

# **EAST WEST PETROLEUM CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2013**

### **Background**

This discussion and analysis of financial position and results of operation is prepared as at May 21, 2013 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2013 of East West Petroleum Corp. ("East West" or the "Company"). The Company has adopted International Financial Reporting Standards ("IFRS") and the following disclosure and associated financial statements are presented in accordance with IFRS. Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

### **Company Overview**

The Company was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia). During fiscal 2010 the Company negotiated the acquisition of interests in petroleum and natural gas properties, and conducted a number of private placement financings. As a result, effective October 1, 2010, the Company's listing of its common shares was transferred from the NEX Board ("NEX") to the TSX Venture Exchange ("TSXV") as a Tier 2 oil and gas issuer trading under the symbol "EW".

With the acquisition of the petroleum and natural gas interests, the Company now carries on business in one operating segment, being the acquisition of, exploration for and production from petroleum and natural gas properties.

In October 2012 the Company renewed its Normal Course Issuer Bid which authorizes the Company to repurchase for cancellation up to 7,433,924 common shares until October 15, 2013 or the date by which the Company has acquired the maximum number of shares under the bid. See also "Selected Financial Data - Results of Operations" and "Outstanding Share Data". The Company's principal office is located at #1210 - 1095 West Pender Street, Vancouver, BC, V6E 2M6.

### **Corporate Update**

On May 3, 2013, Mr. James Dewar tendered his resignation as a director of the Company. Mr. Dewar has agreed to join the Company's Advisory Committee where he will provide ongoing consultation services on an as needed basis.

### **Projects Update**

In this MD&A, production and reserves information may be presented on a barrel of oil equivalent ("BOE") basis with six thousand cubic feet ("MCF") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

### ***Carbon Property, Alberta***

Effective September 1, 2010 the Company executed a purchase and sale agreement with Sphere Energy Corp. (“Sphere”), a private company, whereby the Company paid \$1,125,000 to acquire Sphere’s working interests, ranging from 4.1125% to 20%, in four producing oil wells and fourteen gas wells (eight flowing coal bed methane (“CBM”) gas) (the “Carbon Property”) located approximately 50 miles northeast of Calgary, Alberta. The wells are producing from the Horseshoe Canyon, Basal Belly River, Belly River, Viking and Glauconitic formations.

The Company has filed an independent reserves and resource evaluation on SEDAR, dated February 26, 2013, relating to the resource base of the Company in the Carbon Property as of December 31, 2012. Prepared by AJM Deloitte, the report follows all industry standard procedures and is in conformity with the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 (“NI 51-101”).

The Carbon Property is located approximately fifty miles northeast of Calgary, Alberta in Township 29, Range 22W4M. The Company holds interests ranging from 4.1125% to 20% in four producing oil wells and fourteen gas wells. The wells are producing from the Horseshoe Canyon, Basal Belly River, Belly River, Viking, Glauconitic, and Ellerslie Formations. Approximately two-thirds of the proved plus probable value discounted at 10% of this property lies in four wells: 00/04-12-029-22W4/2, 00/15-12-029-22W4/0, 00/04-13-029-22W4/0, and 00/06-13-029-22W4/0.

### ***United States***

On September 4, 2012 the Company announced it had signed a Letter of Intent with Lani LLC (“Lani”) to carry out a joint exploration program in the San Joaquin Basin of California, USA. At the time of the agreement, Lani, a private E&P company based in Ventura, California, held an exploration acreage position of approximately 4,500 gross acres in the southern region of the basin with a number of prospects and leads identified. Under the terms of the agreement, the Company indicated it would assume a 21.25% - 50% net participation interest in Lani’s acreage position through a total of US \$2,500,000 contribution to drill two exploration wells and for the acquisition of additional leases. In conjunction with the joint exploration program, the Company also made an investment of US \$500,000 as part of Lani’s planned restructuring as a public US company named North American Oil and Gas (“NAMG”). NAMG began trading as a public company in November 2012, with the Company owning 8.3%.

On November 19, 2012 the Company announced it had completed a farm-in agreement and area of mutual interest agreement (“AMI”) with Lani to carry out joint exploration programs in the San Joaquin Basin. The agreement provided the Company with participation interests in approximately 4,500 gross (3,200 net) acres in two prospective areas named Tejon Extension and Tejon Main, holding a 25% participation interest in the Tejon Extension leases and a 21.25% participation interest in Tejon Main leases. Under the agreement the Company’s agreed to fund US \$2,200,000 to be used in the drilling of two exploratory wells and to acquire additional joint leases in the area and provide a US \$300,000 loan for G&A funding. Sproule and Associates estimates the unrisks joint resource potential of the Tejon Main and Tejon Extension areas at 11.16 mmbob (P50), with a probability of success ranging from 30% - 80% across a number of target zones to a depth of 13,000 ft.

In December 2012, the Company and its partner NAMG spud the Lani 77-20 exploratory well on the Tejon Extension leases. The well flowed oil to the surface in uncommercial quantities and has been suspended pending additional studies. As at March 31, 2013 the Company has funded the required US \$1,300,000 to earn its 25% participation interest in the Tejon Extension leases.

At the end of the first quarter of 2013, the Company and its partner’s acreage position was increased to approximately 8,000 acres.

### ***New Zealand***

In December 2012, the Company and its partner TAG Oil Ltd. (“TAG”) were successful bidders for three permits in the 2012 New Zealand Government exploration bid round. The Company acquired a 50% interest in PEP 54876 and PEP 54879 and a 30% interest in PEP 54877 located in the Taranaki Basin onshore the North Island, with TAG holding the remaining interest. Under the agreements with the New Zealand Government and TAG, the Company will participate in a minimum of nine exploration wells in 2013, with TAG as operator. The joint operating agreements also provide the Company the right to access TAG’s oil and gas processing facilities located nearby the 2013 exploratory well locations.

## ***Romania***

On June 30, 2010 the Company was awarded four exploration blocks, EX-2 (Tria), EX-3 (Baile Felix), EX-7 (Periam) and EX-8 (Biled), located in the Pannonian Basin in western Romania. Total acreage covered in the four blocks is approximately 1,000,000 acres. The Pannonian Basin is a prolific oil and gas basin with significant remaining potential for conventional oil and gas, as well as opportunities for unconventional shale gas.

On May 20, 2011 the Company signed the four concession agreements with the National Agency of Mineral Resources (“NAMR”). The Company then entered into a binding memorandum of understanding agreement with Naftna Industrija Srbije j.s.c. Novi Sad (“NIS”) to cooperate in the exploration and development of the four Romanian blocks. Under the terms of the agreement, NIS would acquire an 85% participation interest in all four blocks and pay 100% of the obligatory Phase I work program costs and optional Phase II work program costs.

On October 27, 2011 the Company entered into a farm-out agreement with NIS whereby NIS would acquire an 85% participation interest in the four Romanian blocks EX-2 (Tria), EX-3 (Baile Felix), EX-7 (Periam) and EX-8 (Biled) (collectively the “Concessions”) and eventually assume operatorship. The Phase I program includes environmental baseline surveys, the acquisition and processing of a minimum of 900 km. of 2D and 600 sq. km. of 3D seismic data, with a minimum of 12 wells to be drilled on the four blocks. NIS will also pay 100% of the Company’s sunk costs which totalled approximately \$525,000. The Company retains a 15% carried interest in each block until the achievement of commercial production, at which time the Company will be responsible for its 15% interest in the commercial discoveries. The assignment of interest is subject to ratification of the Concessions by the Government of Romania and receiving NAMR’s approval for the assignment of interest.

On December 23, 2011 the Company entered into four Joint Operating Agreements with NIS which provided for NIS to assume operatorship for the Concessions, subject to receiving NAMR’s approval of change of operator. The application for the change of operatorship will be requested after the Government of Romania ratifies each Concession.

In December 2012 the Romanian Government ratified the EX-2 Tria Concession. NAMR subsequently approved the farmout to NIS for an 85% participation interest in the Concession and approved change of operatorship to NIS. The other three Concessions, EX-3 Biled, EX-7 Periam and EX-8 Baile Felix, continue to undergo the ratification process which is expected to be concluded in the second quarter of 2013.

In February 2013 NAMR approved the 2013 Tria Concession work program expenditures, estimated at \$11.7 million for the acquisition of 2D and 3D seismic data and the drilling of one well.

During the ratification process, the Company entered into several consulting agreements to study the hydrocarbon potential of the Concessions and prepare for exploration operations. Environmental baseline and environmental impact surveys have been completed while geological and geophysical reprocessing and interpretation projects remain active. More than 25 exploration leads and prospects have been identified and high-graded on the Concessions which will be further studied when operations commence.

## ***Morocco***

On September 30, 2011 the Company and the Office National des Hydrocarbures et des Mines (“ONHYM”), an agency of the Moroccan government, entered into agreements whereby the Company has been granted a 75% participation interest in the Doukkala exploration permit (the “Exploration Permit”) covering approximately 500,000 acres situated along the Atlantic coast approximately 125 kilometres southwest from Casablanca, Morocco. The Exploration Permit has an overall duration of eight years, comprising three Phases. During the three-year Phase 1 period, the Company will carry out geological and geophysical studies to assess the conventional and unconventional potential of the acreage. The cost of the Phase I work program is estimated at US \$5,500,000. On completion of the Phase 1 program, the Company can elect to enter into an extension for a Phase 2 program under which the Company will be committed to drill two wells over a two year period, estimated at approximately US \$14,000,000. On completion of the Phase 2 program, the Company can elect to enter into a three year extension for a Phase 3 program under which the Company will be committed to acquire 3D seismic and drilling of one well, estimated at approximately US \$14,000,000 over a three year duration. The Company has provided a US \$3,500,000 bank guarantee in favour of ONHYM. The agreement received final approval from the Ministries of Energy, Mines, Water and Environment and Finance on November 28, 2011.

The Company's technical team has completed the study of core samples collected from the concession to assess the unconventional potential of the acreage. Results from core analysis studies of the Triassic and Paleozoic section indicate that the total organic carbon content in representative samples from cored wells ranges up to about 2% and average 0.7%. The level of organic maturity of tested strata ranged from immature to over mature with respect to the oil window. These analyses, coupled with petrophysical analyses suggest that there is no gas shale potential in the wells drilled to date, which have been mainly drilled on structural highs.

Petrology and petrophysics suggest that conventional traps and reservoirs rocks exist in the Triassic and Devonian sections and further studies will high grade prospective areas.

### ***India***

In March 2011 the Company was notified by the Directorate General of Hydrocarbons of India ("DGH") it was a successful bidder for an exploration block in the New Exploration Licensing Policy ("NELP") IX competitive bid round. The block lies in the Assam-Arakan Basin of northeast India. The DGH had announced the winning bids on a provisional basis, subject to final administrative review.

The acquired block, AA-ONN-2010/2, was awarded to a consortium consisting of Oil India Ltd. ("OIL"), (Operator, 40%), Oil and Natural Gas Corporation of India ("ONGC") (30%), Gas Authority of India Ltd. ("GAIL") (20%) and East West (10%). The primary term of this exploration production sharing contract is five years.

On March 28, 2012 the Company, along with its partners, received final approvals and signed the AA-ONN-2010/2 PSC agreement with the DGH at an official signing ceremony in New Delhi. OIL, as block operator, is in the process of planning the forward work program which will consist of the acquisition of the 3D seismic data followed by the drilling of two exploratory wells. An application for a Petroleum Exploration License was submitted to the State of Assam for commencement of operations and the partnership is awaiting final approval.

As part of the block agreement, the Company must provide a bank guarantee for 7.5% of its 10% share of the work program obligation for Phase I of the program. The Company expects to have this Bank Guarantee put in place once the operator receives final approval from the regional government of Assam to allow operations to commence.

Block AA-ONN-2010/2 covers approximately 395 sq. km. within the Karbi Anglong District of the Assam-Arakan Basin, a proven petroliferous region which covers more than 116,000 sq. km. in north-eastern India. The oil and gas industry has been active in the region, drilling over 1,000 wells and finding more than 100 oil and gas fields. The work program bid for the block consists of the drilling of two wells and the acquisition of about 400 sq. km. of 3D seismic data. The partners are now negotiating a joint operating agreement which will take affect once final approval is received from the Government of Assam.

### ***Agreement with Halliburton Consulting and Project Management***

Effective November 21, 2011 the Company entered into a contractual cooperation agreement with Halliburton Consulting and Project Management ("Halliburton"), a leading global energy service company. Halliburton has extensive experience in unconventional plays ranging from assessment through execution. This collaborative effort is targeting high potential shale plays in North America and a limited number of other selected geographic areas. Some shale deposits in North America have been proven to hold large accumulations of oil and gas and are an emerging source of hydrocarbon reserves in other areas of the world. The Company's goal is to secure acreage positions in unconventional resource plays and work with Halliburton to assess and develop its assets.

To date, two unconventional shale projects have been studied in the United States under the agreement, with the decision made not to pursue deals due to technical and/or commercial reasons.

### ***Agreements with Kuwait Energy Company***

In November 2010 the Company entered into a heads of agreement ("HOA") with Kuwait Energy Company ("Kuwait Energy") to jointly study the unconventional potential of multiple exploration and producing concessions held by Kuwait Energy in the Middle East, North Africa and Eurasia regions. Under the terms of this agreement, the Company was to share its unconventional technological resources and expertise with Kuwait Energy to identify unconventional reservoir targets where the application of these technologies can add new unconventional reservoir production. In addition, conventional reservoirs were to be studied to determine if the application of certain unconventional

technologies can enhance existing production rates and total petroleum recovery from existing producing reservoirs. The HOA was for a period of three years, but could be cancelled by either party by providing requisite notice.

The HOA initially covered a total of 13 exploration and production licenses in four countries in which Kuwait Energy held exploration and production participation interests. Gross acreage covered initially under the HOA was over 20,000 sq. km. (5,000,000 acres). Technical studies were completed for Russia, Egypt and the Ukraine and the Company concluded there were no commercially viable unconventional targets for mutual cooperation. Work on Yemen has not been initiated due to the political unrest and security issues in the country.

Though the HOA remains in place, as of the first quarter, 2013, there were no joint activities ongoing or plans to carry out further studies on the Kuwait Energy concessions.

## Selected Financial Data

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements of the Company prepared in accordance with IFRS.

	Fiscal 2013	Fiscal 2012				Fiscal 2011		
	Mar. 31 2012 \$	Dec. 31 2012 \$	Sep. 30 2012 \$	Jun. 30 2012 \$	Mar. 31 2012 \$	Dec. 31 2011 \$	Sep. 30 2011 \$	Jun. 30 2011 \$
<b>Operations:</b>								
Revenues, net of royalties	40,616	44,365	36,252	29,080	43,842	46,567	51,561	72,196
Expenses	(606,771)	(695,094)	(884,008)	(891,863)	(680,181)	(1,050,136)	(372,214)	(1,695,578)
Other items	194,990	213,524	(95,250)	193,956	(369)	(30,920)	414,755	(449,147)
(Loss) income before deferred income tax recovery	(371,165)	(437,205)	(943,006)	(668,827)	(636,708)	(1,034,489)	94,102	(2,072,529)
Deferred income tax recovery	(46,000)	450,000	Nil	Nil	Nil	Nil	Nil	Nil
Net income (loss)	(417,165)	12,795	(943,006)	(668,827)	(636,708)	(1,034,489)	94,102	(2,072,529)
Other comprehensive income, net	(325,115)	3,180,335	Nil	Nil	Nil	Nil	Nil	Nil
Comprehensive income (loss)	(742,280)	3,193,130	(943,006)	(668,827)	(636,708)	(1,034,489)	94,102	(2,072,529)
Basic and diluted income (loss) per share	(0.01)	(0.03)	(0.01)	(0.01)	(0.01)	(0.01)	0.00	(0.02)
Dividends per share	Nil							
<b>Balance Sheet:</b>								
Working capital	20,715,806	21,254,627	23,495,054	24,295,842	24,863,303	25,472,381	26,110,195	29,835,803
Total assets	30,735,830	31,455,981	28,251,339	28,926,174	29,467,636	30,253,173	31,012,576	31,121,772
Decommissioning liabilities	(78,438)	(81,404)	(62,919)	(58,064)	(59,297)	(56,837)	(195,000)	(183,890)

## Results of Operations

During the three months ended March 31, 2013 (the “2013 period”) the Company reported petroleum and natural gas revenues from the Carbon Property (net of royalties) of \$40,616 from the sale of 1,247 BOE, for an average price of \$32.57/BOE; incurred lease operating costs of \$12,066 (\$9.68/BOE) and recorded depletion of \$25,053 (\$20.09/BOE). During the three months ended March 31, 2012 (the “2012 period”) the Company reported oil and gas revenues, net of royalties, of \$43,842 from the sale of 1,308 BOE, for an average price of \$33.52/BOE, incurred lease operating costs of \$11,616 (\$8.88/BOE) and recorded depletion of \$32,862 (\$25.12/BOE).

During the 2013 period the Company reported a net loss of \$417,165 (\$0.01 per share), compared to a net loss of \$636,708 (\$0.01 per share), for the 2012 period, a decrease in loss of \$219,543. The overall decrease in loss in the 2013 period is primarily attributed to the recognition of the unrealized foreign exchange gain of \$122,114 compared to the unrealized foreign exchange loss of \$77,485 due the strengthening of the US dollar.

General and administrative expenses incurred for the 2013 and 2012 periods are as follows:

	2013 \$	2012 \$
Accounting and administrative	13,825	22,832
Audit	-	15,000
Bank charges	6,566	6,758
Corporate development	-	29,425

	2013	2012
	\$	\$
Legal	7,625	13,910
Office	11,963	15,000
Professional fees	222,919	296,209
Regulatory fees	2,500	2,200
Rent	8,475	8,366
Salaries and benefits	128,082	113,623
Shareholder costs	1,430	280
Telephone	3,291	3,906
Transfer agent fees	1,772	2,455
Travel	73,889	17,081
	<u>482,337</u>	<u>547,045</u>

General and administrative expenses of \$482,337 were reported for the 2013 period, a decrease of \$64,708, from \$547,045 in the 2012 period. Specific expenses of note during the 2013 period are as follows:

- accounting and administrative fees of \$13,825 (2012 - \$22,832) of which \$11,000 (2012 - \$21,500) was charged by a private corporation owned by a director of the Company;
- professional fees totalling \$222,919 (2012 - \$296,209) were paid of which \$132,000 (2012 - \$127,500) were paid to directors and officers of the Company, \$47,132 (2012 - \$150,645) were paid to consultants for due diligence on exploration and evaluation properties and \$43,787 (2012 - \$18,064) were paid to consultants for financial and administrative consulting;
- legal fees of \$7,625 (2012 - \$13,910) were paid, of which \$2,222 (2012 - \$568) was paid to a law firm of which the Corporate Secretary of the Company is a partner;
- travel expenses of \$73,889 (2012 - \$17,081) were incurred by the Company. Significant travel was incurred during the 2013 period for visits to London, England and New York, USA to meet with investors and attend oil and gas conferences;
- office expenses of \$11,963 (2012 - \$15,000) were incurred for costs associated with offices in Vancouver, British Columbia and Plano, Texas;
- salaries and health benefits expenses totalling \$128,082 (2012 - \$113,623) were paid to or incurred with respect to the President of the Company and Vice-President of Engineering;
- audit fees of \$nil (2012 - \$15,000) for the audit of the Company's year-end financial statements. The change between the 2013 period and the 2012 period was solely due to the timing of the billings of the Company's year-end financial statements; and
- during the 2012 period corporate development expenses of \$29,425 was incurred for various market awareness programs. No market awareness programs were conducted during the 2013 period.

During the 2013 period the Company recorded share-based compensation expense of \$83,190 (2012 - \$85,014) on the vesting of share options.

During fiscal 2012 the Company purchased 5,000,000 common shares of NAMG for \$498,500 (US \$500,000). The Company's holdings in the common shares of NAMG has been designated as available-for-sale for accounting purposes and is measured at the quoted market value. During the 2013 period the Company recorded a comprehensive loss of \$325,115, net of deferred income tax of \$46,000, for the unrealized loss on the NAMG shares. As at March 31, 2013 the quoted value of the NAMG shares was \$3,757,720. The NAMG shares are restricted from sale, the release of which are subject to meeting exemption conditions of Rule 144 of the U.S. Securities and Exchange Commission policy.

Interest income is generated from cash on deposit with senior financial institution and short-term money market instrument issued by major financial institutions. During the 2013 period the Company reported interest and other income of \$72,876, a slight decrease of \$4,240, compared to \$77,116 for the 2012 period. The decrease was due to higher yields obtained during the 2012 period.

On October 11, 2012 the Company renewed its normal course issuer bid (the "Second Normal Course Issuer Bid") to repurchase for cancellation up to 7,433,924 common shares until October 15, 2013 or the date by which the Company has acquired the maximum number of common shares under the Second Normal Course Issuer Bid. During the three months ended March 31, 2013 the Company repurchased 70,000 (2012 - 348,500) common shares for \$25,255 (2012

- \$242,800) cash consideration. As at March 31, 2013 the Company may repurchase up to 7,245,924 common shares under the Second Normal Course Issuer Bid.

### **Financial Condition / Capital Resources**

As at March 31, 2013 the Company had working capital of \$20,715,806. The Company believes that it currently has sufficient financial resources to conduct anticipated exploration programs and meet anticipated corporate administration costs for the upcoming twelve month period. However, exploration activities may change due to ongoing results and recommendations, discoveries may require appraisal and development work or the Company may acquire additional properties, which may entail significant funding or exploration commitments. In the event that the occasion arises, the Company may be required to obtain additional financing. The Company has relied solely on equity financing to raise the requisite financial resources. While it has been successful in the past, there can be no assurance that the Company will be successful in raising future financing should the need arise.

### **Contractual Commitments**

- (a) On August 29, 2012 the Company entered into a letter of intent with Lani and subsequently, on November 13, 2012, the Company entered into a farm-in agreement (collectively the "Lani Agreement") whereby the Company was assigned certain participation interests in Lani's petroleum and gas leases covering exploration properties in the San Joaquin Basin of California. Under the terms of the Lani Agreement, the Company was assigned:
- (i) 25% working interest in the Tejon Ranch Extension. The Company funded 100% of the working interest costs associated with the drilling and completing of one exploration well on the Tejon Ranch Extension leases, for an amount of US \$1,300,000. The Company is now responsible for its 25% participation interest;
  - (ii) 21.25% working interest in the Tejon Main Area. The Company is required to fund 42.5% of the working interest costs associated with the drilling and completing one exploration well on the Tejon Main Area leases, up to a maximum of US \$552,500; and
  - (iii) 50% working interest in leases in the White Wolf. The Company is required to pay US \$347,500 to Lani to be used for lease delay rental payments and for leasing new acreage in White Wolf before July 1, 2013.

The Lani Agreement also requires the Company to advance up to US \$300,000 to NAMG for working capital purposes. The advances are non-interest bearing and are repayable from production revenues or equity financing conducted by NAMG, whichever comes first. During the three months ended March 31, 2013 the Company advanced NAMG \$153,582 (fiscal 2012 - \$59,694). As of March 31, 2013 \$213,276 (December 31, 2012 - \$59,694) is included in deposits.

- (b) On December 11, 2012 the Government of New Zealand awarded the Company and its partner, TAG, interests in three onshore exploration blocks located in the Taranaki Basin, New Zealand. Under the terms of the agreements, the Company will participate in the drilling of a minimum of nine exploration wells on Petroleum Exploration Permits ("PEP") 54876, 54877 and 54879 in fiscal 2013. The Company will earn a 50% participation interest in PEP 54876 and PEP 54879 and a 30% participation interest in PEP 54877 by funding 100% (\$2,500,000 each - the "Initial Funding") of the initial well cost on PEP 54876, the first two wells on PEP 54877 and the initial well on PEP 54879. All subsequent costs on the wells will be funded based on each company's participation interest. The Company will be entitled to receive 100% of the oil and gas revenues, on a well-to-well basis, to recover its Initial Funding. All additional net revenues will be shared according to each party's interest. TAG will operate the joint venture.
- (c) During fiscal 2010 the Company was informed by the government of Romania that it had been awarded four exploration blocks located in the Pannonian Basin, in western Romania. In May 2011 the Company signed petroleum concession agreements with NAMR.

The four concessions have specific mandatory work programs (the "Romania Work Programs"), which were estimated at US \$56,630,000 for all four programs, to be completed over two years. Production from the

concessions is also subject to royalties of between 3.5% to 13.5% based on quarterly gross production payable to the government.

On May 20, 2011 the Company and NIS, an arm's length corporation, signed a memorandum of understanding to jointly explore the four exploration blocks in Romania. On October 27, 2011 the Company and NIS signed a farm-out agreement (the "Farm-out"). Under the terms of the Farm-out, NIS paid the Company \$250,000 and agreed to pay a further \$275,000 upon final concession approvals by the government of Romania and assignment of an 85% participation interest and operatorship of the Romania Work Programs to NIS. NIS has the obligation to fund the Romania Work Programs, including environmental work, 2D and 3D seismic acquisition and processing, and the drilling of 12 wells. The Company retains a 15% carried interest in each block through the obligatory two year Phase I work program and the optional one year Phase II work program. If a commercial discovery is made, the Company is responsible for its 15% interest in development of the commercial discovery. During fiscal 2011 the Company recorded a gain of \$218,879 resulting from the application of the \$250,000 against capitalized costs. During fiscal 2012 the Company received final concession approval by the government of Romania for one exploration block (EX-2, Tria) and the Company transferred the 85% participation interest in EX-2, Tria to NIS Petrol S.R.L, a wholly-owned subsidiary of NIS. The Company also received a pro-rated payment of \$68,750 from NIS.

- (d) Effective November 28, 2011 the Company and ONHYM entered into agreements whereby, the Company has been granted the Exploration Permit for a 75% participation interest in the Doukkala Block. The Exploration Permit has an overall duration of eight years, comprising:
- (i) Phase 1 program under which the Company is committed to carry out a specified exploration work program, estimated to cost approximately US \$5,500,000, over three years;
  - (ii) on completion of the Phase 1 program, the Company can elect to enter into an extension for a Phase 2 program under which, amongst other things, the Company will be committed to drill two wells, estimated to cost approximately US \$14,000,000 over a two year duration; and
  - (iii) on completion of the Phase 2 program the Company can elect to enter into an extension for a Phase 3 program under which, amongst other things, the Company will be committed to acquire 3D seismic and drilling of one well, estimated to cost approximately US \$14,000,000 over a three year duration.

ONHYM retains a 25% carried interest to declaration of commerciality on the Doukkala Block.

The Company has provided a US \$3,500,000 guarantee in favour of ONHYM as security for performance of the Phase 1 program. The amount is deposited in a savings account with a major Canadian bank.

There is a gross royalty of 10% on crude oil and 5% on natural gas on production in excess of certain thresholds from the Doukkala Block, which would be payable to the Moroccan government. In addition, the Moroccan government is also entitled to certain bonuses based on daily production targets to a total of US \$9,000,000.

- (e) Effective March 28, 2012 the Company (10% interest), OIL (40% interest), ONGC (30% interest) and GAIL (20% interest) (collectively the "Partners") and the government of India signed a production sharing contract (the "PSC") for Block AA-ONN-2010/2 (the "AA Block") located in the Assam-Arakan Basin of northeast India. Under the terms of the PSC work program commitment, the Partners will acquire 395 square kilometres of 3D seismic data and drill two wells, at an estimated cost to the Company of US \$2.8 million, over a five year period.
- (f) Effective August 1, 2011 the Company entered into an operating lease, expiring July 31, 2016, for the rental of an office in Vancouver, BC with a gross monthly lease payment of \$5,650. The Company has entered into a sub-lease with a public company, which is related through a common director and officer, whereby the Company will be reimbursed \$2,825 per month.
- (g) The Company and Greg Renwick have entered into an executive agreement whereby Mr. Renwick provides his services as the President and Chief Executive officer of the Company. Under the agreement the Company is currently paying Mr. Renwick a base salary of US \$250,000 per annum. The agreement expires on September 30, 2013.

The agreement provides that, in the event Mr. Renwick's services are terminated, a severance payment of six months of compensation is payable.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Proposed Transactions**

The Company does not have any proposed transactions.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of significant estimates made by management include the determination of mineralized reserves, plant and equipment lives, estimating the fair values of financial instruments, impairment of long-lived assets, reclamation and rehabilitation provisions, valuation allowances for future income tax assets and assumptions used for share-based compensation. Actual results may differ from those estimates.

### **Changes in Accounting Policies**

There are no changes in accounting policies.

### **Related Party Disclosures**

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

#### **(a) *Transactions with Key Management Personnel***

During the three months ended March 31, 2013 and 2012 the following amounts were incurred with respect to the President, Chairman, Chief Financial Officer ("CFO") and Vice-President of Engineering of the Company:

	2013	2012
	\$	\$
Salaries	116,034	102,623
Professional fees	25,500	25,500
Health benefits premiums	2,987	3,807
Share-based compensation	44,662	147,504
	<u>189,183</u>	<u>279,434</u>

As at March 31, 2013, \$44,931 (2012 - \$37,136) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

- (i) During the three months ended March 31, 2013 and 2012 the following amounts were incurred with respect to other officers and directors of the Company:

	2013	2012
	\$	\$
Professional fees	106,500	111,000
Legal	2,222	568
Share-based compensation	29,693	95,244
	<u>138,415</u>	<u>206,812</u>

As at March 31, 2013, \$33,702 (2012 - \$31,000) remained unpaid and has been included in accounts payable and accrued liabilities.

- (ii) During the three months ended March 31, 2013 the Company also incurred a total of \$11,000 (2012 - \$12,500) to Chase Management Ltd. ("Chase"), a private corporation owned by the CFO of the Company, for accounting and administration services provided by Chase personnel, excluding the CFO. The Company also paid \$nil (2012 - \$721) to the spouse of the President of the Company for professional services rendered. As at March 31, 2013, \$11,000 (2012 - \$9,500) remained unpaid and has been included in accounts payable and accrued liabilities.
- (c) The President of the Company was appointed as a director of NAMG in conjunction with the Company's purchase of the NAMG shares.
- (d) The Company has entered into a sub-lease with a public company, which is related through a common director and officer, whereby the Company will be reimbursed \$2,825 per month. During the three months ended March 31, 2013 the Company received \$8,475 (2012 - \$8,265) from the public company for shared premises.

**Risks and Uncertainties**

The Company is engaged in the exploration for and development of oil and natural gas properties. These activities involve significant risks which careful evaluation, experience and knowledge may not eliminate in some cases. The commercial viability of any petroleum and natural gas properties depends on many factors not all of which are within the control of management. Operationally the Company faces risks that are associated with and affect the financial viability of a given petroleum and natural gas property. These include risks associated with finding, developing and producing these petroleum and natural gas reserves. In addition, Government regulations, taxes, royalties, land tenure, land use, environmental protection and reclamation and closure obligations, have an impact on the economic viability of a petroleum and natural gas property.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing and generating revenues sufficient to cover its operating costs. The accompanying financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying audited financial statements.

Any forward-looking information in the MD&A is based on the conclusions of management. The Company cautions that due to risks and uncertainties, actual events may differ materially from current expectations. With respect to the Company's operations, actual events may differ from current expectations due to economic conditions, new opportunities, changing budget priorities of the company and other factors.

## **Investor Relations Activities**

The Company provides information packages to investors; the package consists of materials filed with regulatory authorities. The Company updates its website ([www.eastwestpetroleum.ca](http://www.eastwestpetroleum.ca)) on a continuous basis.

## **Outstanding Share Data**

In October 2012 the Company renewed its normal course issuer bid (the “Second Normal Course Issuer Bid”) to repurchase for cancellation up to 7,433,924 common shares until October 15, 2013 or the date by which the Company has acquired the maximum number of common shares under the bid. Subsequent to March 31, 2013 the Company repurchased an additional 618,500 common shares under its Second Normal Course Issuer Bid for \$181,861 cash consideration. As at May 21, 2013 the Company may purchase a further 6,627,424 common shares.

The Company’s authorized share capital is unlimited common shares with no par value. As at May 21, 2013, there were 82,061,148 outstanding common shares (net of share repurchased), 8,233,530 share options outstanding with exercise prices ranging from \$0.16 to \$1.16 per share, 11,685,000 warrants outstanding with an exercise price of \$0.34 per share and 731,000 compensation options outstanding with an exercise price of \$0.25 per unit, with each unit to comprise one common share and one warrant to purchase an additional share at a price of \$0.34 per share on or before September 29, 2013.