PANWESTERN ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FORM 51-102F1

THREE MONTHS ENDED MARCH 31, 2010 & 2009

This Management's Discussion and Analysis ("MD&A") of financial results and related data of PanWestern Energy Inc. ("PanWestern" or the "Company") is dated as of May 27, 2010 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009 and the unaudited financial statements for the three months ended March 31, 2010.

Additional information about the Company, filed with the securities commissions of Canada in which the Company is a reporting issuer, including the Annual Information Form and annual and quarterly reports, is available online at www.sedar.com.

Basis of Presentation

The financial information presented below has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). All references to dollar amounts are in Canadian dollars.

The discussion and analysis of oil and natural gas production is presented on a working-interest, before royalties basis. For the purpose of calculating unit information, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe's may be misleading, particularly if used in isolation.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, the determination of proved reserves, environmental and asset retirement obligations and income taxes at each financial reporting period. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. Readers should be aware that historical results are not necessarily indicative of future performance.

***Special Note Regarding Non-GAAP Measures** – This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "**net petroleum and natural gas revenue"** (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "**funds flow from operations**" (net loss for the period adjusted for non-cash items in the statement of cash flows) are not GAAP measures and do not have standardized meanings prescribed by GAAP.*

Forward Looking Statements

Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A may include, but is not limited to, information with respect to: the Company's growth strategy, operational decisions and the timing thereof, development and exploration plans and the timing thereof; and future production levels. Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding and are implicit in, among other things: field production rates and decline rates; the ability of the Company to secure adequate product transportation; the impact of increasing competition in or near the Company's plays; the timely receipt of any required regulatory approvals, both domestically and internationally; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient *manner to develop its business; the Company's ability to operate the properties in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion; future oil and natural gas prices; currency, exchange and interest rates; the state of the capital markets; the regulatory framework regarding royalties, taxes and environmental matters; the ability of the Company to successfully manage the political and economic risks inherent in pursuing oil and gas opportunities in foreign countries; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.*

Forward-looking information is based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking information. The material risk factors affecting the Company and its business are similar to those of other companies engaged in the business of exploring for and producing oil and gas, both domestically and in foreign countries.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward looking information contained in this MD&A is expressly qualified by this cautionary statement.

Nature of Business and Future Operations

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

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 Plan of Arrangement closed on April 9, 2010. Under the terms of the Plan of Arrangement (the "Arrangement"), each outstanding Northern Hunter common share was 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 under GAAP as a reverse take-over of PanWestern by the Company, whereby Northern Hunter is considered the acquirer for accounting purposes.

The transactions included, among other things:

- the appointment of a new management team led by Jim McFarland as President & Chief Executive Officer, Steve Bjornson as Chief Financial Officer, Lyle Martinson as VP Operations and Don Shepherd as VP Engineering;
- the appointment of a new board of directors comprised of Bill Fanagan (Chairman), Abby Badwi, Claudio Ghersinich, Ken McKay and Johannes Kingma (the Chief Executive Officer and a director of PanWestern prior to the transactions), with Jim McFarland and Ron Royal proposed to be elected as directors at the next annual general meeting of PanWestern's shareholders following completion of the arrangement; and
- the recapitalization of the Corporation through a non-brokered equity private placement of $6.0 million.

The Arrangement was approved by the shareholders of Northern Hunter at a special meeting of shareholders and by the Court of Queen's Bench of Alberta. The transactions were approved by PanWestern shareholders who hold or exercise control over more than 50% of the PanWestern shares by way of a written consent. The TSX Venture Exchange (the "**TSXV**") has also approved the transactions.

Upon closing of the Arrangement, Northern Hunter became a wholly owned subsidiary of PanWestern. At that time Jim McFarland and Ron Royal were appointed as Directors and Jim McFarland and Steve Bjornson were appointed as CEO and CFO, respectively, of Northern Hunter.

At the next annual general meeting of shareholders, PanWestern will seek shareholder approval to change its name to **Valeura Energy Inc.**

Bought Deal Financing

Following the completion of the Arrangement, on April 16, 2010, PanWestern closed a private placement of 51,100,000 special warrants at a price of $0.47 per special warrant for aggregate gross proceeds of $24,017,000 (net $22,516,150 after estimated share issue costs and related fees). PanWestern intends to use the net proceeds for its 2010 drilling program and general corporate purposes. Subsequent to closing both the special warrants financing and the Arrangement, the Company will have a working capital position (net cash) of approximately $28,000,000.

As at the date of this MD&A, each special warrant has been converted to one common share of the Company as contemplated, and there are approximately 198.3 million common shares outstanding. This financing represents an important step in building financial capacity to implement the new business plan of the Company.

Outlook for PanWestern

Completion of the Arrangement and subsequent bought deal financing heralds a new beginning for the Company which is debt free with a cash balance of approximately $28,000,000. The Company is now well positioned to aggressively pursue a new international growth strategy led by the new management team and board of directors which have a depth of domestic and international experience. The international growth strategy will be underpinned by the limited planned expansion of the Canadian operations to provide a base level of domestic cash flow.

PanWestern`s growth strategy is expected to have the following elements:

- Build a full-cycle oil and gas company with a portfolio that includes a limited cash-flow base in Canada and larger international operations in at least two other regions of the world;
- Pursue international acquisition and development opportunities in selected regions where management and directors have had experience and success including South America, MENA (Middle East and North Africa) and the Mediterranean Basin;
- Focus the development of the international portfolio on large productive basins in countries with attractive fiscal regimes, limited political and contract risk, established infrastructure and significant deal flow; and
- Target operated, high working interest, long life onshore assets that are underexploited, underdeveloped and undercapitalized with significant potential to grow reserves and production through exploitation, development, enhanced oil recovery and step-out exploration.

A number of potential acquisition opportunities are being pursued in the regions of interest. The Company has recently reviewed its plans and expects to have a G&A budget (gross) of approximately $3,000,000 in 2010 to pursue business development opportunities and to support the ongoing production operations in Canada. Management is currently preparing a development and acquisition plan for Canada to provide sufficient cash flow to fund the operations budget. The current working capital position of approximately $28,000,000 (net cash) will provide PanWestern the financial capacity to initiate negotiations to pursue the acquisition of international assets and/or companies.

Results of Operations

	Three months ended	
	March 31, 2010	**March 31, 2009**
Average daily production		
Natural gas (mcf/d)	41	86
Oil and NGL (bbls/d)	22	17
Total (boe/d)	29	31
P&NG sales	$ 163,431	$ 114,047
$/boe	62.98	40.44
Royalties	23,793	7,219
$/boe	9.17	2.56
% of P&NG sales	15%	6%
Operating costs	46,275	77,346
$/boe	17.83	27.43
Net P&NG revenue	93,363	29,482
$/boe	35.98	10.45
G&A	127,651	117,592
$/boe	49.19	41.70
Transaction costs	593,419	-
$/boe	231.17	-
Funds flow from (used by) operations	$ (624,569)	$ (66,750)
$/boe	(243.31)	(23.67)
Non-cash expenses:		
Stock-based compensation	$ 179,741	$ -
$/boe	69.26	-
Depletion, depreciation and accretion	194,701	471,679
$/boe	75.03	167.26
Net loss	$ (999,011)	$ (538,429)
Capital expenditures	$ 89,375	$ 141,447
Working capital	4,815,798	7,254,741
Total assets	7,462,933	17,438,195
Total liabilities	1,344,446	1,839,988
Net loss per share	(0.02)	(0.01)

Outstanding Share Data

As at March 31, 2010	
Common shares	47,447,384
Stock options	3,570,000
Performance warrants	22,812,560

Selected Quarterly Information ($)

Three months ended:	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Petroleum and natural gas sales	163,431	112,965	92,606	81,813
Net loss	(999,011)	(3,112,395)	(5,747,706)	(434,157)
Net loss per share, basic and diluted	(0.02)	(0.07)	(0.12)	(0.01)

Three months ended:	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Petroleum and natural gas sales	114,047	160,966	358,163	660,662
Net income (loss)	(538,429)	(106,653)	(283,721)	21,119
Net income (loss) per share, basic and diluted	(0.01)	(0.00)	(0.01)	0.02

Financial Results

Revenues
During the current period, revenues increased 43% over the previous period, due to increased commodity prices received. Oil equivalent production was down 6% in the first quarter of 2010 compared to the first quarter of 2009. Drilling activities at the Milo area have resulted in one horizontal oil well being placed on production in the first quarter of 2010. The production from the well has been disappointing at approximately 5 boe/d (gross working interest) and further technical analysis is underway prior to drilling the next well at Milo including the analysis of the benefits of fracturing the horizontal section. The increase in production is offset by production declines and the disposition of the Strachan property.

Royalties
Royalties totaled $23,793 during the three month period ended March 31, 2010 (2009 - $7,219), representing an increase of 230%. The increase in 2010 is partially due to a well at Cindy coming off the Crown's "royalty holiday" status combined with the addition of royalties paid on the new well at the Milo area.

Operating expenses
Operating expenses decreased 40% during the current period, due to work-overs performed during 2009. On an equivalent per barrel basis, operating costs of $17.83 per boe for the first quarter are in line with expectations.

General and administrative expenses
General and administrative expenses increased by 9% during the current period, due to increased consulting and management fees, as well as computer software expenses.

Transaction costs
Effective January 1, 2010, the Company adopted CICA Handbook standard Section 1582, "Business Combinations" under which acquisition related and restructuring costs are recognized separately from the business combination and are included in the statement of operations. Costs incurred to March 31, 2010 with respect to the Arrangement with Northern Hunter totaled $593,419.

Funds flow from operations
The net outflow of funds from operations for the three months ended March 31, 2010 was $624,569 compared to net outflows of $66,750 for the three months ended March 31, 2009. The increase in the net outflow of funds in the current quarter was due to transaction costs associated with the Arrangement with Northern Hunter.

Non-cash expenses:

Stock-based compensation
PanWestern accounts for its non-cash stock-based compensation using the fair value method. The Company recognized stock-based compensation expense of $179,741 for the three month period ended March 31, 2010. The fair value of stock options granted was estimated at the date of grant utilizing the Black-Scholes option-pricing model with an expected volatility of $150%, risk-free rate of 3.83%, dividend yield of nil and an expected term of 5 years.

Depletion and Accretion
During 2009, the Company recorded a ceiling test write-down in the amount of $9,228,308. As a result, the Company's depletable base has significantly decreased as at January 1, 2010, and this translated into lower depletion costs being recorded. Depletion and accretion expenses totaled $194,701 (2009 - $471,679) during the current quarter.

Capital Expenditures

The following summarizes the Company's spending during the periods indicated:

	Three months ended March 31	
($)	2010	2009
Land	2,443	99,980
Geological and geophysical	15,401	18,515
Drilling and completions	127,951	(745)
Equipment and facilities	99,073	23,697
Total additions to property and equipment	244,868	141,447
Disposition of assets	(155,493)	-
Net additions to property and equipment	89,375	141,447

Capital expenditures for the quarter were primarily spent on the final completion and equipping costs for the horizontal well at Milo drilled in the fourth quarter of 2009. The well was acidized and brought on production in the first quarter of 2010 with marginal production results. Further technical analysis is required prior to drilling the next well at Milo and the next steps in development of the area. Capital expenditures were partially offset by the disposition of the Strachan property for proceeds of $155,493.

Share Capital

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.

The Arrangement closed on April 9, 2010 and, 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. This recapitalization was completed on April 9, 2010 for gross proceeds of $6,000,000. The common shares issued pursuant to the private placement are subject to certain escrow conditions which regulate the release of such common shares.

On April 16, 2010, PanWestern closed a private placement financing of 51,100,000 special warrants at a price of $0.47 per special warrant for aggregate proceeds of $22,516,150, net of expenses. Each special warrant entitled the holder thereof to receive, subject to adjustment in certain circumstances, one common share on the exercise of each special warrant. In accordance with the terms of the special warrant indenture governing the terms of the special warrants, all special warrants were deemed to be exercised on May 21, 2010.

As at the date of this MD&A, the Company had 198,327,621 common shares, 12,880,000 stock options and 27,967,500 performance warrants outstanding.

Liquidity, Financing and Capital Resources

Funding for the Company's expenditures during the three month period ended March 31, 2010 was provided by cash balances held.

At March 31, 2010 the Company had total current assets of $5,853,369 and total current liabilities of $1,037,571 resulting in a working capital surplus of $4,815,798 (2009 – $7,254,741).

The $22,516,150 net proceeds from the special warrant offering will be used to fund a $3,000,000 million general and administrative budget, and potentially $2,600,000 of 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 special warrant offering, the Company entered into new credit facilities, administered by a Canadian chartered bank, which are comprised of a $3,000,000 revolving operating demand loan and a $1,000,000 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 $3,000,000 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 Corporation's new credit facilities in favour of the bank which guarantee is secured through an existing $10,000,000 floating charge debenture. As of the date of this MD&A, there are no amounts drawn under the credit facilities.

With the closing of the reorganization and recapitalization transactions and the funds from the special warrant offering, the Company is debt-free with a cash balance of approximately $28,000,000 and 198,327,621 common shares outstanding as at the date of this MD&A. Therefore, the Company is 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 and portfolio diversity.

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 (March 31, 2009 – $4,908) and were owed $203,180 (March 31, 2009 – $44,706). There are no interest or repayment terms associated with these balances.

During the current period, the Company paid $48,000 (three months ended March 31, 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.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at March 31, 2010 and there are no arrangements outstanding at the date of this MD&A other than the Company's guarantee of PanWestern's new credit facilities in favour of the bank which guarantee is secured through the existing $10,000,000 floating charge debenture.

Financial Instruments

Financial instruments of the Company include cash, accounts receivable and accounts payable and accrued liabilities. The carrying value of the financial instruments approximate their fair value due to their relatively short periods to maturity.

Business Risks and Uncertainties

There are a number of risk factors that the Company faces as participants in the Canadian oil and gas industry. Certain key risk factors are discussed below:

Volatility of commodity prices
Prices for oil and natural gas fluctuate in response to changes in the supply of and demand for petroleum and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect oil prices include the actions of the Organization of Petroleum Exporting Countries ("OPEC"), world economic conditions, government regulation, political stability throughout the world, the availability of alternative fuel sources and weather conditions. Natural gas prices are affected primarily by North American supply and demand, weather conditions and by prices of alternative sources of energy.

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is, therefore, affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. Material increases in the value of the Canadian dollar may negatively impact production revenues. Such increases may also negatively impact the future value of reserves as determined by independent evaluators. In recent years, the Canadian dollar has increased materially in value against the United States dollar.

The impact on the oil and gas industry, in general, from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increases in cost during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline. This volatility causes significant variation in net production revenue for the Company from period to period. In an environment of low prices, certain wells or other projects may become uneconomic and the Company may elect not to produce from certain wells, leading to a reduction in development opportunities and the volume and value of reserves. The Company continually monitors the movement of commodity prices and will apply appropriate financial risk management instruments if it is believed that these are warranted to maintain a given revenue profile. The Company has no such instruments in place at this time.

Volatile oil and gas prices make it difficult to estimate the acquisition value of producing properties and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Capital Requirements

The impact on capital markets caused by investor uncertainty in the global economy has a significant impact on the Company's business model. The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. There can be no assurance that debt or equity financing will be available or that cash generated by operations will be sufficient to make these expenditures. If debt or equity financing is available, it may not be on terms acceptable to the Company. Failure to obtain such financing on a timely basis could cause the Company to miss certain acquisition opportunities.

Third Party Credit Risk

The Company must successfully market its oil and natural gas to prospective buyers. The Company may be exposed to third party credit risk through its contractual arrangements with its current or future marketers of its oil and natural gas production. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material impact on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

Exploration, Development and Production

The long-term commercial success of the Company will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisition or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, the invasion of water into producing formations, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on specific core regions that have multi-zone potential where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner.

Uncertainty of Reserve Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. To estimate the economically recoverable oil and natural gas reserves and related future net cash flows, many factors and assumptions are incorporated such as expected reservoir characteristics based on geological, geophysical and engineering assessments, future production rates based on historical performance and expected future operating and investment activities, future oil and gas prices and quality differentials, future development and operating costs and assumed effects of regulation by government agencies.

Properties will, over a period of time, actual deliver oil and natural gas in quantities different than originally estimated due to changes in reservoir performance. The timing of future capital expenditures is subject to uncertainty. Projected future commodity prices and the operating and capital cost structure are subject to significant management judgement and currently, highly volatile. Actions by provincial governments with respect to the royalty regime have a significant and unpredictable impact.

Environment, Health and Safety

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. There are potential risks to the environment inherent in the business activities of the Company.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Company maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

These risk factors should not be considered exhaustive. Additional risks are outlined in the Annual Information Form of the Company available on www.sedar.com.

Critical Accounting Estimates

In the application of accounting policies, management is often required to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur and additional information is obtained.

The critical accounting estimates that are inherent in the preparation of the Company's financial statements pertain to the accounting for property and equipment, impairment testing of property and equipment, estimates of reserves, asset retirement obligations, stock-based compensation and future income taxes. A comprehensive discussion of the Company's significant accounting policies and critical accounting estimates are contained in the audited consolidated financial statements for the year ended December 31, 2009.

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. As at March 31, 2010, transaction costs relating to the Plan of Arrangement with Northern Hunter totaled $649,419.
- "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.

New Accounting Standards

International Financial Reporting Standards ("IFRS")
In February, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards will replace Canada's current GAAP for all publicly accountable profit oriented enterprises. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The adoption of IFRS will require the Company to restate amounts reported in 2010, including its opening balance sheet as at January 1, 2010, for comparative purposes.

As at March 31, 2010, the Company's business is not overly complex. It has a relatively concentrated asset base in Canada, does not own significant plants or gathering systems, exploration and evaluation assets are not significant, and has a fairly limited number of wells. Significant issues facing the Company with respect to the IFRS conversion include:

- Determination of appropriate accounting policies taking into consideration the strategic direction of the Company, including the potential for future international transactions;
- Valuation of stock options and performance warrants issued on closing of the Plan of Arrangement;
- Accounting for the business combination with Northern Hunter, including the determination of the fair value of PanWestern's net assets on an IFRS-compliant basis;
- Integration of accounting and information systems on a post-combination basis, and completion of any system modifications required to implement the Company's IFRS policies and procedures; and
- Determining staff requirements on a post-combination basis, and the associated hiring and training for accounting under IFRS.

Currently, the Company intends to utilize third party consultants to assist with its IFRS conversion project.