Northern Hunter Energy Inc.

Interim Financial Statements

Three Months Ended 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 financial statements as at and for the three months ended March 31, 2010.

Northern Hunter Energy Inc.
Interim Balance Sheets
As at

(Unaudited)	March 31, 2010 $	December 31, 2009 $
Assets		
Current assets		
Accounts receivable	**570,088**	497,337
Prepaid expenses and deposits	**83,221**	89,938
	653,309	587,275
Deferred transaction costs *(notes 1 and 3)*	**-**	200,000
Future income taxes (*note 9)*	**-**	139,200
Property and equipment *(note 4)*	**11,098,479**	11,415,791
	11,751,788	12,342,266
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**1,915,371**	2,078,396
Credit facility *(note 5)*	**4,730,345**	3,759,592
	6,645,716	5,837,988
Asset retirement obligations *(note 6)*	**190,000**	186,500
	6,835,716	6,024,488
Commitments and contingencies *(notes 5 and 14)*		
Shareholders' equity		
Share capital *(note 7)*	**10,656,376**	10,795,576
Contributed surplus *(note 8)*	**616,632**	134,312
Deficit	**(6,356,936)**	(4,612,110)
	4,916,072	6,317,778
	11,751,788	12,342,266

Future operations (note 1)
Subsequent events (note 1, 5, 7 and 14)
See accompanying notes to the interim financial statements

Northern Hunter Energy Inc.
Interim Statements of Operations, Comprehensive Loss and Deficit
For the Three Months Ended March 31

(Unaudited)	**2010** **$**	2009 $
Revenue		
Petroleum and natural gas sales	**861,347**	533,327
Royalties	**(73,505)**	(24,618)
	787,842	508,709
Expenses		
Production	**389,965**	245,183
Transportation	**21,936**	6,826
General and administrative	**273,085**	186,192
Transaction costs *(notes 1 and 3)*	**586,951**	-
Interest	**43,911**	13,244
Stock-based compensation *(note 7 (f))*	**482,320**	1,876
Depletion, depreciation and accretion	**734,500**	384,096
	2,532,668	837,417
Loss for the period before income taxes	**(1,744,826)**	(328,708)
Future income tax reduction *(note 9)*	**-**	(91,600)
Net loss and comprehensive loss for the period	**(1,744,826)**	(237,108)
Deficit, beginning of period	**(4,612,110)**	(1,861,519)
Deficit, end of period	**(6,356,936)**	(2,098,627)
Loss per share, basic and diluted *(note 7 (c))*	**(0.12)**	(0.02)

See accompanying notes to the interim financial statements

Northern Hunter Energy Inc.
Interim Statements of Cash Flows
For the Three Months Ended March 31

(Unaudited)	**2010** **$**	2009 $
Cash was provided by (used in):		
Operating activities:		
Net loss for the period	**(1,744,826)**	(237,108)
Items not involving cash:		
Depletion, depreciation and accretion	**734,500**	384,096
Transaction costs	**200,000**	-
Future income tax reduction	**-**	(91,600)
Stock-based compensation	**482,320**	1,876
	(328,006)	57,264
Change in non-cash operating working capital *(note 10)*	**278,576**	(89,648)
	(49,430)	(32,384)
Financing activities:		
Issuance of shares, net of share issue costs	**-**	2,740
Net change in credit facility	**970,753**	751,527
Change in non-cash financing working capital *(note 10)*	**-**	(43,084)
	970,753	711,183
Investing activities:		
Property and equipment expenditures	**(413,688)**	(1,605,615)
Change in non-cash investing working capital *(note 10)*	**(507,635)**	926,816
	(921,323)	(678,799)
Net change in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**-**	-

See accompanying notes to the interim financial statements

1. Plan of Arrangement and Future Operations

Northern Hunter Energy Inc. ("Northern Hunter" or the "Company") was incorporated under the laws of the Province of Alberta on September 1, 2006. The Company is engaged in the business of exploration, development and production of petroleum and natural gas in Western Canada. On March 1, 2010, the Company changed its year end from September 30 to December 31.

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Oil and gas properties are recognized in these financial statements in accordance with the accounting policies outlined below. Accordingly, their carrying amounts represent costs incurred to date, net of write-downs, and do not necessarily reflect present or future values. At March 31, 2010, the Company had a working capital deficiency of $5,992,407 (December 31, 2009 – $5,250,713) and an accumulated deficit of $6,356,936 (December 31, 2009 – $4,612,110). As at March 31, 2010, the Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and attain profitable operations.

Should the Company not be able to meet its obligations as they become due or realize its assets at the amounts at which they are carried in these financial statements, the going concern assumption may not be appropriate, at which time certain asset and liability amounts would require adjustment and reclassification and such adjustments and reclassifications may be significant.

On February 18, 2010 the Company entered into a reorganization and arrangement agreement with PanWestern Energy Inc. ("PanWestern"), a Calgary based public company engaged in the exploration, development and production of petroleum and natural gas in Alberta and Saskatchewan. The common shares of PanWestern are listed on the TSX Venture Exchange under the trading symbol "PW".

The reorganization and arrangement agreement provided for the acquisition of all of the issued and outstanding shares of the Company by PanWestern 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 became that of Northern Hunter, as did 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 PanWestern were utilized to repay amounts outstanding on the Company's credit facility and for general corporate purposes.

Under the terms of the Plan of 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). On closing of the Plan of Arrangement, the Company had 14,952,406 common shares outstanding. Given the nature of the transaction, it will be accounted for as a reverse take-over of PanWestern by the Company, whereby Northern Hunter is considered the acquirer for accounting purposes.

2. Basis of Presentation

The interim financial statements of Northern Hunter have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are consistent with the accounting policies and methods of computation used in the preparation of the audited financial statements of the Company for the three months ended December 31, 2009 and the year ended September 30, 2009, except as noted below. In the opinion of management, these interim financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Company's financial position as at March 31, 2010 and the results of operations and cash flows for the three months ended March 31, 2010 and 2009. The interim financial statements contain disclosures which are supplemental to the Company's annual financial statements. Certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. These interim financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the three months ended December 31, 2009 and the year ended September 30, 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 PanWestern that had been deferred at December 31, 2009 were included as an expense in the statement of operations for the three months ended March 31, 2010. Costs incurred to March 31 ,2010 with respect to the Arrangement totaled $586,951 and included $200,000 of costs incurred in 2009 that were recognized as deferred transaction costs at December 31, 2009. The Company has no deferred transaction costs as at March 31, 2010.
- "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 and Equipment

	March 31, 2010		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties	18,568,465	7,494,400	11,074,065
Office equipment	98,134	73,720	24,414
	18,666,599	7,568,120	11,098,479

	December 31, 2009		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties	18,160,841	6,765,800	11,395,041
Office equipment	92,070	71,320	20,750
	18,252,911	6,837,120	11,415,791

As at March 31, 2010 petroleum and natural gas properties include $384,172 (December 31, 2009 – $419,186) of costs related to undeveloped land that is not subject to depletion. Future capital costs of $553,000 (December 31, 2009 – $685,000) have been included in the depletion calculation and salvage values of $78,541 (December 31, 2009 – $70,880) have been excluded from the depreciation calculation.

During the three months ended March 31, 2010, the Company capitalized $19,511 (three months ended March 31, 2009 – $134,062) of general and administrative costs to petroleum and natural gas properties as well as $nil (three months ended March 31, 2009 – $5,213) of stock-based compensation (non-cash) and related future income taxes.

5. Credit Facility

As at March 31, 2010, the Company had a credit facility agreement with a Canadian chartered bank for a revolving operating demand loan available to a maximum of $4,300,000 at an interest rate of bank prime plus 1.5% and an acquisition/development demand loan available to a maximum of $1,000,000 at an interest rate of bank prime plus 1.75%. The credit facility is secured by a first floating charge demand debenture in the amount $10,000,000 and a general security agreement over all assets. The credit facility contains certain covenants that if not met would give the lender the ability to cancel the facility. The covenants include minimum working capital levels and the absence of material adverse change as determined by the lender. As of March 31, 2010, the Company was not in compliance with the working capital covenant. This covenant violation was subsequently remedied on closing of the Plan of Arrangement (note 1) at which time all amounts owing under the credit facility were repaid.

Following the Plan of Arrangement (note 1), PanWestern entered into new credit facilities with a Canadian chartered bank which are comprised of a $3,000,000 revolving operating demand loan and a $1,000,000 development demand loan. Northern Hunter has guaranteed PanWestern's new credit facilities in favor of the bank which guarantee is secured through the existing $10,000,000 floating charge debenture.

6. Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the Company's net working interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements could be significant. As at March 31, 2010, no funds have been set aside to settle these obligations.

The following table presents the reconciliation of the carrying amount of the obligations associated with the retirement of the Company's property and equipment:

	March 31, 2010 $	December 31, 2009 $
Balance, beginning of period	186,500	196,853
Accretion expense	3,500	2,900
Liabilities incurred, net of dispositions	-	400
Revisions to estimates	-	(13,653)
Balance, end of period	190,000	186,500

The following significant assumptions were used to estimate the asset retirement obligations:

	March 31, 2010 $	December 31, 2009 $
Undiscounted cash flows, escalated at 2%	360,700	360,700
Credit adjusted risk free rate	8%	8%
Inflation rate	2%	2%
Timing of cash flows	1-13 years	1-13 years

7. Share Capital

(a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares, issuable in series

(b) Issued

Common shares	Number of Shares	Amount $
Balance, December 31, 2009	14,030,406	10,795,576
Tax effect of flow-through shares *(note 7(b)(i))*	-	(139,200)
Balance, March 31, 2010	14,030,406	10,656,376

(i) In October 2009, the Company issued 585,000 flow-through shares at $0.85 per share for gross proceeds of $497,250. The expenditures were renounced to investors in February 2010 with an effective date of December 31, 2009. As at December 31, 2009, the Company had incurred all of the qualifying flow-through expenditures.

(c) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended

March 31, 2010 was 14,030,406 (March 31, 2009 – 13,405,406). The average number of common shares outstanding was not increased for outstanding stock options and performance warrants as the effect would be anti-dilutive.

(d) Performance warrants

As at March 31, 2010, there were 1,955,000 Old Warrants entitling the holders thereof to acquire 1,955,000 common shares and 6,215,000 New Warrants entitling the holders thereof to acquire 6,215,000 common shares issued and outstanding.

The vesting of the Old Warrants was based on the value attributed to the common shares at the time of the occurrence of a liquidity event, defined as either a change in control or the listing of the shares on a Canadian stock exchange.

Each Old Warrant was exercisable for one common share at a price of $1.00 and the Old Warrants expire on November 10, 2016. The liquidity price of the common shares was based on either a weighted average trading value on a stock exchange or the value per share assigned on the liquidity event.

On closing of the Plan of Arrangement on April 9, 2010 (note 1), all of the Old Warrants were cancelled for no additional consideration.

The vesting of the New Warrants is based on the value attributed to the common shares at certain points in time and the continued employment of the relevant holder in the following manner:

(a) if: (i) the applicable holder of New Warrants continues in his or her capacity (as an employee, officer or director) with Northern Hunter until January 8, 2011; and (ii) at any time during the term of the New Warrants, the current market price of the common shares is equal to or greater than $1.80 per share, then one-third of the New Warrants vest;

(b) if: (i) the applicable holder of New Warrants continues in his or her capacity (as an employee, officer or director) with Northern Hunter until July 8, 2011; and (ii) at any time during the term of the New Warrants, the current market price of the common shares is equal to or greater than $2.25 per share, then one-third of the New Warrants vest; and

(c) if: the applicable holder of New Warrants continues in his or her capacity (as an employee, officer or director) with Northern Hunter until January 8, 2012; and (ii) at any time during the term of the New Warrants, the current market price of the common shares is equal to or greater than $2.70 per share, then one-third of the New Warrants vest.

Each New Warrant is exercisable for one common share at a price of $0.90 and the New Warrants expire on January 8, 2015. On closing of the Plan of Arrangement on April 9, 2010 (note 1), the New Warrants were cancelled and each holder received 4.5 PanWestern warrants for each New Warrant held (total of 27,967,500 PanWestern warrants issued) at an exercise price of $0.20 per PanWestern share.

(e) Stock options

Outstanding stock options to acquire common shares are as follows:

	March 31, 2010		March 31, 2009	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of period	809,000	0.94	809,000	0.94
Issued	2,130,000	0.90	-	-
Outstanding at March 31	2,939,000	0.91	809,000	0.94
Options exercisable at March 31	809,000	0.94	729,333	0.96

The following table summarizes information about the Old and New Stock Options outstanding at March 31, 2010:

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
$0.77	215,000	2.8	215,000
$0.90	2,130,000	6.8	-
$1.00	594,000	1.9	594,000
	2,939,000	5.5	809,000

On January 8, 2010, the Company granted 2,130,000 New Stock Options to directors, officers and consultants, under which 2,130,000 common shares may be acquired at a price of $0.90 per common share. These options are exercisable as to one-third on each anniversary date of the grant, and have a seven year term. On closing of the Plan of Arrangement (note 1), these options were cancelled and each holder received 4.5 PanWestern stock options for each New Stock Option held (total of 9,585,000 stock options in PanWestern) at an exercise price of $0.20 per PanWestern share.

Concurrently with the closing of the Plan of Arrangement (note 1), 809,000 Old Stock Options outstanding as at March 31, 2010 were exercised. As a result, the Company issued 809,000 common shares for total cash proceeds of $759,550.

(f) Stock-based compensation

The fair value of the New Stock Options issued during the three months ended March 31, 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Fair value of New Stock Options granted ($/share)	0.78
Risk-free interest rate (%)	3.01
Expected life (years)	7.0
Expected volatility (%)	110
Expected dividend yield (%)	-

The fair value of the New Warrants issued during the three months ended March 31, 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Fair value of New Warrants granted ($/share)	0.72
Risk-free interest rate (%)	2.67
Expected life (years)	5.0
Expected volatility (%)	110
Expected dividend yield (%)	-

8. Contributed Surplus

The following table reconciles the Company's contributed surplus:

	March 31, 2010 $	December 31, 2009 $
Balance, beginning of period	134,312	132,016
Stock-based compensation expensed	482,320	2,296
Balance, end of period	616,632	134,312

9. Income Taxes

The following is a reconciliation of income taxes calculated at the combined Federal and Provincial rates with the future income tax reduction reported in the statement of operations:

	Three Months Ended March 31	
	2010	2009
	$	$
Loss before income taxes	(1,744,826)	(328,708)
Combined federal and provincial income tax rate	28.00%	29.13%
Expected income tax recovery	(488,551)	(95,737)
Non-deductible items	135,744	3,741
Tax rate changes and other	22,913	396
Change in valuation allowance	329,894	-
Future income tax reduction	-	(91,600)

Although the Company has tax pools which exceed the net book value of its assets, the recognized value (at an effective tax rate of 25%) has been reduced to reflect that portion of the excess that is more likely than not to be realized in future periods.

The details of these differences along with the corresponding valuation allowance are detailed as follows:

	March 31 2010	December 31, 2009
	$	$
Property and equipment	370,688	297,140
Share issue costs	29,070	32,547
Asset retirement obligations	47,500	46,625
Non-capital losses and other	347,198	227,450
	794,456	603,762
Valuation allowance	(794,456)	(464,562)
Future income tax asset	-	139,200

At March 31, 2010, the Company had approximately $1,376,000 (December 31, 2009 - $900,000) of non-capital losses available for deduction against future taxable income. Non-capital losses commence expiring in 2026.

10. Supplementary Cash Flow Information

	Three Months Ended March 31	
	2010	2009
	$	$
Change in non-cash working capital:		
Accounts receivable	(72,751)	(86,523)
Prepaid expenses and deposits	6,717	(26,022)
Accounts payable and accrued liabilities	(163,025)	906,629
	(229,059)	794,084
The change in non-cash working capital has been allocated to the following activities:		
Operating	278,576	(89,648)
Financing	-	(43,084)
Investing	(507,635)	926,816
	(229,059)	794,084
Supplementary cash flow information:		
Interest paid	41,063	51,329

11. Financial Instruments

The Company's financial instruments include accounts receivable, accounts payable and accrued liabilities and the credit facility. The carrying values of financial instruments approximate their fair values due to their relatively short periods to maturity. Borrowings under the bank credit facilities are market rate based.

As at March 31, 2010, the maximum credit exposure is the carrying amount of accounts receivable. As at March 31, 2010, the Company's receivables included of $255,570 from joint venture partners and other trade receivables and $314,518 of revenue receivable from petroleum and natural gas marketers (December 31, 2009 - $126,685 and $370,652 respectively).

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended March 31, 2010.

12. Capital Management

The Company's capital structure includes working capital and shareholders' equity. Total capital resources available include working capital plus the unused portion of the Company's credit line.

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not subject to any externally imposed capital requirements other than covenants on its credit facility with its lender to maintain an adjusted working capital ratio of not less that 1 to 1 at all times. At March 31, 2010, the Company's adjusted working capital ratio was 0.6 to 1. This covenant violation was subsequently remedied on closing of the Plan of Arrangement (note 1) at which time all amounts owing under the credit facility were repaid.

13. Related Party Transactions

(a) During the three months ended March 31, 2010, the Company incurred legal fees of $306,700 (three months ended March 31, 2009 - $14,800) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the three months ended March 31, 2010, the Company incurred $23,600 (three months ended March 31, 2009 - $33,800) in consulting fees and expenses from a corporation whose principal shareholder is a director of the Company.

The amounts charged were the exchange amounts being the amounts agreed to by the parties.

14. Commitments

Pursuant to independent contractor agreements dated October 1, 2009 with former officers of the Company, the Company is committed to payments for services in the event that the contracts are terminated by the Company prior to October 1, 2010. On closing of the Plan of Arrangement (note 1), the independent contractor agreements were terminated and, pursuant to these agreements, the Company made aggregate cash payments of $74,848 and issued 113,000 common shares for no additional consideration.