

# WestFire Energy Ltd. Announces 2012 First Quarter Results

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[WestFire Energy Ltd.](#) ("WestFire" or the "Company") (TSX:WFE) today filed its interim unaudited Financial Statements and related Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2012 (the "Quarter") on SEDAR. Selected financial and operational information is outlined below and should be read in conjunction with WestFire's unaudited interim Financial Statements and MD&A which are available for review at [www.sedar.com](http://www.sedar.com) and on our website at [www.westfireenergy.com](http://www.westfireenergy.com).

## 2012 FIRST QUARTER HIGHLIGHTS

- First quarter exit production in excess of 11,000 barrels of oil equivalent per day ("boepd") (70 percent oil and liquids);
- Drilled 57 (51.3 net) Viking horizontal wells in the first quarter with 100 percent success, most active quarter in WestFire's history;
- First quarter Viking average production of 4,100 boepd (92 percent oil) exiting the first quarter at 5,143 boepd;
- First quarter funds flow from operations of \$29.4 million (\$0.35 per diluted share), translating to an annualized funds flow per diluted share of \$1.41;
- Continued strong balance sheet with \$48.4 million of available borrowing capacity on the Company's current \$200 million banking facility; and
- The Company's 'Modified Hot Frac' completion technique continues to generate enhanced Viking productivity.

2012 FIRST QUARTER FINANCIAL HIGHLIGHTS (\$ thousands except per share data)	Three Months ended March 31,	
	2012	2011
Financial		
Petroleum and natural gas sales	53,486	13,685
Funds flow from operations (1)	29,381	6,681
Per share - basic	0.35	0.16
Per share - diluted	0.35	0.16
Net income (loss)	1,179	(1,869)
Per share - basic	0.01	(0.05)
Per share - diluted	0.01	(0.05)
Expenditures on oil & gas properties	69,425	27,539
Capital Structure		
Bank debt	148,000	-
Working capital deficiency(2)	16,797	1,198
Net debt(1)(3)	164,797	1,198
Bank facility	200,000	42,000
Shares Outstanding, end of period (thousands)		
- basic	82,969	44,811
- diluted	83,121	45,499

2012 FIRST QUARTER OPERATING HIGHLIGHTS	Three months ended March 31,	
	2012	2011
Operating (6:1 boe conversion)		
Average daily production		
Liquids (bbls per day)	6,133	1,676
Natural gas (Mcf per day)	16,288	6,579
Barrels of oil equivalent ("boe") per day		8,848
Average prices(4)		
Oil and NGL (\$/bbl)	87.83	75.74
Natural gas (\$/Mcf)	2.29	4.01
Total (\$/boe)(4)	66.43	54.84
Netback (\$/boe)		
Petroleum and natural gas revenues		66.43
Royalties (6.06)		(5.57)
Operating expenses (15.86)		(17.42)
Transportation expenses (1.76)		(1.14)
Realized derivative gains (losses) (1.51)		
Operating netback	41.25	31.73
		1.02

(1) Non-GAAP (generally accepted accounting principles) measure.

(2) Working capital excludes the fair value of unrealized financial contracts and future taxes.

(3) Net debt includes bank debt and working capital.

(4) The average prices reported are before realized derivatives gains (losses) and transportation charges.

## OPERATIONS UPDATE

During the first quarter of 2012, WestFire significantly ramped up development of its Viking core areas with the drilling of 57 (51.3 net) Viking horizontal wells: 32 (30.8 net) at Redwater; 16 (16.0 net) at Plato; and nine (4.5 net) at Lucky Hills, all with 100 percent success. The Quarter also saw the Company further develop and improve upon the positive results of its Modified Hot-Frac ("MHF") technology which has generated significant initial 30-day production ("IP") rate increases compared to the Company's previous cold-frac wells in both Redwater and Plato, thereby opening the door for extensive re-completion opportunities on the Company's pre-MHF Viking wells.

For the Quarter, WestFire increased average production to 8,848 boepd, a three percent growth over the preceding quarter and 219 percent over the same quarter in the prior year, translating to production per diluted share growth of three percent and 75 percent, respectively. First quarter production was adversely impacted by the unscheduled shut-down of the third-party operated KA gas plant facility at Kaybob South for a total of 28 days between February 27, 2012 and March 25, 2012. Without the shut-down of the KA plant, first quarter production would have averaged approximately 9,600 boepd with production per diluted share growth over the preceding quarter of 13 percent, and 90 percent over the same quarter in the prior year.

In response to its early MHF success and improved drilling efficiencies, the Company accelerated its first quarter Viking activities. Consequently, 57 (51.3 net) of the 110 (105.5 net) Viking wells budgeted for the entire year were drilled in the first quarter. Total capital expenditures for the Quarter were \$69.4 million of which \$61.5 million was Viking related. Exiting the Quarter, Viking production of 5,143 boe per day comprised nearly 50 percent of the Company's total production of 11,000 boe per day.

Operating netbacks remained strong averaging \$41.25 per boe for the Quarter, a 30 percent increase over the first quarter in 2011 but slightly below the \$43.63 per boe recorded in the prior quarter, primarily due to weaker natural gas prices and widening crude oil price differentials.

Due to the success of its MHF process at Plato, the Company expanded its already dominant Viking land position by acquiring seven net sections in the Plato area, increasing the Company's total Plato Viking land holdings to 57 net undeveloped sections. The Company's total Viking land position in Alberta and Saskatchewan has increased to 244 undeveloped net sections prospective for horizontal drilling.

At Redwater, Alberta, the Company's MHF completion technique has delivered superior results with first quarter wells significantly outperforming previous wells that utilized typical completions. IP rates from 12 recently completed MHF wells have averaged 96 barrels of oil per day ("bbl/d") (oil only). One recent well averaged 157 bbl/d as compared to 49 bbl/d for an adjacent well in the same quarter section utilizing the old completion technology. At Plato, Saskatchewan, the Company also realized significant production improvements from its MHF technology. IP rates from 12 recently completed operated wells averaged 66 bbl/d with the best well averaging 103 bbl/d.

IP rates in both areas have been purposely constrained in order to maximize ultimate reserves recovery. Production graphs depicting these results are included in the Company's corporate presentation which is available on the Company's website at [www.WestFireEnergy.com](http://www.WestFireEnergy.com).

## FINANCIAL UPDATE

WestFire's funds flow from operations for the Quarter of \$29.4 million (\$0.35 per diluted share) was consistent with the prior quarter and represents a 340 percent increase over the first quarter of 2011. On an annualized basis, first quarter 2012 funds flow approximates \$1.41 per diluted share.

Funds flow for the Quarter was adversely impacted by the aforementioned KA gas plant shut-down. The Company is currently working with its insurance provider for a claim on the partial recovery of losses due to this business interruption. Any potential recovery has not been accrued in the Quarter.

For the Quarter, the Company realized an average combined petroleum and natural gas sale price of \$66.43 per boe (fourth quarter 2011 - \$71.01), before realized settlement losses of \$1.51 per boe from the Company's hedging program (fourth quarter 2011 - \$1.75 loss), representing a six percent decline over the prior quarter. Although the price of West Texas Intermediate ("WTI") continued to climb during the Quarter, averaging US\$102.94 per bbl or 10 percent higher than both the prior quarter average of US\$94.02 and the US\$94.25 average in the same period in 2011, the increase was more than offset by the widening differential for Edmonton Light Sweet crude. The WTI/Edmonton Light Sweet differential increased from US\$3.00 per bbl in December 2011 to US\$19.85 per bbl in March 2012, driven largely by reduced crude demand due to refinery turnarounds and export pipeline bottlenecks. The WTI/Edmonton differential has more recently narrowed and is currently at US\$4.10 per bbl.

Royalty rates averaged 9.1 percent for the Quarter (fourth quarter 2011 - 10.6 percent) as a result of lower natural gas prices, Alberta and Saskatchewan new well drilling incentives and prior period adjustments relating to gas cost allowance in Alberta. Operating costs declined by six percent to \$15.86 per boe in the Quarter (fourth quarter 2011 - \$16.83) reflecting the Company's continued focus on operational efficiencies plus the addition of new Viking oil production whose incremental operating costs are less than \$5.00 per boe.

WestFire's net capital expenditures were \$69.4 million during the Quarter, representing 45 percent of its budgeted annual capital program of \$155 million. A total of \$61.5 million was invested into the development of the Viking with \$36.9 million at Redwater, \$21.4 million at Plato and \$3.2 million Lucky Hills. Another \$1.8 million was invested at Kaybob South, \$1.2 million in non-core properties and \$4.9 million into Crown land acquisitions at Plato.

Net debt increased to \$164.8 million at March 31, 2012 (December 31, 2011 - \$124.8 million), due to acceleration of the Company's 2012 capital program. At Quarter-end, the Company's financial position remained strong with approximately \$48.4 million available on its current credit facility of \$200 million. The Company is currently in the process of its annual lending syndicate borrowing base review, which is expected to be completed before the end of May.

## OUTLOOK

The Company remains on target to exceed its annual 2012 average production guidance of 9,750 boepd through the continued execution of its \$155 million capital budget. With two drilling rigs currently operating, one in Redwater and the other in Plato, the Company expects to drill 24 (20.5 net) Viking wells in the second quarter.

## STRATEGIC ALTERNATIVES UPDATE

Management and the Board of Directors of WestFire believe there is significant value in WestFire's Viking light oil resource play that is not currently reflected in the Company's share price. The Board of Directors believes that the strategic alternatives process continues to be the preferred method of enhancing shareholder value.

In late March 2012, WestFire commenced with the formal process by opening its confidential data room to assist interested parties in their evaluation of the Company. However, the Company has not established a definitive schedule for completion of its strategic alternatives process and does not intend to disclose developments with respect to the process unless and until the Board of Directors has approved a specific transaction or otherwise determines that disclosure is appropriate.

## **ANNUAL MEETING OF SHAREHOLDERS**

WestFire's Annual and Special Meeting of Shareholders is scheduled for Tuesday, May 29, 2012 at 10:00 a.m., Calgary time, at the Calgary Petroleum Club, 319-5th Avenue S.W. Calgary, Alberta. Shareholders unable to attend may listen to a live audio webcast of the proceedings by following the identified link in the events section of the Company's website at [www.westfireenergy.com](http://www.westfireenergy.com).

## **CAUTIONARY STATEMENTS**

### **Non-GAAP Measures Advisory**

Readers are cautioned that the above information includes non-GAAP measures not defined under International Financial Reporting Standards ("IFRS") and prior thereto, Canadian GAAP, including net debt, funds flow from operations, debt utilization, debt adjusted production and funds flow growth, and operating netback. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Net Debt is current liabilities less current assets, excluding the current portion of future tax assets. Funds flow from operations is calculated as cash provided by operating activities before the change in non-cash working capital. The Company considers funds flow from operations to be an important measure of WestFire's ability to generate the funds necessary to finance capital expenditures and repay debt. Debt utilization is the percentage of available borrowing capacity against the Company's bank borrowing facility, debt adjusted production and funds flow growth per share are calculated by dividing production growth/funds flow growth for the period by weighted average shares outstanding adjusted for the change in net debt during the period (calculated by dividing average net debt for the period by average trading price of the Company's shares), Operating netback is calculated as revenue minus royalties, operating expenses, transportation expenses, and taxes. Operating netback is specific to a point in time.

### **Forward-looking information and statements**

This news release contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: the number of wells to be drilled in the second quarter of 2012; the benefits derived from the Company's MHF technology; the number of potential horizontal drilling locations; the total drilling inventory; future IP rates; the number of drilling rigs to be operated in 2012;; disclosure intentions with respect to strategic alternative review process; schedule for the Company's annual shareholders' meeting; the volumes and estimated value of WestFire's oil and gas reserves; the volume and product mix of WestFire's oil and gas production; future oil and natural gas production and prices; future results from operations and operating metrics; and future costs expenses and exchange rates.

In addition, forward-looking statements or information are based on a number of material factors, expectations or assumptions of WestFire which have been used to develop such statements and information but which may prove to be incorrect. Although WestFire believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because WestFire can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified herein, assumptions have been made regarding, among other things: results from drilling and development activities consistent with past operations; the continued and timely development of infrastructure in areas of new production; continued availability of debt and equity financing and cash flow to fund WestFire's current and future plans and expenditures; the impact of increasing competition; the general stability of the economic and political environment in which WestFire operates; the timely receipt of any required regulatory approvals; the ability of WestFire to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects in which WestFire has an interest in to operate the field in a safe, efficient and effective manner; the ability of WestFire to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; the timing and cost of pipeline, storage and facility construction and expansion and the ability of WestFire to secure adequate product transportation; future commodity prices; currency, exchange and interest rates; regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which WestFire operates; and the ability of WestFire to successfully market its oil and natural gas products.

The forward-looking information and statements included in this news release are not guarantees of future

performance and should not be unduly relied upon. Such information and statement, including the assumptions made in respect thereof, involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of WestFire's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of WestFire or by third party operators of WestFire's properties, increased debt levels or debt service requirements; inaccurate estimation of WestFire's oil and gas reserve and resource volumes; limited, unfavourable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time-to-time in WestFire's public disclosure documents, (including, without limitation, those risks identified in this news release and WestFire's Annual Information Form.

The forward-looking information and statements contained in this news release speak only as of the date of this news release, and WestFire does not assume any obligation to publicly update or revise any of the included forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws.

### **Financial Outlooks**

Included in this presentation are estimates of WestFire's net debt levels, which are based on the various assumptions as to production levels, capital expenditures, commodity prices and other assumptions contained in this press release. To the extent such estimates constitute a financial outlook, they were approved by management of WestFire on May 14, 2012 and are included to provide readers with an understanding of WestFire's anticipated financial position and readers are cautioned that the information may not be appropriate for other purposes.

### **IP rates**

Initial production or IP rates contained in this press release are based on the length of the specific production tests disclosed herein and are not necessarily indicative of long-term performance or ultimate recovery.

### **BOE Equivalent**

Barrel of oil equivalents or 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. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

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