PANWESTERN ENERGY INC.

FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements as at and for the three months ended March 31, 2010.

PANWESTERN ENERGY INC.
BALANCE SHEETS

Unaudited		**March 31 2010**		December 31 2009
ASSETS				
Current				
Cash	$	**5,358,508**	$	5,996,884
Accounts receivable		**358,667**		119,839
Prepaids		**125,216**		31,307
Due from related parties (Note 5)		**10,978**		16,465
		5,853,369		6,164,495
Deferred financing costs (Note 7)		**56,000**		-
Petroleum and natural gas properties (Note 4)		**1,609,564**		1,695,000
	$	**7,518,933**	$	7,859,495
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	**834,391**	$	552,696
Due to related party (Note 5)		**203,180**		26,057
		1,037,571		578,753
Asset retirement obligation (Note 6)		**306,875**		286,985
		1,344,446		865,738
Shareholders' equity:				
Share capital (Note 8)		**16,087,289**		16,087,289
Contributed surplus (Note 8d)		**1,902,733**		1,722,992
Deficit		**(11,815,535)**		(10,816,524)
		6,174,487		6,993,757
	$	**7,518,933**	$	7,859,495

See accompanying notes to interim financial statements

PANWESTERN ENERGY INC.

STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

Three Months Ended March 31,

Unaudited

	2010	2009
REVENUE		
Revenue	**$ 163,431**	$ 114,047
Royalties	**(23,793)**	(7,219)
	139,638	106,828
EXPENSES		
Transaction costs (Note 1 & Note 3)	**593,419**	-
General and administration	**127,651**	117,592
Operating	**46,275**	77,346
Depletion and accretion (Note 4 & 6)	**194,701**	471,679
Stock based compensation (Note 8d)	**179,741**	-
	1,141,787	666,617
Loss from operations	**(1,002,149)**	(559,789)
Other Income		
Interest	**3,138**	21,360
NET LOSS AND COMPREHENSIVE LOSS	**(999,011)**	(538,429)
DEFICIT, BEGINNING OF PERIOD	**(10,816,524)**	(983,837)
DEFICIT, END OF PERIOD	**$ (11,815,535)**	$ (1,522,266)

LOSS PER SHARE, BASIC AND DILUTED (NOTE 9)

See accompanying notes to interim financial statements

PANWESTERN ENERGY INC.

STATEMENTS OF CASH FLOWS

Three Months Ended March 31,

Unaudited

		2010		2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	**$**	**(999,011)**	$	(538,429)
Items not involving cash:		**.**		
Depletion and accretion (Note 4)		**194,701**		471,679
Stock based compensation (Note 8d)		**179,741**		-
		(624,569)		(66,750)
Change in non-cash operating working capital items				
Accounts receivable		**(238,828)**		125,410
Prepaid expenses		**(93,909)**		5,021
Accounts payable and accrued liabilities (Note 7)		**605,546**		(389,440)
		272,809		(259,009)
Cash flows from operating activities		**(351,760)**		(325,759)
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital asset additions		**(244,868)**		(141,447)
Capital asset dispositions		**155,493**		-
Net change in non-cash working capital		**(379,851)**		(94,991)
		(469,226)		(236,438)
CASH FLOWS FROM FINANCING ACTIVITIES				
Advances to (from) related parties (Note 5)		**182,610**		(41,119)
		182,610		(41,119)
CHANGE IN CASH POSITION		**(638,376)**		(603,316)
CASH, beginning of period		**5,996,884**		7,920,324
CASH, end of period	**$**	**5,358,508**	$	7,317,008

See accompanying notes to interim financial statements

1. NATURE OF OPERATIONS AND FUTURE OPERATIONS

PanWestern Energy Inc. (the "Company") was incorporated under the Business Corporation Act (Alberta) on June 7, 2000. The Company is engaged in the exploration, development and exploitation of petroleum and natural gas and helium.

On April 22, 2008 the Company completed an acquisition of Industrial Air Corp. ("IAC") that has oil and gas properties. The Company issued 12,000,002 common shares at a deemed price of $0.45 per share to acquire 100% of the outstanding shares of IAC. There are no other securities of IAC issued or outstanding. The total consideration paid by the Company for the acquisition was $5,400,001.

On February 18, 2010 the Company entered into a reorganization and arrangement agreement with Northern Hunter Energy Inc. ("Northern Hunter"), a Calgary based private company engaged in the exploration, development and production of petroleum and natural gas in Western Canada.

The reorganization and arrangement agreement provides for the acquisition of all of the issued and outstanding shares of Northern Hunter by The Company by way of a Plan of Arrangement and the issuance of 30.0 million common shares at $0.20 per share through a private placement for gross cash proceeds of $6.0 million. The management team will be that of Northern Hunter, as will the Board of Directors, supplemented by a nominee from PanWestern.

The Plan of Arrangement closed on April 9, 2010. Proceeds from the private placement combined with existing cash balances of the Company will be utilized to repay amounts outstanding on Northern Hunter's credit facility and for general corporate purposes.

Under the terms of the Plan of Arrangement, each outstanding Northern Hunter common share will be exchanged for 4.5 shares of PanWestern (based on a deemed price of $0.20 per PanWestern common share and $0.90 per Northern Hunter common share). Given the nature of the transaction, it will be accounted for as a reverse take-over of PanWestern by Northern Hunter, whereby Northern Hunter is considered the acquirer for accounting purposes.

2. PRINCIPLES OF PRESENTATION

The unaudited financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. These unaudited interim financial statements have been prepared following the same accounting policies and methods of application as the consolidated financial statements of the Company for the year ended December 31, 2009, except as disclosed in Note 3 below. The disclosures provided below are incremental to those included with the Company's annual consolidated financial statements. The unaudited interim financial statements and the related notes should be read in conjunction with the consolidated financial statements and the related notes for the year ended December 31, 2009.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in these statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim financial statements include all adjustments of a normal recurring nature necessary to present fairly the results of the Company's operations and cash flows for the three months ended March 31, 2010 and 2009.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2010, the Company adopted the following CICA Handbook standards:

- "Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of the acquisition. In addition, acquisition related and restructuring costs are recognized separately from the business combination and are included in the statement of operations. The adoption of this standard impacts the accounting treatment of business combinations entered into after January 1, 2010. Accordingly, transaction costs relating to the Plan of Arrangement with Northern Hunter are included as an expense in the statement of operations for the three months ended March 31, 2010. As at March 31, 2010, transaction costs relating to the Plan of Arrangement with Northern Hunter totaled $593,419.
- "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard has had no material impact on the Company's financial statements.
- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has had no material impact on the Company's financial Statements.

The above Handbook sections are converged with International Financial Reporting Standards ("IFRS"). The Company will be required to report its results in accordance with IFRS beginning in 2011. The Company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on Company's reported financial position and results of operations.

4. PROPERTY, PLANT AND EQUIPMENT

			March 31, 2010
	Cost	Accumulated Amortization and Depletion	Net
Petroleum and natural gas properties	$ 13,432,562	$ 11,822,998	$ 1,609,564

			December 31, 2009
	Cost	Accumulated Amortization and Depletion	Net
Petroleum and natural gas properties	$ 13,325,244	$ 11,630,244	$ 1,695,000

4. PROPERTY, PLANT AND EQUIPMENT (*continued)*

The Company calculated a ceiling test amount at March 31, 2010 to assess the recoverable value of petroleum and natural gas properties. The future net cash flows from proved reserves were more than the carrying value of the petroleum and natural gas properties at March 31, 2010.

5. RELATED PARTY TRANSACTIONS

Companies controlled by directors, and their immediate family members participated in drilling operating activities on the same terms and conditions as other joint venture participants. As at March 31, 2010, these parties owed the Company a net total of $10,978 (2009 – $4,908) and were owed $203,180 (2009 – $44,706). There are no interest or repayment terms associated with these balances.

During the current period, the Company paid $48,000 (2009 - $48,000) in consulting fees to companies controlled by directors of the Company. These transactions were in the normal course of business and have been recorded at the exchange amounts which are the amounts of consideration established and agreed to by the related parties.

6. ASSET RETIREMENT OBLIGATION

The estimated cash flows of asset retirement obligations associated with required remediation work on the Company's wells have been calculated using a credit-adjusted risk-free rate of 7% and an inflation rate of 2%. The total undiscounted amount of the estimated cash flows required to settle the obligations is approximately $355,000 (2009 - $321,000) which will be incurred over the next two to thirty-two years with the majority of costs incurred after 2015.

The following table reconciles the Company's total asset retirement obligations during the periods:

	March 31 2010	December 31 2009
Balance, beginning of period	$ 286,985	$ 284,598
Change of estimate	17,944	-
Accretion expense	1,946	2,387
Balance, end of period	$ 306,875	$ 286,985

7. DEFERRED FINANCING COSTS

The Company incurred $56,000 in share issue costs relating to the reorganization and arrangement agreement (see Note 1) and these charges have been classified as deferred financing costs as at March 31, 2010. This is a non-cash transaction and this amount is a payable as at March 31, 2010.

8. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares without nominal or par value

Unlimited number of convertible to common shares on a one to one basis preferred shares issuable in series

b) Issued

	December 31, 2009 and March 31, 2010		December 31, 2008	
	Number	Value	Number	Value
Common shares				
Balance, beginning of year	47,447,384	$ 16,087,289	14,777,382	$ 2,346,043
Private placement - Common	-	-	18,000,000	9,000,000
Private placement – Flow through	-	-	1,666,000	999,600
Acquisition of Industrial Air Corp.	-	-	12,000,002	5,400,001
Exercise of stock options	-	-	160,000	20,200
Transfer from contributed surplus on exercise of options	-	-	-	19,075
Exercise of warrants	-	-	844,000	168,800
Tax effect of flow-through financings	-	-	-	(858,348)
Share issue costs	-	-	-	(1,008,082)
Balance, December 31, 2009 and March 31, 2010	47,447,384	16,087,289	47,447,384	16,087,289

c) Warrants

The following table summarizes the warrants outstanding at March 31, 2010.

Date	**Warrants Outstanding**	**Exercise Price**	**Expiry Date**
Balance, December 31, 2006	-	-	-
Granted, June 1, 2007	4,087,660	$0.20	December 28, 2008
Exercised, 2008	(844,000)	$0.20	
Expired, 2008	(3,243,660)	$0.20	
Granted, April 18, 2008	18,000,000	$1.00	April 22, 2010
Granted, April 18, 2008	1,666,000	$1.00	April 22, 2010
Granted, April 18, 2008	1,573,280	$0.50	April 18, 2010
Granted, April 18, 2008	1,573,280	$1.00	April 18, 2010
Balance, December 31, 2008 and 2009 and March 31, 2010	**22,812,560**		

8. SHARE CAPITAL *(continued)*

d) Contributed Surplus

	March 31 2010	**December 31 2009**
Balance, beginning of period	$1,722,992	$1,033,184
Stock-based compensation	179,741	689,808
Balance, end of period	**$1,902,733**	**$1,722,992**

The Company calculates the fair value of its options using the Black-Scholes option pricing model. The following weighted average assumptions were used to determine the fair value of the options granted in 2009:

Risk-free interest rate	3.83%
Expected volatility	150.00%
Dividend yield	0%
Expected life of each option granted	5 years

e) Stock options

The Company adopted a stock option plan in June 2003 in order to assist in attracting, retaining and motivating directors, officers, key employees and consultants of the Company. Under the plan a maximum amount equal to 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to stock options provided that no individual could be granted options in excess of 5% of the outstanding common shares of the Company.

On February 22, 2008, the Company completed a grant of stock options to certain members of its management and support team. In that regard, options to purchase 180,000 common shares at a price of $0.52 were granted. In April 2008, the Company completed a grant of stock options to certain members of the Board. In that regard, options to purchase 300,000 common shares at a price of $0.62 were granted to each of the two new directors.

On July 23, 2008, the Company completed a grant of stock options to its Board, and certain members of its management and support team. In that regard, options to purchase 2,975,000 common shares at a price of $0.80 were granted.

A summary of the Company's directors, officers and key employees share options at March 31, 2010 and 2009 and the changes for the periods ending on those dates is presented below:

	2010		**2009**	
Exercise period	**Number of options**	**Weighted average share price**	**Number of options**	**Weighted average share price**
Balance, beginning of period	3,570,000	$0.76	3,870,000	$0.71
Expired during period	-	-	(300,000)	$0.10
Balance, end of period	**3,570,000**	**$0.76**	**3,570,000**	**$0.76**

8. SHARE CAPITAL (*continued*)

The following table summarizes the options outstanding and exercisable at March 31, 2010.

Options outstanding	Exercise price	Options exercisable at March 31, 2010	Expiry date
125,000	$0.40	125,000	January 11, 2011
170,000	$0.52	170,000	February 21, 2013
300,000	$0.62	300,000	April 30, 2013
2,975,000	$0.80	2,975,000	July 22, 2013
3,570,000		**3,570,000**	

9. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted loss per share is calculated to reflect the dilutive effect of stock options outstanding. Loss per share is calculated as follows:

March 31, 2010	Net loss	Weighted average common shares	Loss per share
Basic and diluted	$ 999,011	47,447,384	$ (0.02)

March 31, 2009	Net loss	Weighted average common shares	Loss per share
Basic and diluted	$ 538,429	47,447,384	$ 0.01

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

At March 31, 2010, PanWestern's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities. The Company's financial instruments have been classified accordingly: i) held for trading – cash , and ii) loans and receivables – accounts receivable, amounts due from related parties, and iii) other liabilities – accounts payable and accrued liabilities and amounts due to related parties.

The Company has exposure to market risk, credit risk, and liquidity risk. A discussion of how the Company is exposed and manages each type of risk is noted below:

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (*continued*)

a) Market risk

(i) *Commodity price risk:*

The Company is primarily exposed to market risk in the form of commodity price volatility. PanWestern's objective for commodity price risk management is to ensure that sufficient protection exists to enable the Company to meet budgeted capital expenditures in the event of downward movements in commodity prices.

(ii) Interest rate risk:

The Company may also minimize its exposure to interest rate risk by issuing equity or selling assets to reduce any bank indebtedness. At March 31, 2010, The Company had total bank indebtedness of $Nil.

b) Credit risk

A substantial majority of PanWestern's petroleum and natural gas production is marketed under standard industry terms, with a pre-arranged monthly settlement day for payment of revenues from PanWestern's purchasers of its sales volumes. As a result, the Company is exposed to credit risk as a financial loss would result if PanWestern's customers or joint venture partners failed to meet their contractual obligations to reimburse the Company for its accounts receivable. At March 31, 2010, approximately $31,351, or 8% of the Company's accounts receivable were outstanding for over 90 days, with a significant majority of receivables outstanding for less than 45 days.

PanWestern's accounts receivable are with established customers and joint operating partners in the petroleum and natural gas industry and are subject to normal industry credit risks. PanWestern's policy is to manage its credit risk by transacting with customers and entities that have good established credit ratings.

The Company may further mitigate its credit risk by withholding production from joint venture partners in the event of non-payment. At March 31, 2010, The Company did not have a provision for doubtful accounts as the majority of its receivables have been outstanding for less than 60 days, and the Company has a favorable collection history.

c) Liquidity risk

Liquidity risk is the risk that The Company cannot meet its financial obligations as they come due.

During times of extreme downward volatility in commodity prices the Company may reduce its net debt through the issuance of equity, the disposal of assets or by reducing anticipated capital expenditures to an amount less than cash flow generated from operations.

During 2010, PanWestern's liquidity risk was minimal, as it had cash in the bank of approximately $5.36 million and a working capital surplus of approximately $4.82 million.

11. CAPITAL MANAGEMENT

The Company's general policy is to maintain a sufficient capital base in order to manage its business effectively with the goal of increasing the value of its assets and thus its underlying share value. The Company's objectives when managing capital are to maintain financial flexibility to meet financial obligations, to facilitate growth, and to optimize the use of capital sources to provide an appropriate investment return to its shareholders.

The Company strives to properly exploit its current asset base and to acquire top quality assets. To that end, the Company is not averse to maintaining a high ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality.

Currently, the Company's only form of capital is its cash, and it is managed on a regular basis by being kept in an interest-bearing account, and through a close review and collection of its accounts receivables.

12. SUBSEQUENT EVENTS

On April 9, 2010 the previously disclosed reorganization and recapitalization transactions closed. The transactions included, among other things: the appointment of a new management team, the appointment of a new board of directors, the recapitalization of the Company through a non-brokered equity private placement of $6.0 million, and the acquisition of all of the issued and outstanding shares of a private oil and gas company, Northern Hunter Energy Inc., by way of a plan of arrangement.

As a result of the Arrangement, 67,285,829 Common Shares of the Company were issued to Northern Hunter shareholders at a deemed price of $0.20 per share. In addition, 27,967,500 performance warrants and 9,585,000 options of the Company were issued to holders of Northern Hunter warrants and Northern Hunter options, respectively, and 646,128 Common Shares were issued at a deemed price of $0.20 per share for financial advisory services provided to the Company in connection with the Arrangement.

As a condition of the completion of the Arrangement, the Company completed a private placement of 30,000,000 Common Shares of the Company to the current directors, officers, employees and certain consultants of the Company and its wholly owned subsidiary, Northern Hunter, their business associates and certain other accredited investors at a price of $0.20 per share. The Recapitalization was completed on April 9, 2010 for gross proceeds of $6.0 million. The Common Shares issued pursuant to the private placement are subject to certain escrow conditions which regulate the release of such Common Shares.

Prior to the closing of the arrangement, holders of 275,000 stock options exercised their right to acquire common shares at an average exercise price of $0.465 per common share. In addition, 1,573,280 common shares were issued upon the exercise of warrants at a strike price of 0.50 per common share.

12. SUBSEQUENT EVENTS (*continued*)

On April 16, 2010, The Company closed a private placement financing of 51,100,000 special warrants at a price of $0.47 per special warrant for aggregate proceeds of $22.5 million (net of expenses). The proceeds will be used to fund a $3.0 million general and administrative budget (including $1.0 million of business development expenses), and potentially $2.6 million drilling and exploration projects on the Company's Canadian assets. The remainder of the proceeds will be used towards the acquisition of international assets/companies.

Following the Arrangement and the Offering, the Company has entered into new credit facilities, administered by a Canadian chartered bank, which are comprised of a $3.0 million revolving operating demand loan and a $1.0 million development demand loan. The revolving operating demand loan and the development demand loan bear interest at the bank's Canadian prime lending rate, plus applicable margins. The credit facilities are secured by a $3.0 million revolving demand credit agreement, a $10,000,000 floating charge debenture, pledge of such debenture, a general assignment of book debts, an assignment of revenues, and, in the case of the development demand loan, a variable rate demand promissory note. In addition, Northern Hunter has guaranteed the Company's new credit facilities in favour of the bank which
guarantee is secured through an existing $10.0 million floating charge debenture. As of the date of these financial statements, there are no amounts drawn under the credit facilities.

With the closing of the reorganization and recapitalization transactions and the expected funds from the Special Warrant Offering, the Company is debt-free with a cash balance of approximately $28.0 million and 198,327,621 common shares outstanding as at the end of May 2010. The Company is therefore well positioned to aggressively pursue its previously disclosed new international oil and gas exploitation and development growth strategy, underpinned by the limited expansion of the Canadian operations to provide a base level of domestic cash flow.

13. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current period. The changes do not affect prior prior income.