

## **MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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### **MANGAGEMENT DISCUSSION AND ANALYSIS as of March 26, 2008**

*Management's discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for MegaWest Energy Corp ("MegaWest" or the "Company"). It should be read in conjunction with the interim consolidated financial statements and the notes thereto for the nine months ended January 31, 2008 and 2007, the annual consolidated financial statements for the year ended April 30, 2007 and 2006 and the related notes thereto, prepared in accordance with Canadian generally accepted accounting principles.*

#### **NATURE OF BUSINESS**

MegaWest is an exploration stage non-conventional oil company with emphasis on North American heavy oil projects. The MegaWest has operatorship of, and owns or has the right to earn a majority interest in, over 115,000 acres of prospective oil sands leases in Missouri, Kansas, Kentucky, Texas, Montana and is continuing to seek additional oil and gas properties to add to its portfolio. MegaWest is an Alberta, Canada company whose shares trade in the United States on the Over-the-Counter Bulletin Board exchange ("OTC") under the symbol "MGWSF".

#### **RESULTS OF OPERATIONS**

##### **Operational and Project Review**

MegaWest's projects are currently in the exploration stage. MegaWest's strategy is to evaluate, enhance and exploit each project through:

- geoscience and engineering analysis to validate each project and identify technologies which may result in economic recovery;
- field work including seismic, drilling and operation of pilot projects to corroborate engineering and geoscience analysis, resulting in a commercial project design and development plan; and
- engage an independent third-party to establish the value of commercial reserves, leading to farm-out, sale, or funding and execution of the commercial development plan.

The objectives of the Company's fiscal 2008 budget was to establish reserves and demonstrate commercial feasibility through delineation drilling and the completion of a thermal pilot or enhanced recovery production tests. To date, MegaWest has identified significant resource potential on part of its lands through exploration drilling and analysis, which has been confirmed through the results of an independent reserves and resource report, announced on December 11, 2007. In addition, during the nine months ended MegaWest has had its Chetopa steam project operating and producing oil and has recently completed construction and began injecting steam at its Marmaton River project in Missouri.

##### *Deerfield, Missouri*

The Deerfield Missouri area includes a 100 percent interest in 10,306 unproved acres of oil and gas leases in Missouri and the Marmaton River project. In October 2007, MegaWest satisfied the terms of the Deerfield escrow agreement that arose from the April 2007 Deerfield acquisition. As a result, the US\$300,000 cash and 4,750,000 shares previously held in escrow were released. Of the cash released, US\$100,000 plus interest was paid to MegaWest for reimbursement of costs associated with leasing additional acreage.

During the nine months ended January 31, 2008, MegaWest drilled fifteen exploration wells. The objectives of this drilling program was to further define the commercial prospectivity of the Upper Warner sand formation, to analyze the secondary Blue Jacket sand formation, and to validate the Roubidoux formation as a source water zone. All these formations are found at expected depths. Initial results show that the Upper Warner formation has an average reservoir porosity of 20 percent, average net pay of 30 feet, and average oil saturation exceeding 60 percent, resulting in approximately 28,000 barrels of oil in place per acre. These initial drilling results confirm the Company's geological model and as a result, MegaWest is aggressively moving forward with facilities construction

**MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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and development drilling for an enhanced oil recovery demonstration project (the “Marmaton River Project – Phase I”).

In March 2008, MegaWest completed construction and began injecting steam at its Marmaton River commercial demonstration project. The Marmaton project is a steam-flood with thirteen inverted seven-spot well patterns covering ten acres. The facilities include a 50 million BTU/hr steam generator along with production treating vessels and tanks. Fifty-seven wells were drilled for production, steam injection, source water and disposal. The produced oil will be sold at the plant gate to a local refinery and is expected to receive over 80 percent of the West Texas Intermediate posted price (“WTI”).

*Chetopa, Kansas*

The Chetopa project is a small, heavy oil project located two miles south of Chetopa, Kansas. The assets acquired include certain oil and gas equipment and a 100 percent interest in two oil and gas leases covering 392 unproved acres. The land is undeveloped except for a 15 acre thermal project that includes 20 steam injector wells, 33 producer wells, a water well, a tank battery, steam generator and two transfer stations.

The Chetopa project was originally assessed to acquire the surface equipment and steam generator at a discount for use in Missouri. However, the Company elected to refurbish the facilities and has commenced production. In June the first truckload of oil was shipped from the facility. During the nine months ended January 31, 2008, the Company continued to operate in a pre-commercial stage, as the Company is still commissioning the project facilities and getting the assets operating at their intended use. Expenditures in the quarter consisted of operating expenses, oil sales and expenditures on oil and gas assets. To date, consistent commercial production rates have not been realized. Produced oil is trucked and sold a local refinery and to date has been sold for over 80 percent of WTI. During the next three months MegaWest will evaluate the Chetopa operating results and decide if additional acreage will be developed.

As part of the Chetopa acquisition, 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 only 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 January 31, 2008 no net revenue interest has been paid as the Company has not recovered its capital and operating costs.

*Kentucky Reserves, 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 35,400 unproved acres in the Edmonson, Warren and Butler counties of Kentucky.

During the nine months ended January 31, 2008, MegaWest drilled eight exploration wells. This drilling program was designed to validate the Company’s geological model and confirm the presence of commercial quantities of heavy oil resources. Core was recovered from each of the wells in this program, confirming the existence of the Tar Springs, the Hardinsburg and the Big Clifty sandstones. The core samples have been analyzed and show that the primary target (the Big Clifty sandstones) has an average reservoir porosity of 18 percent, average net pay of 46 feet, with an average oil saturation of 55 percent, resulting in roughly 35,000 barrels of oil in place per acre. Based on these results, the Company has commenced for a second exploratory drilling program with the goal of finalizing the location for the first phase of commercial production. To date 4 of 11 wells have been drilled. The construction and commencement of thermal pilot project is planned for the fall of 2008. The Company has purchased a 50 million BTU/hr steam generator for this project.

The Company is committed to fund a work program covering the first U.S. \$15,000,000 of exploration, testing and development expenditures by October 2009. This work program is aimed at proving commercial recovery of the

## MegaWest Energy Corp.

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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potential oil contained in the leases. To January 31, 2008 the Company has spent \$2.5 million towards this commitment.

### *Trinity Sands, Texas*

Currently, MegaWest's interest in the project consists of, approximately, 34,600 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 undeveloped acreage are 20,600 acres in which we have already earned a 50 percent working interest and 13,300 acres in which we have earned a 25 percent working interest.

During the quarter, MegaWest commenced an exploration drilling program with the goal to drill identified prospects and validate the Company's geological model. To date, seven wells have been drilled and results are currently being analyzed.

### *Big Sky, Montana*

On October 24, 2007 the Company completed the acquisition of a 40 percent working interest in two prospects in Montana totaling 37,400 undeveloped acres in Choteau County, 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. Subsequent to January 31, 2008 the Company acquired an additional 2,000 unproved acres in the project.

The Company is in the process of formulating an exploration plan that will include some seismic data acquisition to identify future drilling locations.

### Summary of Quarterly Results

(000's)	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Interest income	\$ 140	\$ 240	\$ 291	\$ 258	\$ 3	\$ 1	\$ 1	\$ -
Loss	(4,481)	(2,231)	(2,378)	(3,560)	(3,276)	(34)	(23)	(146)
Loss per share	(0.06)	(0.03)	(0.03)	(0.10)	(0.21)	(0.00)	(0.00)	(0.02)
Total Assets	\$55,674	\$57,167	\$49,584	\$52,533	\$11,013	\$ 23	\$ 30	\$ 31

Starting in December 2006 (third quarter of fiscal 2007), the Company began operations as an oil and gas company. As a result, the increases in total assets relate to the cash proceeds from private placements and capital assets from acquisition of oil and gas assets. The net loss is mainly attributable to:

- stock-based compensation expense related to stock option and warrant grants to new employees, directors, and consultants;
- foreign exchange loss on U.S. dollar cash balances translated to Canadian dollars; and
- administrative costs related to employee salaries and office operations costs.

### Financial Review

#### *Three Months Ended January 31, 2008*

MegaWest reported a net loss of \$4,481,422, (\$0.06) per share basic and diluted, for the three months ended January 31, 2008, compared with a net loss of \$3,275,659, (\$0.21) per share, for the comparable 2007 period. The loss for

**MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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the 2008 period was mainly attributable to general and administrative expenses of \$1,303,371, a loss on marketable securities of \$1,328,535 and financing costs of \$2,466,000 offset by a foreign exchange gain of \$535,544.

During December 2006 the Company changed its focus to oil and gas exploration and a number of employees were hired and a new office was established in Calgary, Alberta that resulted in salary and benefit costs, increased professional fees, investor relation fees and office costs. General and administrative expenses for the three months ended January 31, 2008 totaled \$1,303,371, net of \$340,522 capitalized to oil and gas projects. During the three months ended January 31, 2007 the Company was seeking new business opportunities and total general and administrative expenses was \$3,337,480.

Included in general administrative expense is stock-based compensation expense of \$257,280 attributable to the cost associated with granting stock options to new employees and consultants and \$123,900 attributable to the cost associated with issuing shares for consulting services. For the three months ended January 31, 2007 general administrative expense included stock-based compensation expense of \$1,170,728 attributable to the cost associated with granting stock options to new employees and consultants and \$1,600,800 attributable to the cost associated with issuance of warrants to various investor relations consultants.

As noted above, the Company's change in business plan resulted in the hiring of staff and as such the Company incurred salary and benefit costs of \$634,562 during the three months ended January 31, 2008 (2007 - \$388,212).

Professional fees totaled \$137,046 (2006 - \$107,173) and consist of audit, accounting and legal fees primarily related to filing registration documents with the Securities and Exchange Commission (SEC) during the quarter.

In an effort to raise investor awareness of the Company we incurred investor relation expenses of \$207,565 during the three months ended January 31, 2008 (2007 - \$7,374).

Office and operations costs during the three months ended January 31, 2008 totaled \$283,540 (2007 - \$63,193) and are primarily made up of office rent and supplies, information technology license and maintenance costs, insurance, telephone and internet, travel and miscellaneous costs.

The foreign exchange gain for the three months ended January 31, 2008 resulted primarily from the translation of our U.S. dollar denominated cash balances into our Canadian dollar functional currency. The Canadian dollar weakened in value compared to the U.S. dollar during the quarter. The Company has not entered into any hedging agreements, however the Company holds U.S. dollars to satisfy its U.S. denominated project costs.

The loss on marketable securities relates to the non-temporary decline in value of MegaWest's investment in Energy Finders.

Financing costs of \$2,466,000 were recorded to reflect the incremental cost associated with extending the term of 18,682,623 common share purchase warrants by six months.

The Company had interest income of \$140,325 for the three months ended January 31, 2008 compared with \$2,564 for the comparable period. The increase in interest income for the 2008 period is related to interest earned on cash balances generated from private placements that raised an aggregate amount of U.S.\$34,011,050 in the third and fourth fiscal quarters of 2007.

*Nine Months Ended January 31, 2008*

MegaWest reported a net loss of \$9,090,068, (\$0.12) per share basic and diluted, for the nine months ended January 31, 2008, compared with a net loss of \$3,332,779, (\$0.35) per share, for the comparable 2007 period. The loss for the 2008 period was mainly attributable to general and administrative expenses of \$3,950,548, a loss on marketable securities of \$1,328,535, financing costs of \$2,466,000 and a foreign exchange loss of \$1,817,125.

**MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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General and administrative expenses for the nine months ended January 31, 2008 totaled \$3,950,548, net of \$1,063,850 capitalized to oil and gas projects. During the nine months ended January 31, 2007 the Company was seeking new business opportunities and total general and administrative expenses was \$3,394,600.

Included in general administrative expense is stock-based compensation expense of \$976,560 for the nine months ended January 31, 2008 and is attributable to the cost associated with granting stock options to employees and consultants and \$394,900 attributable to the cost associated with issuing shares for consulting services.

For the nine months ended January 31, 2007 general administrative expense included stock-based compensation expense of \$1,170,728 attributable to the cost associated with granting stock options to new employees and consultants and \$1,600,800 attributable to the cost associated with issuance of warrants to various investor relations consultants.

As noted above, the Company's change in business plan resulted in the hiring of staff and as such the Company incurred salary and benefit costs of \$1,880,665 during the nine months ended January 31, 2008 (2007 - \$388,212).

Professional fees during the nine months ended January 31, 2008 totaled \$555,456 (2007 - \$153,136) and are primarily made up of audit, accounting, legal and filing costs of related to the year end audit, filing registration documents with the SEC and costs related to the Company's annual general meeting.

In an effort to raise investor awareness of the Company we incurred investor relation expenses of \$509,016 during the nine months ended January 31, 2008 (2007 - \$7,374).

Office and operations costs during the nine months ended January 31, 2008 totaled \$697,801 (2007 - \$74,350) and are primarily made up of office rent and supplies, information technology license and maintenance costs, insurance, telephone and internet, travel and miscellaneous costs.

The foreign exchange loss for the nine months ended January 31, 2008 resulted primarily from the translation of our U.S. dollar denominated cash balances into our Canadian dollar functional currency. The Canadian dollar strengthened in value compared to the U.S. dollar during the period. The Company has not entered into any hedging agreements, however the Company holds U.S. dollars to satisfy its U.S. denominated project costs.

The loss on marketable securities relates to the non-temporary decline in value of MegaWest's investment in Energy Finders.

Financing costs of \$2,466,000 were recorded to reflect the incremental cost associated with extending the term of 18,682,623 common share purchase warrants by six months.

The Company had interest income of \$670,893 for the nine months ended January 31, 2008 compared with \$2,564 for the comparable period. The increase in interest income for the 2008 period is related to interest earned on cash balances generated from private placements that raised an aggregate amount of U.S. \$34,011,050 in the third and fourth fiscal quarters of 2007.

**LIQUIDTY AND CAPITAL RESOURCES**

As the Company's projects are in the exploration stage and profitable oil and gas operations have not been attained, MegaWest anticipates spending its existing funds in the first quarter of fiscal 2009 to acquire, explore, appraise and develop new and existing oil and gas projects. MegaWest will need additional funds to continue operations and fund the remainder of its 2008 and 2009 activities.

## **MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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In addition, the ultimate development of MegaWest's oil and gas projects, if proven commercial, will require additional funding. MegaWest is in the process of seeking additional capital, which could be in the form of equity, debt and or joint venture farmouts. Given the amount of reserves and resources identified on the Company's leases (announced in December 2007) and the current high oil price environment, the Company's management believes it will be successful in raising additional capital. MegaWest'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.

### *Cash and Financial Conditions*

MegaWest had working capital of \$9,257,915 as at January 31, 2008 compared to working capital of \$28,152,901 as at April 30, 2007. Cash used in operating activities for the three months ended January 31, 2008, totaled \$934,522 on a \$2,015,422 net loss for the period. Cash used in operating activities for the nine months ended January 31, 2008, totaled \$2,821,127 on a \$6,624,068 net loss for the period.

As at January 31 and March 26, 2008, MegaWest had cash available of \$9.7 and \$6.1 million, respectively.

### *Investing Activities*

Cash used in investing activities was \$6,892,143 for the three months ended January 31, 2008 (2007 - \$1,939,245) and included cash capital expenditures of \$5,849,705 incurred on the Company's oil and gas projects and corporate capital costs as follows:

- \$281,791 on the Chetopa project for facility commissioning and completion;
- \$2,303,331 on the Deerfield Missouri project for lease acquisition, geological and geophysical activities and facilities costs for the construction of the Marmaton River thermal demonstration project;
- \$464,669 on the Kentucky Reserves project for lease rentals, geological and geophysical activities and costs associated with initiating an exploration drilling program;
- \$2,125,278 on the Trinity Sands project for geological and geophysical activities and costs during the quarter associated with a seven well exploration program;
- \$141,123 for lease acquisitions and geological and geophysical activities on the Montana Big Sky project; and
- \$533,513 for other expenditures on oil and gas and office equipment, including costs for the acquisition of used steam generators.

Cash used in investing activities was \$14,678,415 for the nine months ended January 31, 2008 (2007 - \$1,939,245) and included cash capital expenditures of \$14,683,417 incurred on the Company's oil and gas projects and corporate capital costs as follows:

- \$1,879,433 on the Chetopa project for facility commissioning and completion;
- \$3,829,443 on the Deerfield Missouri project for lease acquisition, geological and geophysical activities, drilling 15 exploration wells and facilities costs for the construction of the Marmaton River thermal demonstration project;
- \$2,569,780 on the Kentucky Reserves project for lease rentals, geological and geophysical activities and costs associated with drilling and analyzing 12 exploration wells;

**MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

- \$5,035,273 on the Trinity Sands project for lease rentals, geological and geophysical activities and costs to date associated with a seven well exploration program;
- \$512,132 for the cash consideration paid for the acquisition of the Montana Big Sky project; and
- \$857,356 for other expenditures on oil and gas and office equipment, including costs for the acquisitions of used steam generators.

*Financing Activities*

Cash received from financing activities was \$90,179 for the three and nine months ended January 31, 2008, and relates to the exercise of 180,000 units at U.S.\$0.50 per unit. The common shares issued during the quarter related to incentive warrant and stock option exercises were done on a cashless basis. Cash received from financing activities during the three and nine month periods ended January 31, 2007 was \$9,398,628 and related to proceeds from the private placement financings.

The Company's debt obligations at January 31, 2008 consist of convertible promissory notes and potential cash payout obligations on exchange shares. Subsequent to January 31, 2008 all of the exchange shares have been converted into 9,500,000 common shares of MegaWest.

The convertible promissory notes of U.S.\$1,700,000 were assumed on December 20, 2006 in connection with the acquisitions of Deerfield Kansas and Trinity. The principal and interest are convertible into common shares at US \$0.25 per share until June 20, 2008. The interest rate on the notes is six percent per annum.

The Company's shares trade in the United States on the Over-the-Counter Bulletin Board exchange ("OTC"). The number of outstanding shares and the number of shares that could be issued if all of our dilutive instruments are converted to shares at the following dates were:

	March 26, 2008	January 31, 2008	April 30, 2007
Common shares outstanding	92,881,666	83,269,324	72,436,050
Exchange shares <sup>(1)</sup>	-	9,500,000	9,500,000
Stock options <sup>(2)</sup>	10,314,000	10,014,000	9,669,000
Warrants			
Private placement <sup>(3)</sup>	18,682,623	18,682,623	18,592,623
Incentive <sup>(4)</sup>	14,325,000	14,450,000	19,500,000
Consulting <sup>(5)</sup>	6,000,000	6,000,000	6,000,000
Acquisition <sup>(6)</sup>	250,000	250,000	-
Unit rights <sup>(7)</sup>	562,500	562,500	832,500
Convertible promissory notes <sup>(8)</sup>	7,301,900	7,255,000	6,945,200
Common shares in escrow <sup>(9)</sup>	-	-	4,750,000
<b>Total potential shares</b>	<b>150,317,689</b>	<b>149,983,447</b>	<b>148,225,373</b>

## Notes:

- (1) Represents 95,000 class B shares of our subsidiary, MegaWest USA, as part of the consideration given to acquire Trinity. Each class B exchange share was converted into 100 of our common shares in February 2008.
- (2) Represents stock options to purchase common shares at prices from U.S.\$0.10 to U.S.\$2.25 per share, with expiry dates from March 15, 2008 through to March 15, 2012 and with various vesting terms.
- (3) Represents whole share purchase warrants issued in connection with our private placement offerings. Each whole share purchase warrant is exercisable into one common share at prices from U.S.\$1.00 to

## **MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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U.S.\$1.30, with expiry dates from January 5, 2008 to March 1, 2008. On December 14, 2007 the Company extended the term of these warrants to July 5, 2008 and August 28, 2008.

- (4) Represents warrants that entitle the holder to purchase common shares of the Company at a price of U.S.\$0.10 per share for a period of nine months after vesting if the holder thereof brings a project of merit (i.e. a project with a potential economic value in the amount of at least U.S.\$1.00 multiplied by the total number of warrants issued to the holder) to the directors of our company by January 15, 2009. To date, 19,000,000 of these warrants have vested.
- (5) Represents warrants granted to various investor relations and other contractors. The consulting warrants are exercisable into one common share at an exercise price of U.S. \$0.50 and expire on January 5, 2009.
- (6) Represent warrants granted as part consideration for the acquisition of the Big Sky project in Montana. Each warrant is exercisable into one common share at a price of U.S.\$2.50 until April 24, 2009.
- (7) Represents rights to buy an additional 375,000 units under the same terms as the March U.S.\$1.00 private placement (unit includes one common share and one half common share purchase warrant exercisable at U.S.\$1.30). These rights, including the underlying common share purchase warrants, expire on August 28, 2008.
- (8) Represents common shares that could potentially be issued from convertible promissory notes in the aggregate amount of US\$1,700,000, including accrued interest at a rate of 6% per annum, which together maybe converted into common shares at US\$0.25 per share until June 20, 2008.
- (9) Represents shares held in escrow pursuant to the Deerfield Energy LLC acquisition. In October 2007 the terms of the escrow were met and the shares have been released.

### **Contractual Obligations**

The annual MD&A for the year ended April 30, 2007 includes a summary of the Company's contractual obligations. There have been no new material changes to those obligations during the nine months ended January 31, 2008.

### **TRANSACTIONS WITH RELATED PARTIES**

The Company incurred the following related party transactions in the period ended January 31, 2008. These transactions were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

- (1) The Company's Chief Financial Officer ("CFO") George Orr, is affiliated with a private company that assisted MegaWest in completing previous share issue private placements and that currently provides the Company with ongoing investor relations services. MegaWest paid \$45,000 and \$144,600 for these services for the three and nine month periods ended January 31, 2008, respectively (2007 – nil).
- (2) Pursuant to employment contracts, the Company paid \$159,914 and \$474,041 in salaries and benefits to George T. Stapleton, II (the Chief Executive Officer ("CEO")), R. William Thornton (the Chief Operating Officer) and George Orr for the three and nine months ended January 31, 2008, respectively (2007 – \$317,016).
- (3) The acquisitions of the Chetopa, Deerfield Missouri and Trinity Sands projects in fiscal 2007 were considered related party transactions, since at their respective acquisition dates, George T. Stapleton, II (a director and the Chief Executive Officer of MegaWest) was also the Chief Operating Officer and unitholder of Trinity Sands (47.37 percent of issued and outstanding units) and Deerfield Missouri (15.86 percent of the issued and outstanding units), the parent company of the Chetopa project.

As a result, George T. Stapleton, II, or a private company controlled by him, received: (i) 39,650 of the shares of MegaWest common stock issued to acquire the Chetopa project; (ii) US\$251,880 cash to acquire Deerfield Missouri, including a change of control fee, and 753,360 shares of MegaWest common stock; and (iii) U.S.\$94,737 cash of the consideration issued to acquire Trinity Sands and 45,000 class B exchange shares of

**MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

our subsidiary, MegaWest Energy (USA) Corp. that were converted into 4,500,000 shares of MegaWest common stock in February 2008.

- (4) In December 2006, 10,000,000 incentive warrants (exercisable for shares of our common stock at US\$0.10 per share) were granted to Endurance Energy Consulting Ltd., a private company controlled by MegaWest's COO and 9,000,000 incentive warrants (exercisable for shares of our common stock at US\$0.10 per share) were granted to Gladrock Energy LLC, a private company that is controlled by a director of MegaWest. The warrants were granted as consideration of the holder's efforts in identifying, evaluating and delivering oil and gas properties to MegaWest as the Endurance warrant holders were credited with the Montana Big Sky project and Gladrock was credited with the Kentucky Reserves acquisition.
- (4) The Company incurred \$72,108 and \$87,608 respectively, in general and administrative costs to entities controlled by former directors during the nine months ended January 31, 2007.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our accounting principles are described in Note 1 to the annual consolidated financial statements for the year ended April 30, 2007 and 2006. We prepare our annual consolidated financial statements in conformity with GAAP in Canada, which conform in all material respects to U.S. GAAP except for those items disclosed in Note 19 to the annual consolidated financial statements. For U.S. readers, we have detailed the differences and have also provided a reconciliation of the differences between Canadian and U.S. GAAP in Note 19 to the annual consolidated financial statements.

The preparation of our financial statements requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis we evaluate our estimates, including those related to acquisitions, asset impairment, valuation allowances, volatility and market value of our share price and contingencies. These estimates are based on information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions and conditions.

The critical accounting policies that affect the more significant judgments and estimates used in preparation of our financial statements are described our annual MD&A for the year ended April 30, 2007 and have not changed to date.

**CHANGE IN ACCOUNTING POLICIES**

On May 1, 2007, the Company adopted new Canadian accounting standards regarding other comprehensive income, financial instruments and hedge accounting.

- (1) 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.

- (2) 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.

**MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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. Convertible promissory notes are considered other financial liabilities and are recorded at amortized cost.

(3) 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 January 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.

**RISKS AND UNCERTAINTIES**

The annual MD&A for the year ended April 30, 2007 includes an overview of certain business risks and uncertainties facing the Company. Those risks remain in effect on January 31, 2008.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company does not have any off balance sheet arrangements other than the items noted above in contractual obligations.

**FINANCIAL INSTRUMENTS**

The Company is exposed to exchange rate fluctuations between the U.S. and Canadian dollars. The Company does not engage in the use of derivative financial instruments.

**INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company maintains a set of internal controls and disclosure controls over financial reporting which have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. For the three and nine month periods ended January 31, 2008, there have been no changes in the design of internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting. Refer to the annual MD&A for the year ended April 30, 2007 for a further discussion of internal controls over financial reporting.

**ADVISORY REGARDING FORWARD-LOOKING STATEMENTS**

This document contains statements about expected or anticipated future events and financial results that are forward-looking in nature and as a result, are subject to certain risks and uncertainties, such as general economic, market and business conditions, the regulatory process and actions, technical issues, new legislation, competitive and general economic factors and conditions, the uncertainties resulting from potential delays or changes in plans, the actual presence or recoverability of estimated oil and gas resources, the occurrence of unexpected events, and the Company's capability to execute and implement its future plans. Actual results may differ materially from those projected by management. For such statements, we claim the safe harbour for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

**MegaWest Energy Corp.**

Management Discussion and Analysis as of March 26, 2008

(in Canadian dollars unless otherwise indicated)

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The risks and uncertainties that could affect future events or the Company's future financial performance are more fully described in the Company's quarterly reports (on Form 6-K filed in the U.S. and on Form 51-102F1 filed in Canada), the Company's annual reports (on Form 20-F filed in the U.S. and Canada) and the other recent filings in the U.S. and Canada. These filings are available at [www.sec.gov](http://www.sec.gov) in the U.S. and [www.sedar.com](http://www.sedar.com) in Canada.

**Company Information**

Additional information related to MegaWest is available on the Company's website at [www.megawestenergy.com](http://www.megawestenergy.com), SEDAR's website at [www.sedar.com](http://www.sedar.com) and the EDGAR's website at [www.sec.gov](http://www.sec.gov).