

# **EAST WEST PETROLEUM CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011**

### **Background**

This discussion and analysis of financial position and results of operation is prepared as at April 25, 2012 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2011 and 2010 of East West Petroleum Corp. (the "Company"). The Company adopted International Financial Reporting Standards ("IFRS") and the following disclosure and associated financial statements are presented in accordance with IFRS. All comparative information provided is 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).

### **Adoption of International Financial Reporting Standards ("IFRS")**

The Company's consolidated financial statements and the financial data included in the MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee that are effective as at December 31, 2011, the date of the Corporation's first annual reporting under IFRS. The adoption of IFRS does not impact the underlying economics of the Company's operations.

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS in effect at December 31, 2011. These consolidated financial statements have been prepared in accordance with IAS 1, *Presentation of Financial Statements* and IFRS 1, *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1") and the impact of the transition from previous Canadian GAAP to IFRS is explained in Note 18 of the consolidated financial statements, including the effects of the transition to IFRS on the Company's financial position, equity, comprehensive income and cash flows.

Subject to the application of the transition elections described in Note 18 of the consolidated financial statements, the accounting policies applied in these consolidated financial statements and described below, have been applied consistently to all periods presented, including the opening statement of financial position as at January 1, 2010 (the Company's "Transition Date"), except where the Company applied certain exemptions upon transition to IFRS.

Comparative information in this MD&A has been restated to comply with IFRS requirements, unless otherwise indicated.

### **Company Overview**

East West Petroleum Corp. (the "Company") was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia). Since 2002 the Company has been deemed inactive and its common shares were trading on the NEX Board ("NEX") of the TSX Venture Exchange (TSXV). On August 9, 2010 the Company changed its name from Avere Energy Inc. to East West Petroleum Corp. and shifted its focus to emerging energy supplies of unconventional natural gas resources, including shale gas, coal bed methane and tight sandstone.

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 NEX to the TSXV, as a Tier 2 oil and gas issuer trading under the symbol "EW". Effective May 5, 2011, 13,636,500 warrants which were issued in the Company's \$30 million private placement financing of December 2010, commenced trading on the TSXV under the symbol "EW.WT".

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.

## 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.

## Exploration Projects Update

In this MD&A, production and reserves information may be presented on a barrel of oil equivalent (BOE<sup>1</sup>) 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 three producing oil wells and thirteen 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 24, 2012, relating to the resource base of the Company in the Carbon Property as of December 31, 2011. 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 percent in three producing oil wells and 13 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 percent 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.

## Gross and Net Oil and Gas Wells

Country/Province	Oil		Gas		Non-Producing		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Canada / Alberta	3.0	0.4	13.0	1.42	1.0	0.2	17.0	2.02
Total	3.0	0.4	13.0	1.42	1.0	0.2	17.0	2.02

\*The net wells reported above are based on a before payout interest.

## Reconciliation of Company Gross Reserves

Effective: December 31, 2011	Canada								
	Light & Medium Oil			Associated & Non-Associated Gas			Coalbed Methane		
	Proved (Mstb)	Probable (Mstb)	Proved + Probable (Mstb)	Proved (Mstb)	Probable (Mstb)	Proved + Probable (Mstb)	Proved (Mstb)	Probable (Mstb)	Proved + Probable (Mstb)
Opening Balance	9.0	5.2	14.2	180.4	92.3	272.7	72.0	32.5	104.5
Production	(0.9)	0.0	(0.9)	(15.7)	0.0	(15.7)	(13.7)	0.0	(13.7)
Technical revisions	0.5	0.0	0.5	(17.9)	(0.4)	(18.3)	(6.4)	(5.4)	(11.8)
<b>Closing Balance</b>	<b>8.6</b>	<b>5.2</b>	<b>13.8</b>	<b>146.8</b>	<b>91.9</b>	<b>238.7</b>	<b>51.9</b>	<b>27.1</b>	<b>79.0</b>

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

In November 2010 the Company entered into a Heads of Agreement 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 shares 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 have been studied to determine if the application of certain unconventional technologies can enhance existing production rates and total petroleum recovery from existing producing reservoirs. The agreement runs for a period of three years, but can be cancelled by either party by providing requisite notice.

Technical studies underway include comprehensive rock and formation analyses, hydrocarbon maturation analysis, petrophysical analysis and the potential application of state-of-the-art drilling design and reservoir fracturing applications. The agreement initially covered a total of 13 exploration and production licenses across four countries in which Kuwait Energy held exploration and production participation interests. Gross acreage covered initially under the agreement was over 20,000 sq. km. (5,000,000 acres). Final reports have been completed for Russia and the Ukraine while work continues in Egypt.

On December 6, 2010 the Company entered into a sale and purchase agreement whereby the Company agreed to acquire a 20% participation interest in Burg El Arab field in Egypt from Kuwait Energy for US \$17,500,000. Under the terms of the agreement, the Company made a deposit of US \$3,500,000. After additional technical due diligence and operational delays related in part by political instability in Egypt, Kuwait Energy and East West Petroleum agreed not to pursue the Sale and Purchase Agreement for the partial divestment of Kuwait Energy’s 20% participation interest to the Company and the US \$3,500,000 deposit was returned.

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

Effective November 21, 2011 the Company entered into a contractual 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, Europe 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.

### ***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 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”). Final government ratification of the award blocks is expected to be completed in late 2012.

On May 20, 2011 the Company 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 will acquire an 85% participation interest in the four Romanian blocks EX-2 (Tria), EX-3 (Baile Felix), EX-7 (Periam) and EX-8 (Biled) and eventually assume operatorship. The Phase I program will include environmental baseline surveys, the acquisition and processing of approximately 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 will retain a 15% carried interest to declaration of commerciality for any discovery during Phase I and Phase II. The assignment of interest is subject to ratification of the Concessions by the Government of Romania and receiving NAMR’s approval for of 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 Romanian blocks EX-2 (Tria), EX-3 (Baile Felix), EX-7 (Periam) and EX-8 (Biled), 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 the Concessions.

### ***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 Petroleum (10%). The primary term of this exploration production sharing contract is five years.

On March 28, 2012 the Company, along with its partners OIL, ONGC and GAIL, 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 designated operator, is in the process of planning the forward work program which will initially consist of the acquisition of the 3D seismic data.

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. Current production for the area is estimated at 95,000 BOEPD. 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.

OIL is a premier Indian national oil company engaged in the business of exploration, development and production of crude oil and natural gas, transportation of crude oil and production of liquid petroleum gas ("LPG").

ONGC is India's largest E&P petroleum company. It is mainly engaged in the oil exploration and production activities. It has two segments: exploration and production, refining.

GAIL is India's principal gas transmission and marketing company. GAIL is involved in all aspects of the natural gas value chain, which include: exploration & production, processing, transmission, distribution and marketing, and its related services.

### ***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 November 28, 2011.

The Company's unconventional team is in the process of studying core samples collected from the Concession to assess the unconventional potential of the acreage. Existing 2D seismic data are being reviewed for mapping and reprocessing.

## United States

The Company is actively assessing a number of unconventional shale plays in the United States with a goal to establish an acreage position in at least one shale play. Joint studies with Halliburton are underway and the Company is also carrying out its own studies.

### Selected Financial Data

The following selected consolidated financial information is derived from the audited consolidated financial statements and notes thereto.

	Years Ended December 31,		
	2011 \$	2010 \$	2009 \$
<b>Operations:</b>			
Revenues, net of royalties	215,059	72,902	Nil
Expenses	(5,275,208)	(2,678,890)	(270,367)
Other items	(205,293)	(194,116)	(55,235)
Net income (loss)	(5,265,442)	(2,792,054)	(325,602)
Basic and diluted loss per share	(0.06)	(0.08)	(0.03)
Dividends per share	Nil	Nil	Nil
<b>Balance Sheet:</b>			
Working capital	25,472,381	26,611,096	330,064
Total assets	30,253,173	32,580,575	761,970
Total long-term liabilities	(56,837)	(168,546)	Nil

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

	Fiscal 2011				Fiscal 2010			
	Dec. 31 2011 \$	Sep. 30 2011 \$	Jun. 30 2011 \$	Mar. 31 2011 \$	Dec. 31 2010 \$	Sep. 30 2010 \$	Jun. 30 2010 \$	Mar. 31 2010 \$
<b>Operations:</b>								
Revenues, net of royalties	46,567	51,561	72,196	44,735	53,944	18,958	Nil	Nil
Expenses	(1,050,136)	(372,214)	(1,695,578)	(2,157,280)	(1,136,719)	(838,953)	(525,208)	(320,922)
Other items	(30,920)	414,755	(449,147)	(139,981)	(31,408)	(4,530)	(158,178)	Nil
Net income (loss)	(1,034,489)	94,102	(2,072,529)	(2,252,526)	(1,114,183)	(824,525)	(683,386)	(320,922)
Basic and diluted income (loss) per share	(0.01)	0.00	(0.02)	(0.03)	(0.03)	(0.03)	(0.02)	(0.01)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Balance Sheet:</b>								
Working capital (deficit)	25,472,381	26,110,195	29,651,913	26,423,008	26,611,096	2,444,246	376,057	295,002
Total assets	30,253,173	31,012,576	31,121,772	31,922,081	32,582,444	3,813,371	547,411	516,859
Total long-term liabilities	(56,837)	(195,000)	(183,890)	(186,203)	(168,546)	(64,524)	Nil	Nil

### Results of Operations

#### Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010

During the three months ended December 31, 2011 (the "2011 Quarter") the Company reported petroleum and natural gas revenues from the Carbon Property, net of royalties, of \$46,567 from the sale of 1,561 BOE, for an average price of \$29.83/BOE; incurred lease operating costs of \$28,373 (\$18.18/BOE) and recorded depletion of \$22,533 (\$14.43/BOE). During the three months ended December 31, 2010 (the "2010 Quarter") the Company reported oil and gas revenues, net of royalties, of \$53,944 from the sale of 1,828 BOE, for an average price of \$29.51/BOE, incurred lease operating costs of \$12,809 (\$7.01/BOE) and recorded depletion of \$41,796 (\$22.86/BOE).

During the 2011 Quarter the Company reported a net loss of \$1,034,489 (\$0.01 per share), compared to a net loss of \$1,114,183 (\$0.03 per share), for the 2010 Quarter, a decrease in loss of \$79,694.

*Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010*

During the year ended December 31, 2011 (“fiscal 2011”) the Company reported petroleum and natural gas revenues from the Carbon Property, net of royalties, of \$215,059 from the sale of 6,466 BOE, for an average price of \$33.26/BOE; incurred lease operating costs of \$70,136 (\$10.85/BOE) and recorded depletion of \$162,725 (\$25.17/BOE). During the year ended December 31, 2010 (“fiscal 2010”) the Company reported oil and gas revenues, net of royalties, of \$72,902 from the sale of 2,517 BOE, or an average price of \$28.96/BOE, incurred lease operating costs of \$16,690 (\$6.63/BOE) and recorded depletion of \$56,250 (\$22.35/BOE).

During fiscal 2011 the Company reported a net loss of \$5,265,442 (\$0.06 per share), an increase in loss of \$2,473,388 from the net loss of \$2,792,054 (\$0.08 per share) for the year ended December 31, 2010 (“fiscal 2010”). The overall increase in loss in the fiscal 2011 period is primarily attributed to increase in general administrative activities and recognition of stock-based compensation on the granting and vesting of stock options.

General and administrative expenses incurred for fiscal 2011 and 2010 are as follows:

	2011 \$	2010 \$
Accounting and administrative	82,108	48,014
Audit	32,000	12,720
Bank charges	32,703	3,790
Consulting	1,103,812	508,065
Corporate development	158,428	108,773
Legal	121,286	348,086
Office	51,547	48,665
Regulatory fees	39,084	37,852
Rent	28,224	11,848
Salaries and benefits	277,922	277,873
Shareholder costs	6,843	5,455
Telephone	12,564	6,131
Transfer agent fees	24,667	17,804
Travel	533,089	453,513
	<u>2,504,277</u>	<u>1,888,589</u>

General and administrative expenses of \$2,504,277 were reported for fiscal 2011, an increase of \$615,688, from \$1,888,589 in fiscal 2010. Specific expenses of note during fiscal 2011 are as follows:

- accounting and administrative fees of \$78,825 (2010 - \$22,075) was charged by a private corporation owned by a director of the Company. During fiscal 2010 the Company paid \$6,154 to a bookkeeping service and \$19,785 to a private company owned by a former officer of the Company;
- consulting fees totalling \$1,103,812 (2010 - \$508,065) were paid of which \$513,000 (2010 - \$86,000) were paid to directors and officers of the Company, \$369,800 (2010 - \$335,536) were paid to consultants for due diligence on exploration and evaluation properties and \$171,587 (2010 - \$65,000) were paid to consultants for financial consulting;
- legal fees of \$121,286 (2010 - \$348,086) were paid of which \$24,420 (2010 - \$204,087) was paid to a law firm controlled by the Corporate Secretary of the Company. During fiscal 2010, legal fees were significant due to the negotiation and acquisition of oil and gas properties and the transfer of the Company’s listed common shares from NEX to TSXV;
- travel expenses of \$533,089 (2010 - \$453,513) for visits to Europe to oversee market awareness programs and to Romania, India, Morocco, Kuwait and Egypt for due diligence on exploration and evaluation properties;
- office expenses of \$51,547 (2010 - \$48,665) were incurred for costs associated with offices in Plano, Texas and Vancouver, British Columbia;
- salaries and benefits expense of \$277,922 (2010 - \$277,873), of which \$204,258 (2010 - \$124,739) was paid to the current President and \$nil (2010 - \$143,323) was paid to the former President. In addition, during fiscal 2011 salaries of \$60,595 was paid to the Vice President of Engineering;

- audit fees of \$32,000 (2010 - \$12,720) for the audit of the Company's year-end financial statements. The change between fiscal 2011 and fiscal 2010 was solely due to the timing of the billings of the Company's year-end financial statements;
- corporate development expenses of \$158,428 (2010 - \$108,733) was incurred for various market awareness programs; and
- bank charges of \$32,703 (2010 - \$3,790) were paid of which \$27,354 was paid for maintaining a bank guarantee of US \$3,500,000 in favour of ONHYM as security for performance of the Phase 1 program on the Doukkala Block in Morocco.

During fiscal 2011 the Company recorded stock-based compensation expense of \$2,529,428 (2010 - \$699,535) on the granting and vesting of stock options.

During fiscal 2011 the Company issued 2,560,000 common shares from the exercise of warrants, share options and compensation options for \$838,350 cash. During fiscal 2010 the Company completed private placements totalling 40,783,000 units for \$33,400,300 cash and issued 16,318,334 common shares for the exercise of warrants and share options for \$1,803,067 cash.

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

As at December 31, 2011 the Company had working capital of \$25,472,381. 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, 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) Effective November 28, 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 an exploration permit (the "Exploration Permit") to earn a 75% participation interest in a prospective exploration block (the "Doukkala Block") situated along the Atlantic coast southwest from Casablanca, Morocco. The Exploration Permit has an overall duration of eight years, comprising:
- Phase 1 program under which the Company is committed to carry out a specified exploration work program, estimated at approximately US \$5,500,000, over three years;
  - 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 at approximately US \$14,000,000 over a two year duration; and
  - 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 at 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. As the Company implements its work programs the guarantee will be reduced.

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.

- (b) 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 government agencies in Romania which regulate the oil and gas industry, however the agreements have yet to be ratified by all authorities.

The four concessions have specific mandatory work programs (the “Romania Work Programs”), currently estimated at US \$56,630,000 for all four programs, to be completed over two years. The concessions are 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 Naftna Industrija Srbije j.s.c. Novi Sad (“NIS”), an arm’s length corporation, signed a memorandum of understanding (“MOU”) to jointly explore the four exploration blocks in Romania. Under the terms of the MOU, NIS paid the Company \$250,000 and will 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 will also fully fund the Romania Work Programs including environmental work, 2D and 3D seismic acquisition and processing, and the drilling of 12 wells to earn an 85% participation interest. The Company will retain a 15% carried interest to each block in the event of a declaration of commerciality on each of the four blocks. During fiscal 2011 the Company recorded a gain of \$218,879 resulting from the application of the \$250,000 against capitalized costs.

- (c) Effective March 28, 2012 the Company (10% interest), Oil India Limited (40% interest), Oil and Natural Gas Corporation Limited (30% interest) and Gail (India) Limited (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.
- (d) 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 \$5,511. The Company has entered into a sub-lease with a public company, which is related through common directors and officers, whereby the Company will be reimbursed \$2,755 per month. During fiscal 2011 the Company received \$5,510 from the public company for shared premises.
- (e) Effective June 11, 2010 the Company and Greg Renwick 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 was paying Mr. Renwick a base salary of US \$200,000 per annum. Effective April 1, 2012 Mr. Renwick’s base salary was increased to US \$250,000 per annum.

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.



## **IFRS Implementation - Changes in Accounting Policies Including Initial Adoption**

The Canadian Accounting Standards Board established 2011 as the year that Canadian companies' financial reporting requirements should comply with IFRS. Accordingly, the Company has commenced reporting on an IFRS basis in the current consolidated financial statements. The transition date, January 1, 2011, has required the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company has completed its internal review of the impact of the adoption of IFRS. This review considered potential differences between applicable IFRS policies and those currently used by the Company. Accounting policy changes were made due to IFRS in the areas of exploration and evaluation assets, impairment testing, property, plant and equipment, provision for site restorations, and share-based compensation. Available elections under IFRS minimized the impact of these changes such that the financial reporting impact of the transition to IFRS is not material to the Company's financial results. The impact of the changes to IFRS is detailed in Note 18 to the condensed consolidated interim financial statements and none of these are considered material.

### ***Accounting Standards and Interpretations Issued but Not Yet Adopted***

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. These include:

- (i) **IFRS 7 *Financial Instruments: Disclosures***: In 2011, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosure requirements for the offsetting of financial assets and liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.
- (ii) **IFRS 10 *Consolidated Financial Statements***: In 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013.
- (iii) **IFRS 11 *Joint Arrangements***: In 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013.
- (iv) **IFRS 12 *Disclosure of Interests in Other Entities***: In 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013.
- (v) **IFRS 13 *Fair Value Measurement***: In 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013.
- (vi) **IAS 1 *Presentation of Items of Other Comprehensive Income***: In 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to split items of other comprehensive income ("OCI") between those that are reclassified to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012.
- (vii) **IAS 27 *Separate Financial Statements***: The IASB issued amendments to IAS 27 *Separate Financial Statements* to coincide with the changes made in IFRS 10, but retains the current guidance for separate financial statements.

- (viii) *IAS 28 Investments in Associates and Joint Ventures:* The IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures to coincide with the changes made in IFRS 10 and IFRS 11.

The Company is currently analyzing the impact, if any, that the adoption of these standards will have on its financial statements.

### Transactions with Related Parties

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 fiscal 2011 and 2010 the following amounts were incurred with respect to the current and former President, Chairman, Chief Financial Officer and Vice-President of Engineering of the Company:

	2011 \$	2010 \$
Professional fees	134,825	148,640
Salaries	258,455	266,039
Health benefits	6,399	2,023
Rent	-	3,790
Share-based compensation	923,096	365,802
	<u>1,322,775</u>	<u>786,294</u>

The Company also paid \$3,759 (2010 - \$587) to the spouse of the President of the Company for professional services rendered.

As at December 31, 2011, \$42,748 (2010 - \$76,575) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

During fiscal 2011 and 2010 the following amounts were incurred with respect to other officers and directors of the Company:

	2011 \$	2010 \$
Legal	24,420	204,087
Rent	6,750	-
Professional fees	457,000	16,000
Share-based compensation	985,135	160,420
	<u>1,473,305</u>	<u>380,507</u>

As at December 31, 2011, \$430 (2010 - \$66,443) remained unpaid and has been included in accounts payable and accrued liabilities

- (c) The Company has entered into a sub-lease with a public company, which is related through common directors and officers, whereby the Company will be reimbursed \$2,755 per month. During fiscal 2011 the Company received \$5,510 from the public company for shared premises.

- (d) During fiscal 2010 certain directors, officers and family members of directors and officers purchased 511,000 units of private placements.

- (e) During fiscal 2010 the Company repaid advances of \$218,351 due to former directors and officers of the Company. The advances were non-interest bearing and were due on demand.
- (f) During fiscal 2010 certain director of the Company provided US \$1,000,000 of the bridge loan financings.

### **Risks and Uncertainties**

The Company is engaged in the exploration for and development of petroleum 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**

The Company's authorized share capital is unlimited common shares with no par value. As at April 25, 2012, there were 83,873,648 outstanding common shares, 8,033,530 share options outstanding with exercise prices ranging from \$0.16 to \$1.16 per share, 26,145,595 warrants outstanding with exercise prices ranging from \$0.34 to \$1.75 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.

On October 11, 2011 the Company announced that it would make a normal course issuer bid for up to 7,995,189 common shares of the Company commencing on October 14, 2011 to October 13, 2012 or the date by which the Company has acquired the maximum number of common shares under the bid. As at April 25, 2012 the Company has purchased 910,000 common shares for cash consideration of \$400,143.