The following Management's Discussion and Analysis ("MD&A") as provided by the management of Northern Hunter Energy Inc. ("Northern Hunter" or the "Company") is dated as of May 27, 2010 and should be read in conjunction with the unaudited financial statements for the three months ended March 31, 2010 and the audited financial statements and accompanying notes as at and for the three months ended December 31, 2009 and for the year ended September 30, 2009. On March 1, 2010, the Company changed its year end from September 30 to December 31. As of April 9, 2010, Northern Hunter became a wholly owned subsidiary of PanWestern Energy Inc. ("PanWestern").

Basis of Presentation

The financial information presented below has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear. All references to dollar amounts are in Canadian dollars. The MD&A compares the results of the three months ended March 31, 2010 ("Q1 2010") to the three months ended December 31, 2009 ("Q4 2009") and to the three months ended March 31, 2009 ("Q1 2009").

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.

Company History

Northern Hunter 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. The Company was established with a strategy to acquire undervalued, primarily gas-weighted assets with exploitation and development potential.

The Company has grown through the acquisition of certain petroleum and natural gas properties in three transactions in 2006 and 2007, Crown land sales and farm-ins in Alberta. The Company has established a core operation in the Grand Forks/Hays area in southeast Alberta where it holds a 50% to 100% working interest position in 22.5 sections of lands which produce 50% to 60% of the Company's hydrocarbon volumes.

Over the course of 2008 and 2009, the Board of Directors of Northern Hunter began a process to review strategic alternatives for the Company. The primary focus was to attract equity capital to further expand the business. The strategic alternatives process led to the review of various merger and business combination opportunities with the objective of improving the financial position of the Company and providing future liquidity to shareholders.

Plan of Arrangement

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 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 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 PanWestern 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, PanWestern closed a private placement of 51,100,000 special warrants on April 16, 2010, at a price of $0.47 per special warrant for aggregate gross proceeds of $24,017,000 (net $22,516,150 million 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 and as at the date of this MD&A, the Company will had 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 PanWestern 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	December 31, 2009	March 31, 2009
Average daily production			
Natural gas (mcf/d)	967	1,035	724
Oil and NGL (bbls/d)	77	82	58
Total (boe/d)	238	254	178
P&NG sales	$ 861,347	$ 851,807	$ 533,327
$/boe	40.08	36.43	33.31
Royalties	73,505	53,940	24,618
$/boe	3.42	2.31	1.54
% of P&NG sales	9%	6%	5%
Operating costs [1]	411,901	460,226	252,009
$/boe	19.16	19.68	15.74
Net P&NG revenue	375,941	337,641	256,700
$/boe	17.49	14.44	16.03
G&A	273,085	231,271	186,192
$/boe	12.71	9.89	11.63
Transaction costs	586,951	-	-
$/boe	27.31	-	-
Interest	43,911	38,378	13,244
$/boe	2.04	1.64	0.83
Funds flow from (used by) operations	$ (328,006)	$ 67,992	$ 57,264
$/boe	(15.26)	2.91	3.58
Non-cash expenses:			
Stock-based compensation	$ 482,320	$ 2,296	$ 1,876
$/boe	22.44	0.10	0.12
Depletion, depreciation and accretion	734,500	780,199	384,096
$/boe	34.17	33.37	23.99
Future income tax reduction	-	(139,200)	(91,600)
$/boe	-	(5.95)	(5.72)
Net loss	$ (1,744,826)	$ (575,303)	$ (237,108)

[1] Operating costs are comprised of production and transportation expenses

	Three months ended		
	March 31, 2010	December 31, 2009	March 31, 2009
Capital expenditures	$ 413,688	$ 611,116	$ 1,605,615
Working capital deficiency	(5,992,407)	(5,250,713)	(3,361,096)
Total assets	11,751,788	12,342,266	12,418,929
Total liabilities	6,835,716	6,024,488	4,120,068
Net loss per share	(0.12)	(0.04)	(0.02)

Outstanding Share Data

As at March 31, 2010	
Common shares	14,030,406
Stock options	2,939,000
Performance warrants	8,170,000

Selected Quarterly Information ($)

Three months ended:	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Petroleum and natural gas sales	861,347	851,807	897,873	966,232
Net loss	(1,744,826)	(575,303)	(1,174,449)	(763,731)
Net loss per share, basic and diluted	(0.12)	(0.04)	(0.09)	(0.06)

Three months ended:	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Petroleum and natural gas sales	533,327	577,378	825,765	1,028,525
Net income (loss)	(237,108)	(264,827)	15,444	(80,813)
Net income (loss) per share, basic and diluted	(0.02)	(0.02)	0.00	(0.01)

Financial Results

Petroleum and natural gas sales

Petroleum and natural gas ("P&NG") sales for the current quarter are comprised of 32% oil and natural gas liquids ("NGL's") and 68% natural gas. Production for Q1 2010 averaged 77 bbls/day of oil and NGLs and 967 mcf/day of natural gas for total oil equivalent production of 238 boe/d which is 6% lower than production of 254 boe/d in Q4 2009. Production from the Grand Forks/Hays wells declined as a result of increased water rates. This event caused some production downtime in the quarter while the Company installed artificial lift equipment on two of the wells to reinstate production.

Realized prices increased in Q1 2010 to $63.17/bbl of oil and NGLs and $4.82/mcf of natural gas from $58.09 and $4.37, respectively, in Q4 2009. The impact on revenue of these price increases was partially offset by the decline in average production.

Higher P&NG sales in Q1 2010 as compared with Q1 2009 were due to higher production volumes and higher realized prices. Production OF 238 boe/d in Q1, 2010 increased 34% as compared with Q1 2009 production of 178 boe/d due to production brought on stream from four new wells (3.2 net wells) in Grand Forks/Hays. The average price realized for oil and NGLs in Q1 2010 of $63.17/bbl increased 67% as compared with the Q1 2009 realized oil and NGLs price of $37.81/bbl. This was partially offset by a 7% decrease in the average realized natural gas price in Q1 2010 of $4.37/mcf from the Q1 2009 realized price of $5.20/mcf.

Royalties
Royalties increased for Q1 2010 as compared with Q4 2009 and Q1 2009 due to higher revenues and slightly higher overall royalty rates. Royalty rates vary across periods depending on the production mix, prices and individual well production rates. The Company is currently benefiting from the New Well Royalty Reduction Program in Alberta on wells brought on stream after April 1, 2009 in the Grand Forks/Hays area.

Operating costs
Unit operating costs decreased marginally in Q1 2010 to $19.16/boe compared to $19.68/boe in Q4 2009.

Unit operating costs increased by 22% in Q1 2010 as compared to Q1 2009 due to increased production, from higher operating cost wells at Grand Forks/Hays reflecting costs to truck and process emulsion and equipment rentals.

General and administrative
Net general and administrative ("G&A") costs increased BY 18% in Q1 2010 as compared with Q4 2009 due mainly to higher consulting costs related to business development activities under the Company's new international growth strategy and travel costs related to marketing (investor relations) of the PanWestern merger and new growth strategy. Capitalized G&A was also lower at $19,511 in Q1 2010, compared to $30,900 in Q4 2009.

Net G&A costs increased by 47% in Q1 2010 as compared with Q1 2009 due to higher business development and marketing activity as well as lower overhead recoveries and lower capitalized amounts in the current quarter. The lower overhead recoveries in Q1 2010 reflect the reduced capital expenditure level as compared with Q1 2009. In Q1 2009, the Company capitalized $134,062 of G&A costs.

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 totaled $586,951 and included $200,000 of costs incurred in 2009 that were recognized as deferred transaction costs at December 31, 2009.

Interest
Interest expense reflects the use of bank debt to supplement P&NG revenues to fund capital expenditures and operating activities. The higher interest expense in Q1 2010 as compared to both Q4 2009 and Q1 2009 was due to higher average bank debt outstanding during Q1 2010. Interest rates for the current quarter were 4.0% on the Company's $1,000,000 acquisition/development demand loan and 3.75% on the Company's $4,300,000 revolving demand facility.

Funds flow from operations
The net outflow of funds from operations for the Q1 2010 was $328,006 compared to net inflows of $67,992 in Q4 2009 and $57,264 in Q1 2009. The reversal of funds flow in the current quarter was due to transaction costs associated with the Arrangement.

Non-cash expenses:

Stock-based compensation
Stock-based compensation expenses are the non-cash expenses associated with the stock options and performance warrants issued to directors, officers, employees and consultants of the Company. During Q1 2010, the Company issued 2,130,000 New Stock Options and 6,215,000 New Warrants, resulting in an increase to stock-based compensation as compared to Q4 2009 and Q1 2009. The fair value of the New Stock Options and New Warrants issued were estimated at $0.78/option and $0.72/warrant using the Black-Scholes option-pricing model. The Company had not granted stock options since 2008 and accordingly, the stock-based compensation expenses associated with the issue of Old Stock Options had been substantially amortized by Q1 2009 and Q4 2009.

Depletion, depreciation and accretion
Unit depletion, depreciation and accretion ("DD&A") expense was relatively unchanged at $34.17 per boe for Q1 2010, compared to $33.37 in Q4 2009.

Unit DD&A expense increased by 42% in Q1 2010 as compared to Q1 2009 due to higher production levels and a higher DD&A rate. A higher DD&A rate in both Q1 2010 and Q4 2009 as compared to Q1 2009 reflects the effect of downward reserve revisions made by the independent reserve engineers in the estimation of the Company's crude oil and natural gas reserves at December 31, 2009.

Future income taxes
The future income tax reduction recognized in Q4 2009 related to the tax effect of renouncing expenditures pursuant to the Company's flow through share financing in October, 2009.

The Company has tax pools which exceed the net book value of its assets. A valuation allowance has been recorded to reflect the uncertainty regarding whether the excess is more likely than not to be realized in future periods.

As at March 31, 2010, the Company has approximately $14,100,000 of tax pools available to shelter future taxable income.

Capital Expenditures

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

	Three months ended March 31	
($)	2010	2009
Land	3,448	12,379
Geological and geophysical	-	1,081
Drilling and completions	272,014	447,929
Equipment and facilities	112,650	1,008,442
Capitalized amounts and other	25,576	135,784
Total capital expenditures, cash	413,688	1,605,615
Other, non-cash	-	15,186
Total additions to property and equipment	413,688	1,620,801

The capital program for the three months ended March 31, 2010 was comprised mainly of the completion of one well drilled in 2009 and the installation of pumping equipment on two wells, all in the Grand Forks/Hays core area.

The focus of the new management team over the next 6 to 12 months is to complete one or more international acquisitions. The team continues to look at other small Canadian acquisition opportunities to expand the cash flow base to support the G&A and business development budget.

Share Capital

Common shares
At March 31, 2010, the Company had 14,030,406 common shares outstanding. Concurrently with the closing of the Arrangement on April 9, 2010, 809,000 Old Stock Options were exercised, resulting in the issue of 809,000 common shares for total cash proceeds of $759,550.

On closing of the Arrangement, certain independent contractor agreements were also terminated. In connection with the termination, the Company made aggregate cash payments of $74,848 and issued 113,000 common shares for no additional consideration.

On closing of the Arrangement the Company had 14,952,406 common shares outstanding.

Performance warrants
In conjunction with the issue of certain common shares to founders in November 2006, the Company issued 1,955,000 Old Warrants, all of which were outstanding as at March 31, 2010. All of these performance warrants were cancelled for no additional consideration on closing of the Arrangement.

In January 2010, the Company issued 6,215,000 New Warrants to directors, officers and consultants, under which 6,215,000 common shares may be acquired at a price of $0.90 per common share, expiring on January 8, 2015. All of these performance warrants were outstanding at March 31, 2010. On closing of the Arrangement, the New Warrants were cancelled and each holder received 4.5 PanWestern warrants at an exercise price of $0.20 per PanWestern share (total of 27,967,500 performance warrants in PanWestern). The warrants are subject to both term of service and trading price vesting provisions.

As at the date of this MD&A, there are no performance warrants outstanding in Northern Hunter and there are a total of 27,967,500 warrants outstanding in PanWestern.

Stock options
There were 809,000 outstanding exercisable Old Stock Options as at March 31, 2010, under which the holders could acquire 809,000 common shares at an average exercise price of $0.94 per common share. All of these options were exercised concurrently with the closing of the Arrangement.

In January 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. The options are exercisable as to one-third on each anniversary date of the grant, and have a seven year term. On closing of the Arrangement, these New Stock Options were cancelled and each holder received 4.5 PanWestern options at an exercise price of $0.20 per PanWestern share.

As at the date of this MD&A, there are no stock options outstanding in Northern Hunter and there are a total of 9,585,000 New Stock Options and 3,295,000 Old Stock Options outstanding in PanWestern.

Liquidity, Financing and Capital Resources

The capital program of $413,688 for the three months ended March 31, 2010 was funded effectively by the use of the bank credit facility. As at March 31, 2009, the Company's working capital deficiency was $5,992,407, an increase of $741,694 from December 31, 2009. This increase is due to transaction costs incurred to March 31, 2010 related to the Arrangement and current quarter capital expenditures.

The Company has 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. As at March 31, 2010, there was $4,730,345 owing under the facility. Pursuant to the terms of the credit facility, the Company is subject to a financial covenant with respect to working capital with which the Company was not in compliance at March 31, 2010. This covenant violation was subsequently remedied on closing of the Arrangement at which time all amounts owing under the credit facility were repaid.

Following the Arrangement, 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.

Commitments

Asset requirement obligations
As at March 31, 2010, the undiscounted, unescalated asset retirement obligations associated with the Company's existing properties was estimated to be approximately $300,000 ($360,700 escalated at 2%), with approximately $94,000 estimated to be payable within the next five years. These obligations have been recorded on the balance sheet as $190,000 using a discount rate of 8% and an inflation rate of 2%.

Contractor agreements
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 Arrangement, 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.

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.

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

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 PanWestern 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 financial statements and MD&A for the three months ended December 31, 2009 and the year ended September 30, 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. Accordingly, transaction costs relating to the

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. As at March 31, 2010, transaction costs relating to the Arrangement with PanWestern totaled $586,951.

- "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 PanWestern, 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.