



an Exploration Stage Company  
Interim Consolidated Financial Statements  
October 31, 2007

**MegaWest Energy Corp (an exploration stage company)**  
Consolidated Balance Sheets  
(Unaudited)

(in Canadian dollars)	October 31, 2007	April 30, 2007
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 16,678,241	\$ 29,328,951
Accounts receivable and prepaid expenses	426,477	125,590
	17,104,718	29,454,541
Marketable securities (note 2)	787,627	1,851,960
Restricted cash (note 3)	-	341,250
Oil and gas assets (note 4)	39,049,038	20,756,355
Capital assets (note 5)	225,904	128,741
	\$ 57,167,287	\$ 52,532,847
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,910,000	\$ 1,301,640
Convertible promissory notes (note 6)	1,678,373	1,867,387
Exchange shares (note 7)	906,965	1,061,055
Asset retirement obligations	155,180	154,244
	4,650,518	4,384,326
<b>Shareholders' Equity</b>		
Share capital (note 8)	47,426,313	41,168,088
Warrants (note 8)	3,729,000	3,729,000
Equity portion of convertible promissory notes (note 6)	120,566	120,566
Equity portion of exchange shares (note 7)	8,599,442	8,599,442
Contributed surplus	22,970,037	13,338,629
Accumulated deficit from prior operations	(562,633)	(562,633)
Accumulated deficit during the exploration stage	(28,701,623)	(18,244,571)
Accumulated other comprehensive loss	(1,064,333)	-
	52,516,769	48,148,521
Future operations (note 1)		
Commitments (notes 4, 7, and 11)		
Subsequent event (note 8(b))		
	\$ 57,167,287	\$ 52,532,847

See accompanying notes to interim consolidated financial statements.

**MegaWest Energy Corp (an exploration stage company)**  
Consolidated Statements of Operations and Comprehensive Loss  
(Unaudited)

	Three months ended October 31		Six months ended October 31		From Exploration Stage Inception on November 1, 2006 through October 31, 2007
	2007	2006	2007	2006	
(in Canadian dollars)					
<b>Interest income</b>	\$ 239,691	\$ 1	\$ 530,567	\$ 1	\$ 793,691
<b>Expenses</b>					
General and administrative					
Salaries and benefits	595,614	-	1,246,103	-	2,417,988
Professional fees	210,722	28,667	418,410	45,963	708,399
Investor relations	203,944	-	301,451	-	301,451
Office operations and rent	167,533	5,628	414,261	11,157	696,413
Capitalized general and administrative costs	(303,721)	-	(540,421)	-	(717,021)
Stock-based compensation related to stock options	268,720	-	719,280	-	2,582,728
Stock-based compensation related to warrants	-	-	-	-	1,600,800
Stock-based compensation related to shares issued for services	132,300	-	271,000	-	705,900
Capitalized stock-based compensation costs	(99,007)	-	(182,907)	-	(182,907)
	1,176,105	34,295	2,647,177	57,120	8,113,751
Foreign exchange loss	1,223,238	-	2,352,669	-	3,901,509
Accretion on promissory notes	43,974	-	90,108	-	161,378
Depreciation and asset retirement accretion	27,250	-	49,260	-	61,633
	2,470,567	34,295	5,139,214	57,120	12,238,271
<b>Net loss</b>	<b>\$ (2,230,876)</b>	<b>\$ (34,294)</b>	<b>\$ (4,608,647)</b>	<b>\$ (57,119)</b>	<b>(11,444,580)</b>
Unrealized loss recorded on marketable securities (note 2)	(412,413)	-	(1,306,373)	-	(1,306,373)
<b>Comprehensive loss</b>	<b>\$ (2,643,289)</b>	<b>\$ -</b>	<b>\$ (5,915,020)</b>	<b>\$ -</b>	<b>(12,750,953)</b>
<b>Net loss per share</b>					
Basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.06)	\$ (0.01)	\$ (0.20)
<b>Weighted average shares outstanding</b>					
Basic and diluted	74,198,278	6,337,500	73,369,474	6,337,500	56,029,733

See accompanying notes to interim consolidated financial statements.

**MegaWest Energy Corp (an exploration stage company)**  
Consolidated Statements of Shareholders' Equity (Deficiency in Assets)  
(Unaudited)

(in Canadian dollars)	Share Capital		Warrants	Exchange Shares	Contributed Surplus	Equity Portion of Convertible Debt	Accumulated Deficit from Prior Operations	Deficit Accumulated since November 1, 2006 during Exploration Stage	Accumulated Other Comprehensive Income (Loss)	Shareholder's Equity (Deficiency in Assets)
	Shares	Amount								
<b>Balance, April 30, 2005</b>	<b>6,337,500</b>	<b>\$ 207,342</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 168,750</b>	<b>\$ -</b>	<b>\$ (282,569)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 93,523</b>
Net loss for the year	-	-	-	-	-	-	(222,945)	-	-	(222,945)
<b>Balance, April 30, 2006</b>	<b>6,337,500</b>	<b>207,342</b>	<b>-</b>	<b>-</b>	<b>168,750</b>	<b>-</b>	<b>(505,514)</b>	<b>-</b>	<b>-</b>	<b>(129,422)</b>
Shares issued on private placements	59,373,550	34,203,821	3,729,000	-	368,400	-	-	-	-	38,301,221
Shares issued for properties	5,250,000	6,062,825	-	8,599,442	-	-	-	(11,408,638)	-	3,253,629
Shares issued for services	375,000	434,900	-	-	-	-	-	-	-	434,900
Shares issued on debt settlement	600,000	165,700	-	-	-	-	-	-	-	165,700
Shares issued on option exercise	500,000	93,500	-	-	(35,000)	-	-	-	-	58,500
Stock based compensation	-	-	-	-	1,863,448	-	-	-	-	1,863,448
Consulting warrants	-	-	-	-	1,600,800	-	-	-	-	1,600,800
Incentive warrants	-	-	-	-	9,372,231	-	-	-	-	9,372,231
Issue convertible promissory notes	-	-	-	-	-	120,566	-	-	-	120,566
Net loss for the year	-	-	-	-	-	-	(57,119)	(6,835,933)	-	(6,893,052)
<b>Balance, April 30, 2007</b>	<b>72,436,050</b>	<b>41,168,088</b>	<b>3,729,000</b>	<b>8,599,442</b>	<b>13,338,629</b>	<b>120,566</b>	<b>(562,633)</b>	<b>(18,244,571)</b>	<b>-</b>	<b>48,148,521</b>
Adjustment on adoption of accounting standard (note 1)	-	-	-	-	-	-	-	-	242,040	242,040
Shares issued for services (note 8)	250,000	271,000	-	-	-	-	-	-	-	271,000
Shares issued for properties (note 4)	500,000	486,250	-	-	-	-	-	-	-	486,250
Shares released from escrow (note 3)	4,750,000	5,500,975	-	-	-	-	-	(5,848,405)	-	(347,430)
Stock based compensation (note 9)	-	-	-	-	719,280	-	-	-	-	719,280
Incentive warrants (note 4(e))	-	-	-	-	8,810,850	-	-	-	-	8,810,850
Acquisition warrants (note 4(e))	-	-	-	-	45,707	-	-	-	-	45,707
Incentive warrants (note 8(b))	-	-	-	-	55,571	-	-	-	-	55,571
Net loss	-	-	-	-	-	-	-	(4,608,647)	-	(4,608,647)
Comprehensive loss on marketable securities (note 2)	-	-	-	-	-	-	-	-	(1,306,373)	(1,306,373)
<b>Balance, October 31, 2007</b>	<b>77,936,050</b>	<b>\$ 47,426,313</b>	<b>\$ 3,729,000</b>	<b>\$ 8,599,442</b>	<b>\$ 22,970,037</b>	<b>\$ 120,566</b>	<b>\$ (562,633)</b>	<b>\$(28,701,623)</b>	<b>\$ (1,064,333)</b>	<b>\$ 52,516,769</b>

See accompanying notes to consolidated financial statements.

**MegaWest Energy Corp (an exploration stage company)**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

(in Canadian dollars)	Three months ended October 31		Six months ended October 31		From Exploration Stage Inception on November 1, 2006 through October 31, 2007
	2007	2006	2007	2006	
<b>Operating activities</b>					
Net loss	\$ (2,230,876)	\$ (34,294)	\$ (4,608,647)	\$ (57,119)	\$ (11,444,580)
Items not involving cash					
Stock-based compensation	302,013	-	807,373	-	4,706,521
Unrealized foreign exchange loss	1,246,364	-	2,514,690	-	4,121,007
Accretion on promissory notes	43,974	-	90,108	-	161,378
Depreciation and asset retirement accretion	27,250	-	49,260	-	61,633
Change in non-cash working capital	(404,802)	25,377	(739,390)	50,791	89,605
	(1,016,077)	(8,917)	(1,886,606)	(6,328)	(2,304,436)
<b>Financing activities</b>					
Proceeds from private placements	-	-	-	-	38,301,221
Proceeds from stock option exercises	-	-	-	-	58,500
Notes payable	-	-	-	-	(40,000)
	-	-	-	-	38,319,721
<b>Investing activities</b>					
Expenditures on oil and gas assets	(6,817,476)	-	(8,713,252)	-	(9,419,013)
Expenditures on capital assets	(92,769)	-	(120,460)	-	(251,574)
Acquisitions net of cash acquired :					
Deerfield Kansas	-	-	-	-	(6,438)
Kentucky Reserves	-	-	-	-	(3,488,794)
Deerfield Missouri	-	-	-	-	(666,359)
Trinity Sands Energy	-	-	-	-	(82,769)
Marketable securities	-	-	-	-	(1,851,960)
Restricted cash	-	-	-	-	(341,250)
Change in non-cash working capital related to capital assets	1,252,840	-	1,047,440	-	1,389,232
	(5,657,405)	-	(7,786,272)	-	(14,718,925)
<b>Change in cash and cash equivalents</b>	(6,673,482)	(8,917)	(9,672,878)	(6,328)	21,296,360
Exchange rate fluctuations on cash and cash equivalents	(1,591,327)	-	(2,977,832)	-	(4,625,932)
Cash and cash equivalents, beginning of period	24,943,050	16,730	29,328,951	14,141	7,813
<b>Cash and cash equivalents, end of period</b>	\$ 16,678,241	\$ 7,813	\$ 16,678,241	\$ 7,813	\$ 16,678,241
<b>Non-Cash investing activities</b>					
Common shares issued for properties	\$ 5,987,225	\$ -	\$ 5,987,225	\$ -	\$ 12,050,050
Exchange shares issued for properties	\$ -	\$ -	\$ -	\$ -	\$ 9,660,497
Warrants granted for properties	\$ 45,707	\$ -	\$ 45,707	\$ -	\$ 45,707
Incentive warrants vested on property acquisition	\$ 8,810,850	\$ -	\$ 8,810,850	\$ -	\$ 18,183,081
Kentucky warrant extension	\$ 55,571	\$ -	\$ 55,571	\$ -	\$ 55,571
Capitalized stock-based compensation	\$ 99,007	\$ -	\$ 182,907	\$ -	\$ 182,907
<b>Non-Cash financing activities</b>					
Common shares issued for services	\$ 132,300	\$ -	\$ 271,000	\$ -	\$ 705,900
Common shares issued to settle debt	\$ -	\$ -	\$ -	\$ -	\$ 165,700

See accompanying notes to interim consolidated financial statements.

## **MegaWest Energy Corp (an exploration stage company)**

Notes to the Interim Consolidated Financial Statements

For the period ended October 31, 2007

(in Canadian dollars unless otherwise stated) (Unaudited)

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These interim consolidated financial statements of MegaWest Energy Corp ("MegaWest" or the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada following the same accounting policies as the consolidated financial statements for the year ended April 30, 2007, except as described in note 1. These interim consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and the results of operations for the reported periods. These interim consolidated financial statements do not include all disclosures required in annual financial statements and should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended April 30, 2007.

### **1. Basis of Presentation**

#### (a) Exploration Stage and Future Operations:

MegaWest operates a number of heavy oil exploration projects in the United States. Since November 2006 to date, MegaWest is an exploration stage company. To date, activities on the oil and gas projects included analysis and evaluation of technical data, preparation of exploration drilling and preliminary geological models, conceptual engineering of thermal pilot projects, exploration drilling and securing the required capital and financing to complete the fiscal 2008 budgeted work program.

MegaWest currently anticipates spending its existing funds during the remainder of the fiscal year to acquire, explore and appraise new and existing oil and gas projects. The Company will need additional funds to continue operations and fund the ultimate development of the Company's oil and gas projects, if proven commercial. Additional capital will be in the form of equity, debt, joint venture farmouts or some combination thereof. The Company's future operations are dependent upon its ability to obtain additional financing and ultimately achieve profitable operations. The outcome of these matters cannot be predicted with certainty at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to secure additional funding or obtain profitable operations.

#### (b) Adoption of New Accounting Standards:

On May 1, 2007, the Company adopted new Canadian accounting standards regarding other comprehensive income, financial instruments and hedge accounting as prescribed by the Canadian Institute of Chartered Accountants ("CICA") handbook.

##### (i) Section 1530 Comprehensive Income ("S.1530") and Section 3251 Equity ("S.3251"):

S.1530 requires presentation of certain gains and losses outside of net income, such as unrealized gains or losses related to hedges or other derivative instruments. Other comprehensive income represents items such as the change in equity arising from unrealized gains and losses from financial instruments designated as available-for-sale and changes in fair market value of derivatives designated as hedges, and is presented as a separate component of shareholders' equity on the balance sheet. S.3251 established standards for the presentation of equity and changes in equity during the period.

##### (ii) Section 3855 Financial Instruments – Recognition and Measurements ("S.3855") and Section 3861 Financial Instruments – Disclosure and Presentation ("S.3861"):

S.3855 establishes standards for recognizing and measuring financial assets and financial liabilities and non-financial derivatives as required to be disclosed under S.3861. Financial instruments are required to be classified in one of five ways: (i) held for trading, (ii) held to maturity, (iii) loans and receivables (iv) available-for-sale, or (v) other financial liabilities.

At May 1, 2007 the Company's financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities and convertible promissory notes. Cash and cash equivalents and accounts receivable are considered held to maturity and are recorded at amortized cost. Marketable securities are considered available-for-sale and are recorded at fair value, with the changes in fair value recorded in comprehensive income. On adoption, a \$242,040 adjustment was made to the marketable securities to record them at fair value. Convertible promissory notes are considered other financial liabilities and are recorded at amortized cost.

**MegaWest Energy Corp (an exploration stage company)**

Notes to the Interim Consolidated Financial Statements

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(in Canadian dollars unless otherwise stated) (Unaudited)

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(iii) Section 3865 Hedges ("S.3865"):

S.3865 establishes standards for how and when hedge accounting may be applied. The Company does not currently participate in any hedging activities.

The Company also adopted Section 1506 Accounting Changes, the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Sections 3862 Financial Instrument Disclosures and 3863 Financial Instruments Presentation, which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on May 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

(c) Principles of Consolidation:

These financial statements include the accounts of MegaWest and the following subsidiaries. All intercompany balances and transactions have been eliminated.

MegaWest Energy USA Corp

MegaWest Energy Texas Corp (formerly Trinity Sands Energy LLC)

MegaWest Energy Kentucky Corp (formerly Kentucky Reserves LLC)

MegaWest Energy Missouri Corp (formerly Deerfield Energy LLC)

MegaWest Energy Kansas Corp (formerly Deerfield Energy Kansas Corp.)

MegaWest Energy Montana Corp

**2. Marketable Securities:**

The Company acquired 7,500,000 common shares of Energy Finders Inc. ("Energy Finders"), who is our joint venture partner on the Trinity Sands project, for \$1,851,960 (U.S. \$1,650,000) representing approximately nine percent of its issued and outstanding share capital. The Company does not have any representation on the Energy Finders board of directors. As a result, the Company does not believe it exerts influence over Energy Finders. The quoted market price of Energy Finder's shares on October 31, 2007 was U.S. \$0.11 per share, converting to an approximate market value of \$787,627 (U.S. \$825,000). As these shares are considered available-for-sale, the market value adjustment has been recorded as a comprehensive loss for the period.

**3. Deerfield Energy LLC Acquisition and Restricted Cash:**

In connection with the Deerfield Energy LLC ("Deerfield Missouri") acquisition on April 5, 2007, part of the consideration given was contingent upon meeting the terms of an escrow agreement. Pursuant to this agreement, shares and cash were held in escrow until either the modification of certain development agreements into oil and gas leases was completed or until 4,000 acres of replacement acreage had been leased. To fulfill the escrow requirements, the Company engaged in a leasing program in Missouri and in October 2007, surpassed the 4,000 acre threshold of replacement acreage. As a result, the US\$300,000 cash and 4,750,000 shares of common stock held in escrow were released. Of the cash held in escrow, US\$100,000 plus interest was paid to the Company for reimbursement of costs associated with leasing the replacement acreage.

Upon satisfying the escrow terms, the remaining consideration of \$5,848,405 attributable to the acquisition has been recorded as a deficit adjustment, with a corresponding credit to cash in trust and share capital. The acquisition cost was recorded as a deficit adjustment since the transaction was between related parties, as at the acquisition date the President and Chief Executive Officer of MegaWest was also the Chief Operating Officer and a unitholder of Deerfield Missouri (held 15.85% of the issued and outstanding units). The value of the common shares issued was based on the cash consideration received for recent private placements of shares around the acquisition date.

**4. Oil & Gas Assets:**

**MegaWest Energy Corp (an exploration stage company)**

Notes to the Interim Consolidated Financial Statements

For the period ended October 31, 2007

(in Canadian dollars unless otherwise stated) (Unaudited)

To October 31, 2007, the Company's projects are in the exploration stage and have not reached commercial production levels. Accordingly, no provision for depletion expense has been made and all oil sales have been capitalized against project costs.

For the six month period ended October 31, 2007, capitalized general and administrative costs include \$99,007 and \$182,907 respectively, of stock-based compensation.

The following table summarizes the property, plant and equipment costs by project.

	Chetopa (a)	Deerfield (b)	Kentucky (c)	Trinity (d)	Big Sky (e)	Other (f)	Total
<b>Oil and Gas Assets</b>							
Balance, April 30, 2007	\$ 861,901	\$ 91,281	\$18,773,383	\$ 1,021,297	\$ -	\$ 8,493	\$ 20,756,355
Additions	1,706,867	1,403,137	2,013,482	2,729,517	22,163	203,382	8,078,548
Pre-commercial net oil sales	(199,720)	-	-	-	-	-	(199,720)
Acquisitions	-	-	-	-	9,690,527	-	9,690,527
Capitalized stock-based compensation	31,185	41,773	49,065	60,517	367	-	182,907
Capitalized general and administrative costs	90,495	122,975	145,346	180,478	1,127	-	540,421
<b>Balance, October 31, 2007</b>	<b>\$2,490,728</b>	<b>\$1,659,166</b>	<b>\$20,981,276</b>	<b>\$ 3,991,809</b>	<b>\$ 9,714,184</b>	<b>\$ 211,875</b>	<b>\$ 39,049,038</b>

**(a) Chetopa Project, Kansas**

The Chetopa project is an unproved heavy oil project located two miles south of Chetopa, Kansas. The assets include certain oil and gas facilities, equipment, wells and a 100 percent interest in two oil and gas leases covering 392 unproved acres.

During the six months ended October 31, 2007, the Company continued to operate in a pre-commercial stage, as the Company is still commissioning the project facilities. To October 31, 2007, \$199,720 of net oil sales have been credited against the project's cost pool. Once the facilities have been commissioned, oil sales will be recorded as revenues.

As part of the project, MegaWest is obligated to pay a net revenue interest up to a maximum of U.S. \$750,000 on net revenues generated from the Chetopa project. The net revenue interest becomes payable after the Company recovers 100 percent of its capital and operating costs, and will be paid quarterly from 25 percent of the project's net revenues. As at October 31, 2007 no net revenue interest has been paid as the Company has not recovered its capital and operating costs.

**(b) Deerfield Project, Missouri**

The Deerfield Missouri project includes a 100 percent interest in approximately 8,300 unproved acres of oil and gas leases in Missouri.

**(c) Kentucky Reserves Project, Kentucky**

The Kentucky Reserves project includes a 62.5 percent working interest in the shallow rights and an additional 37.5 percent working interest in the deep rights, in certain oil and gas leases totaling approximately 35,000 unproved acres in Kentucky.

As part of the acquisition of Kentucky Reserves, the Company is obligated to spend U.S. \$15,000,000 on the project by October 2009. In the event the Company does not complete this work program, the Company is obligated to pay 37.5 percent of the unspent balance to its joint venture partner. To October 31, 2007 the Company has spent approximately \$2.0 million towards this commitment.

**(d) Trinity Sands Project, Texas**

Currently, MegaWest's interest in the project consists of, approximately, 34,000 unproved acres in Edwards County, Texas. Pursuant to earn-in agreements the Company may earn up to a 66.67 percent working interest in all leased acreage. Included in the total acreage are 20,600 acres in which the Company has already earned a 50 percent working interest and another 13,400 acres in which the Company has already earned a 12.5 percent working interest.

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**(e) Big Sky Project, Montana**

On October 24, 2007 the Company completed the acquisition of a 40 percent working interest in two prospects in Montana totaling approximately 34,000 unproved acres in Montana. MegaWest will earn an addition 20 percent working interest in each prospect by carrying its working interest partner through the first U.S.\$2.5 million of work. In addition, MegaWest and its working interest partner have established a regional Area of Mutual Interest (“AMI”) covering approximately 1,000,000 acres that shall remain active for the next two years. The interest in the AMI shall be divided 65 percent to MegaWest and 35 percent to its partner. MegaWest shall pay for the lease acquisition, initial geological and geophysical activity, drilling and completing of all wells, if any, comprising an agreed upon initial work program for each new prospect within the AMI and shall receive 100 percent payout of all such costs and expenses incurred for each such prospect prior to its partner receiving its respective share. The cost of the acquisition was \$9,690,527 and consisted of:

Cash (U.S.\$300,000)	\$	309,034
Common shares (500,000)		486,250
Warrants (250,000 exercisable at U.S. \$2.50)		45,707
Incentive warrants (10,000,000)		8,810,850
Expenses		38,686
<b>Total acquisition cost</b>	<b>\$</b>	<b>9,690,527</b>

The amounts assigned to the common shares and warrants were based on their fair values on their issue dates. The fair value of common shares was based on the cash consideration received for the most recent private placements of shares. The fair value of the warrants was estimated at \$0.18 (U.S.\$0.19) per warrant using the Black-Scholes option pricing model assuming a volatility of 89 percent, risk free interest rate of 3.83 percent and term of 1.5 years. The incentive warrants were issued in December 2006 to provide additional prospects for the Company and the acquisition triggered the vesting of 10,000,000 incentive warrants. The fair value of the incentive warrants was estimated at \$0.88 (U.S.\$ 0.91) per warrant using the Black-Scholes option pricing model assuming a volatility of 89 percent, risk free interest rate of 3.83 percent and term of 1.3 years.

**(f) Other**

Other costs consist primarily of deposits paid on steam generators and related equipment.

**5. Capital Assets:**

Capital assets consist of office equipment, furniture and leasehold improvements.

	Cost	Accumulated Depreciation	Net book Value
Balance, April 30, 2007	\$ 131,113	\$ 2,372	\$ 128,741
Additions	120,461	23,298	97,163
<b>Balance, October 31, 2007</b>	<b>\$ 251,574</b>	<b>\$ 25,670</b>	<b>\$ 225,904</b>

**6. Convertible Promissory Notes:**

In December 2006, MegaWest assumed two convertible promissory notes totaling \$1,952,335 (U.S. \$1,700,000) in conjunction with the acquisitions of its Trinity and Kansas projects. As part of the assumption, the Company agreed to the following terms: interest accrues at six percent and the outstanding interest and principal are convertible into MegaWest common shares at U.S. \$0.25 per share until June 20, 2008. The fair value of the conversion feature at the date of assumption was estimated to be \$120,566 and has been classified as equity.

The Company has recorded \$43,974 of accretion expense for the three month period ended October 31, 2007 (six months ended October 31, 2007 - \$90,108).

**7. Exchange Shares:**

As part of the consideration given to acquire Trinity in April 2007, MegaWest issued 95,000 class B shares of its subsidiary, MegaWest USA. Each class B exchange share is convertible into 100 MegaWest shares with up to 9,500,000 common

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(in Canadian dollars unless otherwise stated) (Unaudited)

shares of MegaWest to be issued. The holders of these MegaWest USA shares have the right to exchange, or can receive a cash payment of U.S. \$950,000 (U.S. \$10.00 per exchange share) until July 31, 2008, after which the Company can implement a forced exchange of the shares. The cash redemption value of the exchange shares of \$906,965 (U.S. \$950,000) has been recorded as a liability. The fair value of the conversion feature, estimated at the time of issue, of \$8,599,442 has been classified as equity.

**8. Share Capital and Warrants:**

## (a) Share Capital:

The authorized capital of the Company consists of unlimited common shares without par value and 100,000,000 preferred shares without par value.

In addition to the shares issued for the Montana Big Sky acquisition (note 4(e)) and the Deerfield Energy escrow share release (note 3), the Company issued 125,000 shares to a consultant for advisory services during the three months ended October 31, 2007 (six months ended October 31, 2007 – 250,000 shares). The value of the common shares issued to the consultant was U.S. \$1.00 per share and was based on the cash consideration received for the most recent private placements of the Company's shares. Under the consulting agreement, there are 125,000 shares remaining to be issued on November 15, 2007, as services are performed.

## (b) Warrants:

The following table summarizes the warrants outstanding as of October 31, 2007:

Warrant Type	Warrants Outstanding			Warrants Vested	
	Number	Weighted Ave. Remaining Life	Weighted Ave. Exercise Price	Number	Weighted Ave. Exercise Price
Incentive (i)	19,500,000	1.2 years	U.S. \$0.10	19,000,000	U.S. \$0.10
Consulting (ii)	6,000,000	1.2 years	U.S. \$0.50	6,000,000	U.S. \$0.50
Private Placement (iii)	4,212,500	0.2 years	U.S. \$1.00	4,212,500	U.S. \$1.00
Private Placement (iv)	14,380,123	0.3 years	U.S. \$1.30	14,380,123	U.S. \$1.30
Purchase (v)	250,000	1.5 years	U.S. \$2.50	250,000	U.S. \$2.50
	44,342,623	0.8 years	U.S. \$0.64	43,842,623	U.S. \$0.65

(i) The incentive warrants were issued in an effort to secure additional non-conventional oil and gas prospects. The warrants allow the holders to purchase common shares from the Company at an exercise price of U.S. \$0.10 per share until January 15, 2009. 9,000,000 warrants vested on the Kentucky Reserves acquisition, and 10,000,000 warrants vested on the Montana Big Sky acquisition. The remaining 500,000 warrants can vest if the holder brings a project of merit to the Company's board of directors that has an economic value of at least U.S. \$1.00 per share.

On September 18 2007, the Company extended the expiry date of the incentive warrants to January 15, 2009. As a result, the Company recorded an additional \$56,000 for the Kentucky acquisition.

(ii) The consulting warrants were issued to various investor relations and other contractors. The consulting warrants vest on grant date, expire on January 5, 2009 and have an exercise price of U.S. \$0.50 per share.

(iii) The private placement warrants were issued in conjunction with the private placement completed in January 2007. The warrants expire on January 5, 2008. On December 14, 2007 the Company extended the term of these warrants to July 5, 2008.

(iv) The private placement warrants were issued in conjunction with the private placement completed in March 2007. The warrants expire on March 1, 2008. On December 14, 2007 the Company extended the term of these warrants to August 28, 2008.

(v) The purchase warrants were issued in conjunction with the Montana asset purchase in October 2007. The warrants expire on April 24, 2009.

## (c) Unit Rights:

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For the period ended October 31, 2007

(in Canadian dollars unless otherwise stated) (Unaudited)

At October 31, 2007, the Company had 180,000 unit rights outstanding that were issued in connection with the January 2007 private placement. Each unit can be purchased for U.S. \$0.50 and consists of one common share and one-half common share purchase warrant exercisable at U.S. \$1.00 per share.

In addition, the Company had 375,000 unit rights outstanding that were issued in connection with the February 2007 private placement. Each unit can be purchased for U.S. \$1.00 and consists of one common share and one-half common share purchase warrant exercisable at U.S. \$1.30 per share.

**9. Stock Options:**

The Company has two stock option plans, one intended for Canadian employees (the "2004 plan") and one for U.S. employees (the "2007 plan"). The number of shares reserved for issuance in aggregate under both plans limited to 20 percent of the issued and outstanding common shares of the Company. The exercise price, term and vesting schedule of stock options granted are set by the board of directors at the time of grant. Each stock option is convertible into one common share.

The following table summarizes the changes in stock options outstanding during the six months ended October 31, 2007:

	Number of Options	Weighted Avg. Exercise Price
Outstanding, April 30, 2007	9,669,000	U.S. \$0.62
Granted	670,000	\$2.00
Forfeitures	(80,000)	\$1.00
Outstanding, October 31, 2007	10,259,000	U.S. \$0.71

The following table summarizes information about the options outstanding and exercisable at October 31, 2007:

Exercise Price	Options Outstanding			Options Vested		
	Options	Weighted Ave. Remaining Life	Weighted Ave. Exercise Price	Options	Weighted Ave. Exercise Price	
U.S.\$0.10	1,250,000	4.1 years	U.S. \$ 0.10	1,250,000	U.S. \$ 0.10	
U.S.\$0.50	5,705,000	3.3 years	\$0.50	4,051,250	\$0.50	
U.S.\$1.00	2,384,000	3.5 years	\$1.00	1,211,000	\$1.00	
U.S.\$1.80 - \$2.25	920,000	3.9 years	\$2.00	335,000	\$2.05	
	10,259,000	3.7 years	U.S. \$0.71	6,847,250	U.S. \$0.60	

For the three months ended October 31, 2007, the Company recorded \$268,720 (2006 – nil) of stock-based compensation expense related to stock options with a corresponding increase in contributed surplus, of which \$99,007 was capitalized. The fair value of the options granted for the three months ended October 31, 2007 was estimated to be \$0.44 (U.S. \$0.46) per option and was determined using the Black-Scholes option pricing model with the following assumptions: expected volatility of 78 percent, risk-free interest rate of 4.28 percent and expected lives of four years.

For the six months ended October 31, 2007, the Company recorded \$719,280 (2006 – nil) of stock-based compensation expense related to stock options with a corresponding increase in contributed surplus, of which \$182,907 was capitalized. The fair value of the options granted for the six months ended October 31, 2007 was estimated to be \$0.48 (U.S. \$0.48) per option and was determined using the Black-Scholes option pricing model with the following assumptions: expected volatility of 83 percent, risk-free interest rate of 4.51 percent and expected lives of four years.

**10. Related Party Transactions:**

The Company incurred the following related party transactions in the three and six month periods ended October 31. These transactions were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

- (a) The Chief Financial Officer ("CFO") is affiliated with a company that provides the Company with ongoing investor relations services. For the three and six month periods ended October 31, 2007 the Company paid \$45,000 and \$99,600 respectively, for these services (2006 – nil).

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For the period ended October 31, 2007

(in Canadian dollars unless otherwise stated) (Unaudited)

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- (b) Pursuant to employment contracts, the Company paid \$142,802 and \$314,127 respectively, in salaries and benefits to the Chief Executive Officer (“CEO”), Chief Operating Officer (“COO”) and CFO for the three and six month periods ended October 31, 2007 (2006 – nil).
- (c) The Company incurred \$9,500 and \$15,500 respectively, in general and administrative costs to entities controlled by former directors in the three and six month periods ended October 31, 2006.

**11. Commitments and Contractual Obligations:**

In addition to the commitments and contractual obligations disclosed elsewhere in these financial statements, the Company has the following commitments and obligations:

- (a) Office and Equipment Leases:

Remainder of fiscal 2008	\$ 42,933
2009	241,620
2010	241,620
2011	241,620
2012	237,836
Thereafter	420,836
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Total	\$ 1,426,465

- (b) Severance Obligations:

Pursuant to employment agreements with the Company’s CEO, COO and CFO, the Company is obligated to pay up to approximately \$700,000 under certain events around employment termination.