

*Consolidated Financial Statements of*

**NWest Energy Inc.**

*September 30, 2008 and 2007*

# **NWest Energy Inc.**

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## Auditors' Report

To the Shareholders of NWest Energy Inc.

We have audited the consolidated balance sheets of NWest Energy Inc. as at September 30, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year ended September 30, 2008 and for the period January 1, 2007 to September 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and 2007 and the results of its operations and its cash flows for the year ended September 30, 2008 and for the period January 1, 2007 to September 30, 2007 in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
St. John's, Newfoundland and Labrador  
December 10, 2008

# NWest Energy Inc.

## Consolidated Statements of Loss, Comprehensive Loss and Deficit

Periods ended September 30

	Year Ended September 30 <u>2008</u> \$	Nine months ended September 30 <u>2007</u> \$
Interest income	251,334	8,676
Expenses		
General and administrative (Note 13)	1,171,898	120,300
Amortization	23,753	-
Stock-based compensation (Notes 9 (e) and 10 (c))	817,009	-
	<u>2,012,660</u>	<u>120,300</u>
Loss before income and other taxes	<u>(1,761,326)</u>	<u>(111,624)</u>
Income and other taxes		
Future income tax recovery (Note 11(b))	357,069	-
Other tax expense (Note 11 (c))	(142,513)	-
	<u>214,556</u>	<u>-</u>
Net and comprehensive loss	<u>(1,546,770)</u>	<u>(111,624)</u>
Deficit, beginning of period	<u>(165,106)</u>	<u>(53,482)</u>
Deficit, end of period	<u>(1,711,876)</u>	<u>(165,106)</u>
Net loss per share		
- basic and diluted	<u>(0.019)</u>	<u>(0.002)</u>
Weighted average common shares		
- basic and diluted	<u>83,058,043</u>	<u>47,051,282</u>

See accompanying notes to the consolidated financial statements

# NWest Energy Inc.

## Consolidated Balance Sheets

As at September 30

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	8,701,015	551,145
Accounts receivable	62,348	10,899
Prepaid expenses	21,016	-
	<b>8,784,379</b>	562,044
Restricted investments (Note 5)	342,315	339,181
Deferred exploration costs (Note 6)	526,282	385,492
Deposit on seismic program (Notes 7 and 17)	1,200,000	-
Property and equipment (Note 8)	68,350	-
	<b>10,921,326</b>	1,286,717
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	191,547	151,823
Taxes payable (Note 11 (c))	142,513	-
	<b>334,060</b>	151,823
Future income taxes (Note 11(a))	488,221	-
	<b>822,281</b>	151,823
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Notes 4 and 9 (a))	9,078,843	1,300,000
Warrants (Note 9 (c))	1,915,069	-
Contributed surplus (Note 9 (d))	817,009	-
Deficit	(1,711,876)	(165,106)
	<b>10,099,045</b>	1,134,894
	<b>10,921,326</b>	1,286,717

Nature of operations and continuing operations (Note 1)

Commitments (Note 16)

Subsequent events (Note 17)

Approved by the Board

"M. Jacqueline Sheppard, QC" Director

"Francois J. Gauthier" Director

See accompanying notes to the consolidated financial statements

**NWest Energy Inc.**  
**Consolidated Statements of Cash Flows**  
**Periods ended September 30**

	<b>Year ended September 30 <u>2008</u> \$</b>	<b>Nine months ended September 30 <u>2007</u> \$</b>
<b>Operating activities</b>		
Net loss	(1,546,770)	(111,624)
Adjustments for:		
Amortization	23,753	-
Stock-based compensation	817,009	-
Future income tax recovery	(357,069)	-
Change in non-cash operating working capital (Note 12)	(19,565)	67,198
	<b>(1,082,642)</b>	<b>(44,426)</b>
<b>Financing activities</b>		
Proceeds from issuances of shares and warrants	11,149,001	700,000
Share issuance costs	(769,198)	-
Taxes payable (Notes 11 (c) and 12)	142,513	-
	<b>10,522,316</b>	<b>700,000</b>
<b>Investing activities</b>		
Increase in restricted investments	(3,134)	(6,583)
Increase in deferred exploration costs	(140,790)	(189,232)
Deposit on seismic program	(1,200,000)	-
Acquisition of property and equipment	(92,103)	-
Net assets acquired on reverse takeover (net of reverse takeover costs of \$313,695 (Note 4))	159,399	-
Accounts receivable	(13,176)	-
	<b>(1,289,804)</b>	<b>(195,815)</b>
Net increase in cash and cash equivalents	<b>8,149,870</b>	<b>459,759</b>
Cash and cash equivalents, beginning of period	<b>551,145</b>	<b>91,386</b>
Cash and cash equivalents, end of period	<b>8,701,015</b>	<b>551,145</b>
Cash and cash equivalents is comprised of:		
Cash	28,605	551,145
Bankers' acceptances and guaranteed investment certificates at interest rates of 2.5% - 3.12%	8,672,410	-
	<b>8,701,015</b>	<b>551,145</b>

Supplementary disclosure of cash flow information (Note 12)

See accompanying notes to the consolidated financial statements

# **NWest Energy Inc.**

## **Notes to the Consolidated Financial Statements**

**September 30, 2008 and 2007**

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### **1. NATURE OF OPERATIONS AND CONTINUING OPERATIONS**

The consolidated financial statements of NWest Energy Inc. (formerly Trilogy Metals Inc.) (the “Company” or “NWest”) reflect the reverse takeover of the Company by NWest Oil & Gas Inc. on December 19, 2007 (Note 4).

Former Trilogy Metals Inc. changed its name to NWest Energy Inc. on March 7, 2008. Former NWest Energy Inc. changed its name to NWest Oil & Gas Inc. on February 18, 2008.

NWest Oil & Gas Inc. (“Oil & Gas Inc.”) was incorporated as a private company on May 9, 2006 under the Canada Business Corporations Act. The principal business of Oil & Gas Inc. is the exploration, acquisition, and advancement of oil and gas properties in Newfoundland and Labrador.

The Company’s financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. While the Company has positive working capital and shareholders’ equity, the success of the Company and the recoverability of exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain financing to find and complete the development of such reserves, the ability of the Company to satisfy obligations as they come due, and upon future profitable production from the properties or proceeds from disposition. The amounts shown as deferred exploration costs represent costs to date and do not necessarily represent present or future values.

If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

#### *Basis of consolidation*

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, Oil and Gas Inc. All intercompany transactions have been eliminated on consolidation.

#### *Cash and cash equivalents*

Cash and cash equivalents consists of amounts on deposit with banks and short-term investments consisting of guaranteed investment certificates and bankers’ acceptances with a maturity of 90 days or less when purchased.

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Oil and gas exploration*

The Company follows the full cost method of accounting for petroleum and natural gas explorations. All costs related to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, and overhead charges related to exploration and development activities. All other costs, including administrative overhead, are expensed as incurred.

The Company reviews the carrying value of each property on an annual basis, as a minimum. This review generally is made by reference to timing of exploration work, work programs proposed and the exploration results achieved by the Company and others. When the carrying value of a property is estimated to exceed its net recoverable amount, provision is made for the decline in value.

The recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves and the ability of the Company to obtain necessary financing to successfully complete their exploration.

*Depletion and depreciation*

Capitalized costs, together with estimated future capital costs associated with proven reserves, are depleted and depreciated using the units of production method based on estimated gross proved reserves of petroleum and natural gas as determined by qualified independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairment, are excluded from the depletion and depreciation calculation. No depletion or depreciation has been recorded to date.

*Property and equipment*

Property and equipment is initially recorded at cost and amortized over its estimated useful life. Amortization is provided using the following methods and annual rates:

Office equipment	20% declining balance
Computer and other equipment	2 to 3 years straight line
Leasehold improvements and computer software	1 year

*Flow-through shares*

The Company finances a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers.

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Stock-based compensation*

The Company uses the fair value method to measure compensation expense at the date of grant of stock and stock options to employees, directors and consultants. The fair value is determined using the Black-Scholes option pricing model. The fair value of stock grants and stock options is amortized to income over the vesting period with a corresponding increase to contributed surplus. When the stock is issued or the options are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital.

*Net loss per share*

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during each period. The weighted average number of shares from the beginning of the year to date of the reverse takeover is deemed to be the number of shares issued by the Company to shareholders of Oil & Gas Inc. (weighted for issuances by Oil & Gas Inc. within that period) and for the period subsequent to the reverse takeover, the weighted average number of shares outstanding in the Company. The weighted average number of shares for the nine months ended September 30, 2007 is based on the shares issued by the Company in the reverse takeover (weighted for issuances by Oil & Gas Inc. in that period).

Diluted net loss per share in 2008 and 2007 is equivalent to basic net loss per share as the inclusion of outstanding warrants and options is anti-dilutive.

*Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized.

*Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The valuation of the deferred exploration costs are based on management's best estimate of the future recoverability of these assets. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements from changes in such estimates in future periods could be significant. Actual results could differ from these estimates.

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Asset retirement obligation*

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit adjusted risk-free interest rate. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of loss and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flow associated with the liability. The increase in the carrying value of the asset is amortized on the same basis as deferred exploration costs.

The Company has not incurred any asset retirement obligations to September 30, 2008.

*Financial instruments*

Financial assets are classed as loans and receivables, held to maturity, held for trading or available for sale. Loans and receivables include all loans and receivables and are accounted for at amortized cost. Held to maturity classification is restricted to fixed maturity instruments that the Company intends and is able to hold to maturity and are accounted for at amortized cost. Held for trading instruments are recorded at fair value with realized and unrealized gains and losses reported in net (loss). The remaining financial assets are classified as available for sale, and are recorded at fair value, with unrealized gains and losses reported in a new category of shareholders' equity entitled "accumulated other comprehensive income (loss)."

Financial liabilities are classified as either held for trading or other. Held for trading liabilities are recorded at fair value with realized and unrealized gains and losses reported in net income (loss). Financial liabilities classified as other are accounted for at amortized cost with gains and losses reported in net income (loss) in the period that the liability is derecognized.

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase or sale. All changes in their fair value are recorded in net income (loss) unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Company has implemented the following classifications of its financial instruments:

Cash and cash equivalents and restricted investments are classified as "financial assets held for trading", are recorded at fair value and any adjustments to fair value are reflected in net loss for each period.

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounts receivable are classified as “loans and receivable” and subsequent to their initial fair value measurement, they are measured at amortized cost using the effective interest rate method which generally corresponds to cost, due to the short term nature of the financial asset.

Accounts payable and accrued liabilities are classified as “other liabilities” and subsequent to their initial fair value measurement, they are measured at amortized cost using the effective interest rate method which generally corresponds to cost, due to the short-term nature of the financial liabilities.

Transaction costs associated with financial assets and financial liabilities classified as held for trading are recognized immediately in net loss. Transaction costs associated with a financial asset or liability classified as other than held for trading are initially capitalized as an acquisition cost.

**3. NEW ACCOUNTING STANDARDS**

Effective October 1, 2007 the Company adopted prospectively the CICA’s new accounting standards related to “Capital Disclosures” (section 1535), “Financial Instruments – Disclosures” (section 3862) and “Financial Instruments – Presentation” (section 3863) replacing “Financial Instruments – Disclosure and Presentation” (section 3861), and “General Standards of Financial Statement Presentation” (section 1400). Under the new standards:

*Capital Disclosures*

CICA section 1535 “Capital Disclosures” establishes standards for disclosure of information about the Company’s capital and capital management, including the Company’s objectives and processes of managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with any externally imposed capital requirements, and if it has not complied, the consequences of such non-compliance. The adoption of this standard had no effect on the Company’s financial position, operations or cash flows and these disclosures have been included in Note 14.

*Financial Instruments – Disclosures*

CICA section 3862 “Financial Instruments- Disclosures” established standards for disclosures that will assist in evaluating the effect of financial instruments on the Company’s financial position and performance, the types of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how those risks are managed.

*Financial Instruments – Presentation*

CICA section 3863 “Financial Instruments- Presentation” establishes standards for the presentation of financial instruments and non-financial derivatives by considering the classification of financial instruments between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

**NWest Energy Inc.**  
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**3. NEW ACCOUNTING STANDARDS (Continued)**

The applicable disclosures under these financial instruments standards are included in Note 15.

The adoption of these standards has not affected the classification and valuation of the Company's financial instruments.

*General Standards of Financial Statement Presentation*

CICA section 1400 "General Standards of Financial Statement Presentation" provides additional guidance related to management's assessment of the Company's ability to continue as a going concern.

**Future Accounting Standards**

*Goodwill and Intangible Assets*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section provides more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The section increases harmonization of Canadian standards with international financial reporting standards and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

The Company is currently reviewing the potential impact, if any, on its consolidated statements.

*International Financial Reporting Standards*

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the fiscal period ending September 30, 2012. The impact of the transition of IFRS on the Company's consolidated financial statements has not yet been determined.

**4. REVERSE TAKEOVER**

Effective December 19, 2007 the Company issued 49,531,250 common shares to the shareholders of Oil & Gas Inc. in exchange for 100% of the issued and outstanding common shares of Oil & Gas Inc. Holders of the issued and outstanding common shares of Oil & Gas Inc. received one share of NWest for each Oil & Gas Inc. share held. As a result of this transaction, the former shareholders of Oil & Gas Inc. owned 77% of the issued and outstanding share capital of the Company following the transaction (the reverse takeover or "RTO").

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**4. REVERSE TAKEOVER (Continued)**

The RTO has been accounted for in accordance with the Canadian Institute of Chartered Accountants (CICA) EIC-10 and accordingly for accounting purposes, Oil & Gas Inc. is the deemed acquirer of NWest. The fair value of the net assets of NWest acquired by Oil & Gas Inc. is as follows:

Accounts receivable	\$ 10,391
Prepaid expenses – reverse takeover	97,731
Prepaid expenses and deferred costs - other	54,839
Accounts payable	<u>(14,858)</u>
	148,103
Cash	<u>324,991</u>
Net assets acquired	<u>\$ 473,094</u>

These consolidated financial statements for the year ended September 30, 2008 reflect the results of operations of Oil & Gas Inc., the legal subsidiary, prior to the reverse takeover on December 19, 2007 and the consolidated assets, liabilities and results of operations of Oil & Gas Inc. and NWest subsequent to the reverse takeover. These consolidated financial statements are a continuation of the financial statements of the legal subsidiary, Oil & Gas Inc. The comparative figures as at September 30, 2007 and for the nine months ended September 30, 2007 are those of the legal subsidiary, Oil & Gas Inc.

The results of operation and deficit of NWest for the period preceding the reverse takeover (October 1, 2007 – December 18, 2007) are as follows:

Interest income	\$ 3,767
General and administrative expenses	<u>(12,602)</u>
Net loss for the period	(8,835)
Deficit, beginning of period	<u>(8,317,396)</u>
Deficit, end of period	<u>\$ (8,326,231)</u>

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
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**4. REVERSE TAKEOVER (Continued)**

The pre reverse takeover issued common shares of the Company and Oil & Gas Inc. are as follows:

	<b>Number of Common Shares</b>	<b>Share Capital</b>
		\$
NWest (former Trilogy) – balance, October 1, 2007	14,774,396	8,798,325
Issued for cash on exercise of warrants (note 9 (c))	10,000	1,000
<b>Pre reverse takeover issued common shares of NWest</b>	<b>14,784,396</b>	<b>8,799,325</b>
<b>Oil &amp; Gas Inc. (former NWest Energy Inc., private company)</b>		
Balance October 1, 2006	15,000,000	500,000
Issued for cash	500,000	100,000
	15,500,000	600,000
3 for 1 stock split	31,000,000	-
Issued for cash	2,562,500	700,000
<b>Balance September 30, 2007</b>	<b>49,062,500</b>	<b>1,300,000</b>
Issued for cash	468,750	150,000
<b>Pre reverse takeover issued common shares of Oil &amp; Gas Inc.</b>	<b>49,531,250</b>	<b>1,450,000</b>

The issued common shares from the date of RTO to September 30, 2008 are as follows:

	<b>Number of Common Shares</b>	<b>Share Capital</b>
		\$
<b>From date of RTO</b>		
Issued and outstanding common shares of NWest and stated capital of Oil & Gas Inc.	14,784,396	1,450,000
Common shares issued on RTO	49,531,250	473,094
Costs of RTO (net of future income tax recovery of \$40,127)	-	(273,568)
Issued for cash pursuant to private placement (Note 9(b))	19,305,028	10,000,001
Issued for cash pursuant to exercise of warrants (Note 9(c))	9,990,000	999,000
Share issue costs (Note 9 (b)) (net of future income tax recovery of \$223,067)	-	(546,131)
Fair value of warrants issued (Note 9 (c))	-	(1,915,069)
Tax effect of renounced flow through expenditures	-	(1,108,484)
<b>Balance September 30, 2008</b>	<b>93,610,674</b>	<b>9,078,843</b>

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
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**5. RESTRICTED INVESTMENTS**

Restricted investments consist of guaranteed investment certificates (GIC) in the amount of \$342,315 (September 30, 2007 - \$339,181) that secure letters of guarantee with the Canada Newfoundland and Labrador Offshore Petroleum Board (CNLOPB). As of September 30, 2008 the balance is made up of two GIC's held with The Royal Bank of Canada maturing on October 6, 2008 and November 23, 2008 respectively, each with an interest rate of 3.75% per annum.

**6. DEFERRED EXPLORATION COSTS**

Deferred exploration costs relate to expenditures for licence numbers 1097, 1098, 1103 and 1104 which are held with the Canada Newfoundland and Labrador Offshore Petroleum Board and in total represent 659,880 hectares (Note 16).

Oil and gas exploration properties:

	<b>Year ended September 30 <u>2008</u> \$</b>	<b>Nine months ended September 30 <u>2007</u> \$</b>
Balance, beginning of period	<b>385,492</b>	196,260
Net additions	<b>140,790</b>	189,232
Abandoned or impaired	-	-
Balance, end of period	<b><u>526,282</u></b>	<u>385,492</u>

**7. DEPOSIT ON SEISMIC PROGRAM**

The Company has entered into a contract with a third party to conduct a 3D seismic program located offshore in Western Newfoundland, which required an initial commitment deposit of \$1,200,000 (Note 17).

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
September 30, 2008 and 2007

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**8. PROPERTY AND EQUIPMENT**

	2008	2008	2007	2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Office furniture and equipment	58,479	8,772	49,707	-
Computer equipment and software	22,745	8,098	14,647	-
Equipment - other	6,550	3,275	3,275	-
Leasehold improvements	4,329	3,608	721	-
	<b>92,103</b>	<b>23,753</b>	<b>68,350</b>	<b>-</b>

**9. SHARE CAPITAL**

*a) Common shares*

Authorized - Unlimited number of common shares

Issued and outstanding:

	<u>2008</u>		<u>2007</u>	
	Number of Common Shares	Share Capital	Number of Common Shares	Share Capital
		\$		\$
Balance September 30, 2008 and 2007 (Note 4)	<b>93,610,674</b>	<b>9,078,843</b>	49,062,500	1,300,000

*b) Issuance of shares - private placement*

On December 19, 2007, the Company issued 12,355,287 subscription receipts at \$0.50 per subscription receipt, for total gross cash proceeds of \$6,177,644 and 6,949,741 flow through subscription receipts at \$0.55 per flow through subscription receipt for gross cash proceeds of \$3,822,357. Each subscription receipt consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.75 per share until December 19, 2009. Each flow through subscription receipt consists of one flow through common share. The agent was paid a cash commission of \$600,000, representing 6% of the proceeds of the subscription receipts and the flow through subscription receipts. Other costs associated with the share issuance are \$169,198.

**NWest Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
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**9. SHARE CAPITAL (Continued)**

In accordance with the terms of the private placement of the flow through shares, the Company renounced for income tax purposes, exploration expenditures in the amount of \$3,822,357 effective December 31, 2007. The Company is committed to incur exploration expenditures in the amount of \$3,822,357 by December 31, 2008.

*c) Warrants*

A summary of warrants as at September 30, 2008 and 2007 and changes during the periods then ended is as follows:

	<b>Year ended September 30 <u>2008</u> \$</b>	Nine months ended September 30 <u>2007</u> \$
Balance, beginning of period	-	-
Fair value of 12,355,287 warrants issued in private placement (Note 4 and 9 (b))	<b>1,915,069</b>	-
<b>Balance, end of period</b>	<b>1,915,069</b>	-

The weighted average fair value of the warrants issued during the year ended September 30, 2008 was estimated on the date of issuance to be \$0.155 using the Black-Scholes fair value option pricing model and the following weighted average assumptions:

Expected volatility (%)	75
Risk free interest rate (%)	4.05
Weighted-average expected life (years)	2.0
Dividend Yield (%)	0

An amount of \$1,915,069 was recorded as fair value of warrants issued and share capital was reduced, with a corresponding increase to warrants.

**NWest Energy Inc.**  
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**9. SHARE CAPITAL (Continued)**

A summary of the number of warrants outstanding as at September 30, 2008 and 2007 and changes during the periods then ended is as follows:

	<b>Year ended September 30 <u>2008</u></b>		Nine months ended September 30 <u>2007</u>	
	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	Number of Warrants	Weighted Average Exercise Price
		\$		\$
Outstanding, beginning of period	-	-	-	-
Issued pursuant to private placement (Note 9 (b))	<b>12,355,287</b>	<b>0.75</b>	-	-
Issued by former Trilogy (now NWest) - pre RTO	<b>10,000,000</b>	<b>0.10</b>	-	-
Exercised in former Trilogy (now NWest) - pre RTO (Note 4)	<b>(10,000)</b>	<b>0.10</b>	-	-
Exercised - post RTO	<b>(9,990,000)</b>	<b>0.10</b>	-	-
<b>Outstanding and exercisable, end of period</b>	<b>12,355,287</b>	<b>0.75</b>	-	-

The weighted average remaining contractual life of outstanding and exercisable warrants is 1.22 years.

*d) Contributed surplus*

A summary of contributed surplus as at September 30, 2008 and 2007 and changes during the periods then ended is as follows:

	<b>Year ended September 30 <u>2008</u></b>	Nine months ended September 30 <u>2007</u>
	\$	\$
Balance, beginning of period	-	-
Fair value of stock-based compensation (Notes 9 (e) and 10 (c))	<b>817,009</b>	-
<b>Balance, end of period</b>	<b>817,009</b>	-

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**9. SHARE CAPITAL (Continued)**

*e) Performance shares*

On October 11, 2007 the Board of Directors approved a resolution to issue 1,531,250 performance shares to the President and CEO for 1 cent per share. The performance shares shall be released upon payment of the consideration and completion of the performance milestones as follows:

531,250 performance shares released after completion of Executive's first 90 days of employment (employment commencement date of October 11, 2007);

300,000 performance shares released after the Executive's first 120 days of employment;

300,000 performance shares released upon a vessel commencing a 3D seismic program;

200,000 performance shares released upon spudding an exploratory well; and

The remaining 200,000 performance shares released in two equal intervals, over two years based on share price performance.

The fair value of the shares on the date of the grant was estimated to be \$0.345 per share (based on the issuance price of shares and warrants pursuant to the private placement on December 19, 2007 (Notes 9 (b) and (c)).

Compensation costs of \$317,842 have been expensed with a corresponding increase to contributed surplus.

As of September 30, 2008 no performance shares have been issued. The President and CEO is entitled to acquire 831,250 shares as of September 30, 2008.

Subsequent to September 30, 2008, compensation costs of \$100,500 were recorded upon the commencement of the 3D seismic program on October 15, 2008, when the President and CEO was entitled to acquire an additional 300,000 shares.

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**10. STOCK OPTIONS**

- a) On February 8, 2008 the shareholders approved the adoption of a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiary are eligible to receive stock options. The total number of shares which are at any one time reserved and set aside for issuance under the stock option plan, and under all other management options outstanding, shall not exceed 10% of the shares issued and outstanding. The maximum number of common shares reserved for issuance to any one person pursuant to stock options shall not exceed 5% of the common shares outstanding at the time of the grant, or such greater amount as may be permitted pursuant to the rules of any regulatory authority having jurisdiction. The option price of a stock option granted shall be fixed by the Board of Directors but shall not be less than the market price of the shares at the time the option is granted, or such lesser price as may be permitted by the rules of the regulatory authority having jurisdiction. Stock options may be granted for a period not exceeding five years. Unless the Board determines otherwise, a stock option shall vest immediately upon being granted.
- b) A summary of the status of the Company's stock option plan as of September 30, 2008 and changes for the year then ended is as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u> \$
Balance, beginning of year	-	-
Granted	4,050,000	0.50
Outstanding, end of year	4,050,000	0.50
Exercisable, end of year	1,350,000	0.50

The weighted average remaining contractual life of outstanding options is 4.66 years and exercisable options is 4.73 years.

- c) The weighted average fair value of the stock options granted during the year ended September 30, 2008 was estimated on the date of grant to be \$0.30 using the Black-Scholes option pricing model and the following weighted average assumptions:

Expected volatility (%)	75
Risk free interest rate (%)	3.47
Weighted-average expected life (years)	5.0
Dividend Yield (%)	0

Compensation costs of \$499,167 have been expensed with a corresponding credit to contributed surplus.

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**11. INCOME TAXES**

*a) Future income taxes*

Significant components of the future income tax asset (liability) at September 30, 2008 and 2007 are as follows:

	<u>2008</u> \$	<u>2007</u> \$
Deferred exploration costs	(1,108,484)	-
Tax loss carry forwards	415,726	29,717
Share issue costs	204,537	-
	<u>(488,221)</u>	<u>29,717</u>
Less valuation allowance	-	(29,717)
Future income taxes – long term	<u>(488,221)</u>	-

*b) Income tax differences*

Income tax expense (recovery) differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 34.16% (2007 – 18.12%) to loss before income taxes as follows:

	Year ended September 30 <u>2008</u> \$	Nine months ended September 30 <u>2007</u> \$
Expected income tax recovery	(601,669)	(20,226)
Stock based compensation	279,090	-
Tax recovery on other tax expense (Part X11.6 tax)	(48,682)	-
Future income tax asset not (previously) recognized	(47,883)	20,226
Effect of changes in expected future income tax rate	56,383	-
Other	5,692	-
	<u>(357,069)</u>	-

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**11. INCOME TAXES (Continued)**

*c) Other tax expense*

Other tax expense in the amount of \$142,513 consists of Part X11.6 tax “tax on flow-through shares” related to the renunciation of flow through expenditures with an effective renunciation date of December 31, 2007.

*d) Income tax losses*

At September 30, 2008 the Company had available non-capital losses of approximately \$1,429,500, the tax benefit of which had been recognized. These losses may be applied to reduce taxable income in future years. These losses will expire as follows:

2026	\$ 53,482
2027	\$ 244,523
2028	\$ 1,131,495

**12. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION**

	<b>Year ended September 30 2008</b>	Nine months ended September 30 2007
	\$	\$
<hr/>		
Changes in non-cash operating working capital balances		
<i>Operating activities</i>		
Accounts receivable	<b>(38,273)</b>	12,770
Prepaid expenses	<b>(21,016)</b>	-
Accounts payable and accrued liabilities	<b>39,724</b>	54,428
	<hr/>	<hr/>
	<b>(19,565)</b>	67,198
	<hr/>	<hr/>

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**13. RELATED PARTY TRANSACTIONS**

The Company's related party transactions are as follows:

	<b>Year ended September 30 <u>2008</u> \$</b>	Nine months ended September 30 <u>2007</u> \$
Consulting fees paid to a company jointly controlled by one of the directors and reflected as:		
General and administrative	<b>6,000</b>	41,000
Compensation paid to two directors and to a director's company in recognition of services rendered for successful completion of the RTO and reflected as:		
General and administrative	<b>153,000</b>	-

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

**14. CAPITAL MANAGEMENT**

The capital structure of the Company consists of equity comprised of share capital, warrants, contributed surplus and deficit. The Company's objective when managing capital is to ensure it maintains adequate capital to support the exploration of its existing properties and to invest the capital in low risk liquid investments with chartered banks while in the process of conducting its exploration work.

The Company is not subject to externally imposed capital requirements.

**15. FINANCIAL INSTRUMENTS**

**Financial Risk Factors**

The Company has exposure to credit risk, liquidity risk and market risk. The source of risk exposure and how each is managed is outlined below:

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**15. FINANCIAL INSTRUMENTS (Continued)**

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligation. The Company's credit risk is primarily attributable to accounts receivable. Management believes that the credit risk with respect to accounts receivable is remote.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. As at September 30, 2008 the Company had a cash and cash equivalents balance of \$8,701,015. To the extent that the Company does not believe it has sufficient liquidity to meet current obligations, consideration will be given to obtaining additional funds through equity financing, assuming these could be obtained.

The Company has no source of operating cash flow to fund its exploration and development projects. There is no assurance that additional funding will be available to allow the Company to fulfil its obligations on existing or future exploration projects.

*Market Risk*

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Company's net income or loss or the value of its financial instruments.

*Interest rate risk*

The Company's cash balances are invested in short-term deposit certificates or bankers' acceptances issued by Canadian Chartered banks. The Company has no debt. The Company believes its interest rate risk is not significant.

*Commodity price risk*

The Company has no contractual commodity price risk. The recoverability of the Company's deferred exploration costs is partially indirectly related to the market price of oil and gas. The Company's ability to continue with its exploration program is also indirectly subject to commodity prices. Commodity price risk is significant to the Company.

*Foreign exchange risk*

Subsequent to September 30, 2008 the Company signed an agreement with a seismic contractor with amounts payable in US dollars (Note 17). Therefore, the Company is subject to foreign exchange risk on its accounts payable. Hedging instruments have not been used by the Company. Foreign exchange risk is significant to the Company.

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**16. COMMITMENTS**

*Leases*

Subsequent to September 30, 2008 the Company renewed its operating leases and consequently the Company's commitment under operating leases is \$59,572 in 2009 and \$10,068 in 2010.

*Oil and gas exploration expenditures*

The Company owns four contiguous exploration licenses offshore western Newfoundland. The exploration licenses have a maximum nine year term of two consecutive periods of five years (period I) and four years (period II). In order to maintain the exploration licenses, certain expenditures are required. The Company is required to spend \$772,013 on two of its licenses by January 15, 2011 and \$550,007 on two of its licenses by January 15, 2012 (January 15, 2011 and January 15, 2012 being the respective expiry dates of period I of the license agreements). The Company is also required to drill or spud and diligently pursue one exploratory well on each license on or before the expiry date of period I as a condition precedent to obtaining tenure to period II. Failure to drill or spud a well before the expiry date of period I will result in the license reverting to the Crown and forfeiture of any current security deposits.

The Company has entered into specific agreements in anticipation of completing a 3D seismic acquisition program and the timing and actual realization of the contractual commitments is dependent on the completion of the program and other factors.

**17. SUBSEQUENT EVENTS**

The agreement with the seismic contractor (note 7) was subsequently amended on October 2, 2008 to change the vessel to be used for the seismic acquisition and to expand the size of the seismic program and the currency of the amended agreement is US dollars.

The Company proposed a financing of up to 10,000,000 flow through shares at \$0.32 per share, with a proposed November 2008 closing, to finance the expansion of the seismic program. The financing was cancelled in November 2008 due to adverse market conditions.

On December 4, 2008 the Company signed a letter agreement with its seismic contractor, which amends certain of the terms of the previously amended seismic agreement. The letter agreement provides for a postponement and possible cancellation of a portion of the expanded seismic program. The Company agreed to use the commitment deposit of \$1,200,000 CDN as a credit of \$600,000 CDN towards the cost of the seismic survey, with this \$600,000 CDN credit to be applied against the final invoices on the survey, and the remaining \$600,000 to be applied as a termination fee to the contractor, in consideration for the postponement and possible cancellation of a portion of the previously expanded seismic program.