

NWest Energy Inc.

Management's Discussion and Analysis

For the Year Ended September 30, 2008

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended September 30, 2008. This MD&A has been prepared as of January 12, 2009.

Management's discussion and analysis of financial condition and results of operations contains forward-looking statements. By their nature, these statements involve risk and uncertainties, many of which are beyond the Company's control, which could cause actual results to differ materially from those expressed in such forward-looking statements. Readers are cautioned not to place undue reliance on these statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Additional information about the Company, including copies of the Company's continuous disclosure materials, can be found on the SEDAR website at www.sedar.com.

Nature of Business

NWest Energy Inc.'s ("NWest" or "the Company") principal business activity is exploration, acquisition, and advancement of oil and gas properties.

On October 16, 2007, the Company entered into a share purchase agreement with the shareholders of NWest Oil & Gas Inc. (Oil & Gas Inc.) whereby all of the issued and outstanding shares of Oil & Gas Inc. were acquired by way of a share exchange with the Company on December 19, 2007 (the "reverse takeover" or "RTO"). Holders of issued and outstanding common shares of Oil & Gas Inc. received one common share of the Company for each Oil & Gas Inc. share held. The Company issued Oil & Gas Inc. shareholders a total of 49,531,250 common shares, resulting in control of the Company by the former Oil & Gas Inc. shareholders. The total shares outstanding after the issuance to Oil & Gas Inc. shareholders was 64,315,646.

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. Oil & Gas Inc. is a St. John's, Newfoundland and Labrador based company engaged in east coast frontier oil and gas exploration.

Oil & Gas Inc.'s principal assets are Exploration Licenses located offshore western Newfoundland. The Exploration Licenses were issued by the Canada Newfoundland and Labrador Offshore Petroleum Board (CNLOPB) in 2006 and 2007 and cover a combined area of 659,880 hectares or 1,630,599 acres.

NWest continued its jurisdiction of incorporation from British Columbia (Business Corporations Act (British Columbia)) to federal jurisdiction under the Canada Business Corporations Act on March 7, 2008.

The Company graduated to Tier II of the TSX Venture Exchange on January 16, 2008.

Oil & Gas Inc. is the acquirer in the reverse takeover. The September 30, 2008 audited consolidated financial statements 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 legal parent, NWest, subsequent to the reverse takeover. The consolidated financial statements are a continuation of the financial statements of the legal subsidiary, Oil & Gas Inc.

Exploration and Development

The Company has not conducted any independent exploration or development on its exploration licenses as of September 30, 2008 and has acquired all readily available modern 2D seismic data shot in the area of the licenses in the 1980's and 1990's. It has conducted initial interpretive analysis of technical data related to the Exploration Licenses. Sproule Associates Limited ("Sproule") of Calgary, Alberta has completed a report on the Exploration Licenses under National Instrument 51-101 on behalf of the Company. Sproule has also completed a technical review and valuation of the Exploration Licenses. No wells have been drilled on the properties covered by the Exploration Licenses and there are no known reserves. Sproule's principal objective in the technical review and valuation of the Exploration Licenses was to interpret the 2D seismic data and conduct a resource assessment. The top 11 non-contiguous prospects were identified, most of which involved stacked reservoirs, presenting multiple exploration targets.

Subsequent to the 3rd quarter 2007 call for bid, NWest evaluated the contractors capable of performing a 3D Seismic survey and concluded a contract with Geophysical Services Inc. (GSI) of Calgary for a non-exclusive acquisition program.

Proceeds from a \$10,000,000 private placement financing on December 19, 2007 have been primarily allocated to complete a 3D seismic exploration program over the Exploration Licenses. After repeated delays due to the mechanical unavailability of the GSI Admiral, because of a prolonged refit in a foreign port, the exploration 3D seismic acquisition commenced on October 15, 2008 utilizing the GSI Pacific, and was terminated on December 22, 2008 due to continued adverse weather conditions. The final data volumes are expected to be available by the end of February 2009. The Company was obliged to utilize an Exploration 3D method for its 3D imaging program resulting from the Pacific's single streamer configuration in order to meet its obligations. The Exploration 3D method is outlined below:

- ▶ Exploration 3D or E3D has been used in the industry since the mid 80's.
- ▶ Effectively E3D is acquired using a single or a few streamers.
- ▶ Data is acquired with typically a standard 6.25 metre inline bin dimension.
- ▶ Spacing between lines is typically 150 to 200 metres.
- ▶ Data is fully processed with real world positioning.
- ▶ Data is finally processed to a 25 by 25 metre grid.

- ▶ Data is not interpolated post-stack.
- ▶ Real world positioning permits Pre-stack migration algorithms, such as Kirchhoff to be used to migrate the data to correct output bins.
- ▶ E3D is a very cost effective means of acquiring 3D and with today's acquisition systems and migration capabilities provides a very accurate means for interpretation of drilling prospects.
- ▶ The inline data will be suitable for AVO analysis.
- ▶ Shallow events such as the water bottom are readily interpreted from the inline data.

The Company's exploration 3D seismic acquisition focused on further defining some of the best prospects identified to date with the ultimate goal of confirming drill-ready prospects. The seismic data was ultimately acquired on two distinct areas totaling approximately 500 km². The top prospect evaluated was the southern closure straddling licenses 1097 and 1098 with a corresponding 303 km² program detailing it.

It is anticipated that industry recognized third party geophysical interpretation consultants will assist the Company's management with the interpretive analysis of data acquired from the exploration 3D seismic survey. The final step in the Company's current exploration program will be to identify a small number of drill-ready prospects given the interpretive analyses of previously acquired 2D seismic and newly acquired exploration 3D seismic. Assuming the identification of a number of drill-ready prospects, the Company will seek an industry partner to participate in a multi-well drill program. The Company has already started the process of soliciting potential partners to enter into an agreement with NWest to "Farm in" to the western Newfoundland blocks, with several companies displaying interest in evaluating the Company's proposal. In its normal course of business, NWest may secure one or several companies who have displayed interest as a Farm in partner in the evaluation of its blocks in Western Newfoundland. At the appropriate time, the Company will also approach the capital markets to secure its share of the drill program financing.

Selected Annual Financial Information

The table below outlines selected financial information related to the year ended September 30, 2008 (and the nine months ended September 30, 2007 – the publicly available information for the acquirer in the RTO).

	2008	2007
	\$	\$
Total assets	10,921,326	1,286,717
Total revenue (interest)	251,334	8,676
Net loss	(1,546,770)	(111,624)
Net loss per share – basic and diluted	(0.019)	(0.002)
Long term financial liabilities	-	-
Cash dividends	-	-

Results of Operations

The Company reported a net loss of \$1,546,770 for the year ended September 30, 2008, compared to a net loss of \$111,624 for the nine months ended September 30, 2007. (The September 30, 2007 comparative figures represent the figures for Oil & Gas Inc., the deemed acquirer in the RTO). The loss for the current year includes administrative expenses of \$1,171,198 (\$120,300 in the comparative nine month period), stock based compensation costs of \$817,009, a future income tax recovery of \$357,069, and other tax expense of \$142,513.

Interest income

The Company reported interest income of \$251,334 in the year ended September 30, 2008, compared to \$8,676 in the nine months ended September 30, 2007. Interest income was derived in the 2008 year from the investing of the proceeds of the \$10,000,000 private placement of shares, which occurred in December 2007.

General and Administrative

General and administrative expenses for the year ended September 30, 2008 and the nine months ended September 30, 2007 are as follows:

	2008	2007
	\$	\$
Wages and employee benefits	421,219	-
Professional fees	180,038	19,541
Travel	160,001	8,877
Regulatory and compliance	72,853	-
Fees-RTO- (related parties page 9)	153,000	-
Other	184,787	91,882
	1,171,898	120,300

Stock-based compensation costs

In October 2007, the Board of Directors passed a resolution authorizing the issuance of 1,531,250 common shares at \$0.01 per share to its newly appointed President and CEO, after the completion of certain milestones (both time related and performance related), as described in the financial statements. Stock-based compensation expense has been recorded to September 30, 2008 based on an estimated fair value of \$0.345 per share at date of the grant. (The estimated fair value was based on the private placement in December 2007 at \$0.50 per subscription unit, with \$0.345 allocated to the common share and \$0.155 allocated to the warrant in that unit).

On February 27, 2008, the Company granted 1,850,000 stock options to directors, officers, employees and consultants of the Company, exercisable at a price of \$0.50 per share for a period of five years from date of grant. Stock options of 450,000 vested immediately and the remainder of 1,400,000 vest over three years at the rate of 466,666 per year from date of grant.

On June 17, 2008, the Company granted 600,000 stock options to an officer, exercisable at \$0.50 per share for a period of five years from date of grant. 100,000 of these options vested immediately, with the an additional 250,000 vesting over time and the balance of 250,000 vesting based on satisfaction of certain conditions.

On August 27, 2008, the Company granted 1,600,000 stock options to two newly appointed directors, exercisable at \$0.50 per share for a period of five years from the date of grant. 800,000 of these options vested immediately, with the balance of 800,000 vesting based on satisfaction of certain conditions.

Stock-based compensation costs of \$ 817,009 were recorded for the year ended September 30, 2008.

Future Income Taxes

The balance sheet reflects a future income tax liability of \$488,221 at September 30, 2008 and the statement of income reflects a future income tax recovery of \$357,069. The Company renounced flow through exploration expenditures of \$3,822,357 in February 2008 with an effective renunciation date of December 31, 2007. The future income tax liability effect of this renunciation is estimated at \$1,108,484, and a corresponding amount has been applied as a reduction of share capital. The future income tax liability of \$1,108,484 has been reduced by the recording of a future income tax asset of \$357,069 with respect to certain non- capital losses as well as a future income tax asset of \$263,194 with respect to share issue costs and costs of the RTO.

Other Tax Expense

The statement of income reflects other tax expense of \$142,513 with a corresponding current taxes payable liability on the balance sheet. Other tax expense consists of Part X11.6 tax, representing the tax which is levied on the difference between the flow through expenditures which were renounced effective December 31, 2007 (early renouncement) and the expenditures which were incurred subsequent to the renouncement. This tax is calculated on a monthly basis at rates prescribed by Canada Revenue Agency. (All renounced expenditures were incurred by December 31, 2008).

Deferred exploration costs

The Company increased its deferred exploration costs from \$385,492 at September 30, 2007 to \$526,282 at September 30, 2008 (an increase of \$140,790). Costs of \$26,113 were incurred as part of an environmental study and consulting fees and related expenditures of \$114,677 were incurred with respect to seismic bids, budgeting and environmental assessments. The Company has not expensed any exploration and development costs.

Commitments, Risks and Uncertainties

The Company is an early stage exploration and development company and there are many risks and uncertainties that could materially affect future performance. Some of these factors and uncertainties include a limited operating history, a history of losses and the expectation of future losses. There can be no assurances that the Company will achieve and sustain profitability.

The Company will need additional capital to continue to operate its business. The current focus of the business is one exploration project, and the licences associated with the project have no known reserves.

Summary of Quarterly Financial Information

The table below outlines selected financial information for the four quarters in the year ended September 30, 2008 and the three quarters in the nine months ended September 30, 2007.

	September 30 2008	June 30 2008	March 31 2008	December 31 2007	September 30 2007	June 30 2007	March 31 2007
	\$	\$	\$	\$	\$	\$	\$
Revenue	69,537	71,245	94,134	16,418	8,676	-	-
Net (loss)	(500,921)	(269,328)	(421,524)	(354,997)	(55,996)	(45,560)	(10,068)
Basic net (loss) per share	(0.005)	(0.003)	(0.005)	(0.006)	(0.001)	(0.001)	(0.000)
Diluted net (loss) per share	(0.005)	(0.003)	(0.005)	(0.006)	(0.001)	(0.001)	(0.000)

Three months ended September 30, 2008 compared with three months ended September 30, 2007

The net loss for the three months ended September 30, 2008 was \$500,921 as compared to a net loss of \$55,996 for the three months ended September 30, 2007. The Company earned interest income of \$69,537 for the three months ended September 30, 2008 as compared to \$5,986 for the three months ended September 30, 2007. Expenses included in the loss for the quarter ended September 30, 2008 included general and administrative expenses of \$332,140 (\$8,500 for the 2007 comparative quarter) and stock-based compensation costs of \$282,503 (nil for September 30, 2007 quarter). The Company also reflected Part X11.6 tax of \$31,208 in the three months ended September 30, 2008 (nil for three months ended September 30, 2007). A future income tax recovery of \$85,374 was recorded on non capital losses incurred in the three months ended September 30, 2008 (nil for three months ended September 30, 2007). The figures for the three months ended September 30, 2007 reflect the figures prior to the RTO.

Cash Flows and Liquidity

Operating Activities

The Company used cash of \$1,082,642 to finance its operating activities for the year ended September 30, 2008. In the nine months ended September 30, 2007 (and this was prior to the RTO) the Company used \$44,226 to finance its operating activities. This use of cash was to fund administrative expenditures.

Financing Activities

The Company generated cash of \$11,149,001 in the year ended September 30, 2008 through the issuance of shares and from the exercise of warrants. The Company issued shares through a \$10,000,000 private placement in December 2007. Share issue costs in the amount of \$769,198 were a use of cash. The Company issued shares for proceeds of \$700,000 in the nine months ended September 30, 2007.

Investing Activities

The Company's major use of cash in investing activities in the year ended September 30, 2008 included a deposit of \$1,200,000 to the seismic contractor and the acquisition of deferred exploration expenditures of \$140,790. The Company's source of cash from investing activities consisted of cash acquired on the RTO in the amount of \$159,399 (net of RTO costs of \$313,695).

Liquidity

The Company has cash and cash equivalents of \$8,701,015 at September 30, 2008 and total current assets of \$8,784,379 and current liabilities of \$334,060. The result is working capital of \$8,450,319. The Company also has paid a deposit of \$1,200,000 on the seismic contract.

The Company plans to use its cash and cash equivalents as follows:

Exploration 3D Seismic Program Offshore Western Newfoundland

- costs associated with carrying out seismic data collection and interpretation including seismic vessel mobilization and demobilization and approximately 50-70 days of acquisition on site off Western Newfoundland;
- costs associated with the further evaluation of Exploration Licenses including seismic interpretation and updating of NI 51-101 compliant report;
- costs associated with preliminary assessment of prospects and targets for further exploration, drilling and development of Exploration Licenses.

Administrative/Corporate Expenses

- provide working capital to fund ongoing operations, management, administration, regulatory and contingencies.

The Company estimates its administrative and corporate expenses at \$1.3 million for the remainder of 2008 and calendar 2009.

At the date of the private placement in December 2007, the anticipated cost for the seismic activity was \$9.4 million. Based on the contract signed between the Company and GSI in April 2008, the estimated cost of the 3D seismic survey was \$9.3 million, covering an area of approximately 900 km². The contract with GSI was amended in October 2008 to expand the size of the seismic program to approximately 1458 km² and to allow for provision of another vessel, the Pacific, which replaced the Admiral. The Company proposed a private placement of flow through shares of up to \$3.2 million to finance the expanded seismic program and to provide for estimated administrative and corporate costs for fiscal 2009. The private placement financing was cancelled in November due to the pervasive adverse market conditions. In order to provide for a reduction in the expanded seismic program, in light of the advancement through the weather window and the negative environment in the capital markets, the agreement with GSI was further amended on December 4, 2008 to provide for a reduction in the size of the seismic program. Based upon the experienced incremental delays due to the worsening adverse weather conditions affecting the acquisition rate and thus the overall cost of the survey, the Company agreed to pay GSI a net termination fee of \$600,000 as consideration for postponement and possible cancellation of a portion of the seismic program. The total anticipated cost of the seismic program, including termination fee, and evaluation and interpretation of data is currently estimated at \$7,250,000.

The Company's only source of funding is equity financing. The Company has allocated cash of approximately \$1.3 million to cover estimated corporate and administrative costs for the balance of calendar 2008 and for calendar 2009. The Company's ability to continue beyond its initial exploration 3D seismic program and results evaluation is dependent on its ability to obtain equity financing and/or a partner in the project. The Company has also embarked on a cost cutting plan for the remainder of 2008 and 2009 in order to maintain cash reserves.

Commitments

The Company owns four contiguous exploration licenses offshore western Newfoundland. In order to maintain the exploration licenses, certain expenditures are required. Two of the licenses were issued in 2006 (1097 and 1098) and two of the licenses were issued in 2007 (1103 and 1104). The exploration licenses have a maximum nine year term of two consecutive periods of five years (period I) and four years (period II). The four exploration licenses were acquired through a "work expenditure" bid. A "work expenditure" bid is expressed in terms of the amount of money the bidder commits to spend on exploration within the first period (period I) of the license term. The Company has committed to spend \$1,322,020 on its four licenses in period I of the licenses. The expenditure commitment for licenses 1098 and 1099 is \$772,013 (to be incurred by January 15, 2011) and \$550,008 (to be incurred by January 15, 2012) for licenses 1103 and 1104. Failure to incur the expenditures will result in forfeiture of security deposits. The Company has incurred significant exploration expenditures as of January 12, 2009 and consequently considers it has completely fulfilled its expenditure obligations under the "work expenditure" bid on the three southern licenses (EL 1097,1098,1103) subject to approval of the Canada Newfoundland Offshore Petroleum Board (CNLOPB). The Company also considers to have partially fulfilled the expenditure commitment on the northernmost license (EL1104) but

has until January 2012 to incur fully the required expenditures. The Company is also required to drill or spud and diligently pursue one exploratory well 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.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

Transactions with Related Parties

Compensation totaling \$153,000 was paid to two directors and a company owned by another director in the year ended September 30, 2008, in recognition of the services rendered for successful completion of the RTO. Consulting fees were paid to a company jointly controlled by one of the directors in the amount of \$6,000 for the year ended September 30, 2008 (\$41,000 for the nine months ended September 30, 2007).

The related party 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.

Adoption of New Accounting Standards

Capital Disclosures, Financial Instruments- Disclosures, Financial Instruments-Presentation, and General Standards of Financial Statement Presentation

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).

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 to the financial statements.

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.

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.

The applicable disclosures under these financial instruments standards are included in Notes 3 and 15 to the financial statements.

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

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 (“IFRS”) 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 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.

Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, restricted investments, accounts receivable, accounts payable and accrued liabilities.

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.

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.

The risk associated with each of the above financial instruments is low due to the short term nature of each of the financial instruments. No significant assumptions were made in determining the fair value of the financial instruments, due mainly to the short term nature of each financial instrument.

Business Risks

The business of exploring for, developing, acquiring, producing oil and natural gas is subject to many risks and uncertainties, several of which are beyond the control of the Company. These risks are operational, financial and regulatory in nature. Operational risks include unsuccessful exploration and development drilling activity, reservoir performance, safety and environmental concerns, access to cost effective contract services, escalating industry costs for contracted services and equipment, product marketing and hiring and retaining qualified employees.

Financial risks include fluctuations in commodity prices, exchange rates and interest rates, all of which are beyond the control of the Company. The currency of the Company’s contract for the exploration 3D seismic work is US dollars, and consequently the Company is subject to significant foreign exchange risk. The Company will be required to raise equity through the public market in order to carry out significant capital expenditure programs.

The Company is subject to a variety of regulatory risks that it does not control. Government and Securities regulations are monitored to ensure the Company continues to be in compliance.

Other MD&A Requirements

Disclosure of Outstanding Share Data:

- a) The Company has issued and outstanding common shares of 93,610,674 at January 12, 2009.

There are 40,152,537 common shares held in escrow with 19,776,623 shares to be released on December 20, 2009 and 20,375,914 to be released on December 20, 2010.

- b) In October 2007, 1,531,250 shares were granted to the President and CEO at a price of \$0.01 per share, and eligible for release at various milestones as described in the financial statements, some of which are time related. (None of these shares have been issued at January 12, 2009). These shares will be subject to escrow (as required by the TSX Venture Exchange).
- c) The Company has 12,355,287 warrants outstanding as of January 12, 2009. These warrants are exercisable at a price of \$0.75 per warrant, expiring on December 19, 2009, with each warrant entitling the holder to one common share upon exercise.