement obligations were as follows:

	September 30, 2009	December 31, 2008
Balance, beginning of period	\$ 6,609,156	\$ 179,194
Liabilities incurred	93,371	332,420
Liabilities acquired	358,017	5,320,234
Accretion	266,793	160,690
Revision to estimates	(107,231)	616,618
Balance, end of period	\$ 7,220,106	\$ 6,609,156

5. Share capital

(a) Authorized

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

(b) Common shares, issued and outstanding

	Number of shares	Amount
Balance, December 31, 2007	5,014,706	\$ 12,762,293
Issued for cash ⁽ⁱ⁾	701,800	2,631,750
Issued for cash ⁽ⁱⁱ⁾	306,000	1,377,000
Issued for shares of K-Town Energy Ltd. ⁽ⁱⁱⁱ⁾	1,728,800	8,644,000
Issued for cash ^(iv)	4,344,508	21,722,540
Issued for cash ^(v)	4,191,868	25,151,208
Issued for other corporate acquisitions ^(vi)	127,000	762,000
Issued for shares of Racing Resources Ltd. ^(vii)	4,020,700	16,082,800
Application of deficit to share capital	-	(6,544,879)
Tax effect of flow through shares	-	(1,818,033)
Share issue expenses (net of \$842,000 of taxes)	-	(1,674,552)
Balance, December 31, 2008	20,435,382	\$ 79,096,127
Issued for cash ^(viii)	5,267,480	18,436,180
Issued for cash ^(ix)	362,809	1,541,938
Issued for oil and gas properties ^(x)	447,059	1,900,001
Tax effect of flow through shares	-	(373,000)
Share issue expenses (net of \$26,000 of taxes)	-	(71,388)
Balance, September 30, 2009	26,512,730	\$ 100,529,858

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

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

5. Share capital (continued)

(b) Common shares, issued and outstanding

- (ix) 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.
- (x) 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 for proceeds of \$1,900,001.

(c) Contributed surplus

Balance, December 31, 2007	\$ 131,123,500
Application of deficit to contributed surplus	(131,123,500)
Stock based compensation	565,599
Balance, December 31, 2008	\$ 565,599
Stock based compensation	841,175
Balance, September 30, 2009	\$ 1,406,774

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

(d) Stock options

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

The following tables summarize the information about options to purchase common shares as at September 30, 2009.

	Number Of Options	Weighted Average Exercise Prices
Balance, January 1, 2008	-	\$ -
Granted	1,927,700	\$ 5.12
Forfeited	(75,400)	\$ 4.16
Balance, December 31, 2008	1,852,300	\$ 5.16
Granted	15,000	\$ 3.50
Balance, September 30, 2009	1,867,300	\$ 5.15

Outstanding options			Exercisable options		
Exercise price (\$/share)	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price (\$/share)	Number of options exercisable	Weighted average exercise price (\$/share)
\$3.50	15,000	4.9	\$3.50	-	-
\$3.75	459,400	3.6	\$3.75	153,136	\$3.75
\$5.00	515,400	3.9	\$5.00	171,805	\$5.00
\$6.00	877,500	4.4	\$6.00	-	-
	1,867,300	4.0	\$5.15	324,941	\$4.41

(e) Stock-based compensation

The Company has a stock option plan that is described above. Compensation costs attributable to share options granted to employees or directors are measured at fair value at the grant date and expensed or capitalized over the expected vesting time frame with a corresponding increase to contributed surplus. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions: dividend yield – nil, expected volatility 50%, risk-free interest rate 4.00%, and weighted average life of 5.0 years. Forfeitures are

recognized as they occur. The weighted average fair value of stock options granted during the period ended September 30, 2009 was \$1.77 (September 30, 2008 - \$2.03) per option.

5. Share capital (continued)

(f) Per share amounts

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted average common shares				
Basic	26,512,730	15,970,259	22,967,349	11,118,630
Diluted	26,512,730	16,095,602	22,967,349	11,243,973
Net income (loss) per share:				
Net income (loss) for the period	\$ (1,811,984)	\$ 4,040,980	\$ (5,193,067)	\$ 2,707,650
Per share basic	\$ (0.07)	\$ 0.25	\$ (0.23)	\$ 0.24
Per share diluted	\$ (0.07)	\$ 0.25	\$ (0.23)	\$ 0.24

6. Related party transactions

- During the nine months ended September 30, 2008, the Company agreed to pay a fee to a corporation owned by a director that assisted in raising \$2,069,948 through the issue of 406,156 shares. Fees in the amount of \$113,196 have been included in share issue costs. These fees were paid during 2008. No amounts have been accrued or paid in 2009.
- A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). During the nine months ended September 30, 2009, included in general and administrative expenses and share issue expenses are amounts totaling \$49,563 (2008 - \$85,659) and \$113,898 (2008 - \$272,078) respectively, charged to the Company by BDP. At September 30, 2009, \$34,497 (December 31, 2008 - \$361,062) was included in accounts payable.
- Included in accounts receivable at December 31, 2008 was \$20,049 due from the Chief Executive Officer (CEO) of the Company. The amount relates to the settlement of a lawsuit and the purchase of WestFire shares from a former employee of Racing Resources Ltd. For administrative purposes, the Company advanced one cheque to the former employee for both the severance settlement and the share purchase. The account receivable represents the CEO's commitment to purchase a portion of such shares and was fully repaid in January 2009.

7. Commitments

The Company has a commitment for an office lease at \$42,695 per month until November 30, 2010. Future lease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
Remainder of 2009	\$128,085	\$(6,000)	\$122,085
2010	\$469,645	\$(66,000)	\$403,645

Subsequent to September 30, 2009, the Company entered into an office sublease from November 1, 2009 to February 28, 2010 to rent additional office space for \$3,766 per month for a total commitment of \$15,064. WestFire has in turn sublet this space on a month to month basis for the lease amount of \$3,766 per month from November 1, 2009 to another party.

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 subleased this space for a period of 24 months at a monthly rate of \$10,007. Future lease payments after recovery of the minimum sublease payments are:

Year ending December 31,	Gross lease payments	Sublease recovery	Net lease payments
Remainder of 2009	\$32,951	\$(30,021)	\$2,930
2010	\$131,805	\$(120,089)	\$11,716
2011	\$131,805	\$(10,007)	\$121,798
2012	\$131,805	\$ -	\$131,805

7. Commitments (continued)

At September 30, 2009, the Company had committed to vehicle leases for the purposes of field operations. Future minimum lease payments relating to the vehicle leases are:

Year ending December 31,	
Remainder of 2009	\$27,649
2010	\$95,967
2011	\$15,667

WestFire has committed to drill three wells in Alberta and Saskatchewan by December 31, 2009. These commitments are pursuant to two farm-in agreements with industry partners. The Company expects to satisfy this drilling commitment at an estimated cost of \$2,900,000. Subsequent to September 30, 2009, the Company drilled two wells in Saskatchewan and reduced this commitment by \$2,150,000.

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 \$124,000 of these expenditures but has not renounced the related tax benefits as at September 30, 2009.

8. Financial instruments

(a) Overview

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about WestFire's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

(b) Credit risk

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

	September 30, 2009	December 31, 2008
Petroleum and natural gas marketers	\$ 1,470,566	\$ 2,515,035
Joint venture partners	712,938	567,846
Other trade receivables	-	65,703
Balance, end of period	\$ 2,183,504	\$ 3,148,584

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following the month of production. The Company attempts to mitigate credit risk by establishing marketing relationships with a variety of long-standing and reputable purchasers. At September 30, 2009, WestFire had receivables from six different marketing companies. One of these marketing companies owed WestFire \$919,791 or 42% of the total and another owed WestFire \$405,375 or 19% of the total at September 30, 2009.

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

8. Financial instruments (continued)

(b) Credit risk

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

As at September 30, 2009 and December 31, 2008, the Company's receivables were aged as follows:

Ageing	September 30, 2009	December 31, 2008
Not past due (less than 90 days)	\$ 2,157,259	\$ 3,064,922
Past due (90 days and over)	26,245	83,662
	\$ 2,183,504	\$ 3,148,584

(c) Liquidity risk

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

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the funding of the capital expenditure program, the Company has a revolving reserve based credit facility, as outlined in note 3.

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

(d) Market risk

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

(e) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the nine months ended September 30, 2009 or the year ended December 31, 2008.

8. Financial instruments (continued)

(f) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The use of these risk management contracts is governed by a formal policy and is subject to maximum limits established by the Board of Directors.

As of September 30, 2009, 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	\$74.00	September 2009	December 2009
Swap (WTI)	50 barrels per day	\$80.00	September 2009	December 2009
Swap (WTI)	50 barrels per day	\$81.30	September 2009	December 2009
Costless Collar (WTI)	100 barrels per day	Floor \$70.00 Ceiling \$92.80	September 2009	December 2009
Put (WTI)	250 barrels per day	\$70.00	September 2009	December 2009
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)	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
Natural Gas				
Swap (Aeco)	1,250 GJ's per day	\$3.83	May 2009	October 2009
Costless Collar (Aeco)	1,250 GJ's per day	Floor \$3.25 Ceiling \$4.25	May 2009	October 2009
Call (Aeco)	1,250 GJ's per day	\$6.45	May 2009	October 2009
Call (Aeco)	625 GJ's per day	\$5.65	May 2009	October 2009
Swap (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

For the nine months ended September 30, 2009, an unrealized derivative loss of \$1,837,011 (2008 – gain of \$855,023) was included in net loss for the period. In addition, at September 30, 2009, unrealized derivative gain of \$422,156 (December 31, 2008 - \$2,259,167) was recorded as a current asset on the Company's balance sheet relating to the risk management contracts.

Subsequent to September 30, 2009, the Company entered into the following derivative contracts:

Type	Volume	Price per barrel (Cdn \$)	Commencement date	Termination date
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

Absent the above-noted contracts, the effects of changes in commodity prices on net income for the nine months ended September 30, 2009 are summarized in the following table:

Commodity	Price Change	Net income change
Oil and NGL (\$/bbl)	\$1.00	\$ 118,464
Natural gas (\$/Mcf)	\$0.10	\$ 133,501

8. Financial instruments (continued)

(g) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. As at September 30, 2009, if interest rates had been one percent lower with all other variables held constant, net income for the period would have been approximately \$35,297 higher (2008 – \$39,478 lower). An equal and opposite impact would have occurred to net income had interest rates been one percent higher.

The fair value of cash, accounts receivable, deposits, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of risk management contracts is determined by calculating the difference between contracted prices and published forward prices at the balance sheet date, then multiplying this price differential by the contracted commodity volumes. WestFire's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

(h) The carrying and fair value of the Company's financial instruments as at September 30, 2009 is as follows:

Financial assets	Carrying value	Fair value
Held for trading		
Risk management assets	\$ 422,156	\$ 422,156
Restricted cash	\$ 71,068	\$ 71,068
Loans and receivables		
Accounts receivable	\$ 2,183,504	\$ 2,183,504
Deposits	\$ 180,349	\$ 180,349
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 5,600,659	\$ 5,600,659
Bank debt	\$ 4,732,139	\$ 4,732,139

9. Capital management

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

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

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

The Company's share capital is not subject to external restrictions, however the bank debt facility is based on petroleum and natural gas reserves and contains a working capital and trailing cash flow covenant (see note 3). The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the next twelve months. There were no changes in the Company's approach to capital management during the period.

10. Subsequent events

- (a) On November 2, 2009 the Company entered into an Arrangement Agreement with Exceed Energy Inc. to effect an exchange of all of the issued and outstanding Exceed shares for WestFire shares. Upon the approval of two-thirds of the shareholders of Exceed at a special shareholder meeting to be held December 17, 2009, Exceed shareholders are expected to receive, for each Exceed share held on the effective date of the Arrangement Agreement, 0.01 of a WestFire share with the result that Exceed will become a wholly-owned subsidiary of WestFire. Concurrent with the Exceed acquisition, the Company has applied to list its shares on the Toronto Stock Exchange.

- (b) On October 30, 2009 the Company entered into an agreement to acquire certain oil and gas properties for \$30.0 million. In conjunction with the acquisition, the Company and Exceed Energy Inc. entered into an agreement on December 2, 2009 with a syndicate of underwriters to issue \$45.0 million of equity on a bought-deal basis. Exceed will issue 800,000,000 common shares at a price of \$0.0563 per common share. These common shares will be exchanged for 8,000,000 WestFire shares pursuant to the Plan of Arrangement.

Corporate Information

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Calgary, Alberta

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

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

Auditors

PricewaterhouseCoopers LLP

Evaluation Engineers

GLJ Petroleum Consultants

Banker

ATB Financial

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Valiant Trust Company

Officers

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President and CEO

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

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

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