EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS ENDED
DECEMBER 31, 2013

(Unaudited - Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited - Expressed in Canadian Dollars)

	Note	December 31, 2013 $	December 31, 2012 $
ASSETS			
Current assets			
Cash	3	16,105,327	21,208,781
GST receivable		166,764	20,488
Amounts receivable	4	2,279,808	127,812
Prepaid expenses		10,201	18,828
Total current assets		18,562,100	21,375,909
Non-current assets			
Investment	5, 15(c)	2,393,100	4,128,835
Deposits	6(a)	223,191	876,626
Restricted cash	6(d)	3,722,600	3,482,150
Exploration and evaluation assets	6	9,439,475	869,344
Property, plant and equipment	7	580,958	706,584
Other		21,125	16,533
Total non-current assets		16,380,449	10,080,072
TOTAL ASSETS		34,942,549	31,455,981
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		3,074,990	137,815
Non-current liabilities			
Decommissioning liabilities	8	516,664	81,404
TOTAL LIABILITIES		3,591,654	219,219
SHAREHOLDERS' EQUITY			
Share capital	9	41,442,653	37,907,477
Share-based compensation reserve		4,344,142	4,335,556
Deficit		(16,095,500)	(14,186,606)
Accumulated other comprehensive income		1,659,600	3,180,335
TOTAL SHAREHOLDERS' EQUITY		31,350,895	31,236,762
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		34,942,549	31,455,981

Nature of Operations - see Note 1

Commitments - see Note 12

Events after the Reporting Period - see Note 15

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on February 24, 2014 and are signed on its behalf by:

/s/ David Sidoo
David Sidoo
Director

*/s/ **Nick DeMare***
Nick DeMare
Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited - Expressed in Canadian Dollars)

	Note	Three Months Ended December 31, 2013 $	Three Months Ended December 31, 2012 $	Twelve Months Ended December 31, 2013 $	Twelve Months Ended December 31, 2012 $
Revenue					
Petroleum and natural gas sales		40,636	41,698	174,492	160,870
Royalties		284	2,667	(8,054)	(7,331)
		40,920	44,365	166,438	153,539
Expenses					
Operating		16,329	19,464	57,521	71,020
Depletion and depreciation	7	28,900	37,776	117,175	144,928
Impairment of property, plant and equipment	7	-	168,000	-	168,000
Finance expense of decommissioning liabilities	8	8,190	1,531	10,794	1,627
General and administrative		352,932	442,272	2,048,578	2,050,554
Share-based compensation	9(d)	26,331	26,051	492,428	715,017
		432,682	695,094	2,726,496	3,080,126
Loss before other items		(391,762)	(650,729)	(2,560,058)	(2,997,607)
Other items					
Interest and other income		60,914	70,159	266,773	322,200
Gain on disposal of exploration and evaluation assets	6(c)	206,250	68,750	206,250	68,750
Foreign exchange		101,565	74,615	250,292	(79,089)
		368,729	213,524	723,315	311,861
Loss before deferred income tax		(23,033)	(437,205)	(1,836,743)	(2,685,746)
Deferred income tax		(340,500)	450,000	(215,000)	450,000
Net (loss) income for the period		(363,533)	12,795	(2,051,743)	(2,235,746)
Other comprehensive (loss) income, net of deferred income tax		(2,768,875)	3,180,335	(1,520,735)	3,180,335
Comprehensive (loss) income for the period		(3,132,408)	3,193,130	(3,572,478)	944,589
Basic and diluted (loss) income per common share		$(0.00)	$0.00	$(0.02)	$(0.03)
Weighted average number of common shares outstanding		92,991,274	82,840,470	84,894,970	83,031,000

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited - Expressed in Canadian Dollars)

Twelve Months Ended December 31, 2013

	Share Capital: Number of Shares	Share Capital: Amount $	Share-Based Compensation Reserve $	Deficit $	Accumulated Other Comprehensive Income (Loss) $	Total Equity $
Balance at December 31, 2012	82,749,648	37,907,477	4,335,556	(14,186,606)	3,180,335	31,236,762
Repurchase of common shares	(880,500)	(403,356)	-	142,849	-	(260,507)
Common shares issued for cash:						
- exercise of share options	1,800,000	297,000				297,000
- exercise of warrants	8,776,294	2,983,940				2,983,940
- exercise of compensation options	695,000	173,750				173,750
Share-based compensation	-	-	492,428	-	-	492,428
Transfer on exercise of share options		285,667	(285,667)	-	-	-
Transfer on exercise of compensation options		198,175	(198,175)	-	-	-
Unrealized loss on investment	-	-	-	-	(1,735,735)	(1,735,735)
Deferred income tax recovery on unrealized loss on investment	-	-	-	-	215,000	215,000
Comprehensive loss for the period	-	-	-	(2,051,743)	-	(2,051,743)
Balance at December 31, 2013	93,140,442	41,442,653	4,344,142	(16,095,500)	1,659,600	31,350,895

Twelve Months Ended December 31, 2012

	Share Capital: Number of Shares	Share Capital: Amount $	Share-Based Compensation Reserve $	Deficit $	Accumulated Other Comprehensive Income (Loss) $	Total Equity $
Balance at December 31, 2011	83,700,648	38,382,398	3,620,539	(12,029,379)	-	29,973,558
Repurchase of common shares	(951,000)	(474,921)	-	78,519		(396,402)
Share-based compensation	-	-	715,017	-	-	715,017
Unrealized gain on investment	-	-	-	-	3,630,335	3,630,335
Deferred income tax on unrealized gain on investment	-	-	-	-	(450,000)	(450,000)
Net loss for the period	-	-	-	(2,235,746)	-	(2,235,746)
Balance at December 31, 2012	82,749,648	37,907,477	4,335,556	(14,186,606)	3,180,335	31,236,762

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EAST WEST PETROLEUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian Dollars)

	Twelve Months Ended December 31,	
	2013 $	2012 $
Operating activities		
Net loss for the period	(2,051,743)	(2,235,746)
Adjustments for:		
Depletion and depreciation	117,175	144,928
Impairment of property, plant and equipment	-	168,000
Finance expense of decommissioning liabilities	10,794	1,627
Share-based compensation	492,428	715,017
Foreign exchange	(240,450)	79,292
Deferred income tax	215,000	(450,000)
	(1,456,796)	(1,576,882)
Changes in non-cash working capital items:		
Increase in amounts receivable	(2,151,996)	(107,696)
(Increase) decrease in GST receivable	(146,276)	22,190
Decrease (increase) in prepaid expenses	8,627	(4,136)
Increase (decrease) in accounts payable and accrued liabilities	3,043,168	(84,963)
	753,523	(174,605)
Net cash used in operating activities	(703,273)	(1,751,487)
Investing activities		
Increase in other assets	(4,592)	-
Purchase of investment	-	(498,500)
Decrease (increase) in deposits	653,435	(876,626)
Expenditures on exploration and evaluation assets	(8,243,207)	(869,344)
Net cash used in investing activities	(7,594,364)	(2,244,470)
Financing activities		
Issuance of common shares	3,454,690	-
Repurchase of common shares	(260,507)	(396,402)
Net cash provided by (used in) financing activities	3,194,183	(396,402)
Net change in cash	(5,103,454)	(4,392,359)
Cash at beginning of period	21,208,781	25,601,140
Cash at end of period	16,105,327	21,208,781

Supplemental cash flow information - See Note 13

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. Nature of Operations

East West Petroleum Corp. (the "Company") was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia). The Company is listed and trades on the TSX Venture Exchange ("TSXV") under the symbol "EW". In November 2013 the Company changed its fiscal year-end from December 31 to March 31. The Company's principal office is located at #1210 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6 Canada.

The Company carries on business in one operating segment, being the acquisition of, exploration for and production from petroleum and natural gas properties. Management considers that the Company has adequate resources to maintain its core operations and planned exploration programs for the next twelve months. However, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future.

2. Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), and in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's consolidated financial statements for the year ended December 31, 2012.

For other assets, impairment losses recognized in prior years are assessed at each reporting date for indications that previously recognized impairment losses may no longer exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The impairment loss is reversed only to the extent that the asset's or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized in prior years. An impairment loss in respect of goodwill is not reversed.

Basis of Presentation

These condensed consolidated interim financial statements are presented for a period of twelve months ended December 31, 2013. The Company has changed its fiscal year end from December 31 to March 31 effective March 31, 2014. The change in the fiscal year is made for the purpose of streamlining the Company's financial reporting.

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. The condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise stated.

3. Cash

	December 31, 2013 $	December 31, 2012 $
Cash	16,105,327	2,286,414
Demand deposits	-	18,922,367
	16,105,327	21,208,781

(Unaudited - Expressed in Canadian Dollars)

4. Amounts Receivable

	December 31, 2013 $	December 31, 2012 $
Production receivable	2,256,823	20,924
Other	22,985	106,888
	2,279,808	127,812

5. Investment

	December 31, 2013			
	Number of Common Shares	Cost $	Accumulated Unrealized Gain on Investment $	Carrying Value $
North American Oil and Gas Corp. ("NAMG")	5,000,000	498,500	1,894,600	2,393,100

	December 31, 2012			
	Number of Common Shares	Cost $	Accumulated Unrealized Gain on Investment $	Carrying Value $
NAMG	5,000,000	498,500	3,630,335	4,128,835

During fiscal 2012 the Company purchased 5,000,000 common shares of NAMG at a cost of $498,500. As at December 31, 2013 the quoted market value of the 5,000,000 NAMG shares was $2,393,100 (December 31, 2012 - $4,128,835). See also Notes 6(a) and 15(c).

During the twelve months ended December 31, 2013 the Company recorded a net unrealized comprehensive loss of $1,520,735 (fiscal 2012 -gain of $3,180,335), net of deferred tax of $215,000 (fiscal 2012 - recovery of $450,000).

6. Exploration and Evaluation Assets

	New Zealand			United States			
	PEP 54876 $	PEP 54877 $	PEP 54879 $	Tejon Ranch Extension $	Tejon Main Area $	White Wolf $	Total $
Balance at December 31, 2011	-	-	-	-	-	-	-
Capital expenditures	-	-	-	817,017	-	52,327	869,344
Balance at December 31, 2012	-	-	-	817,017	-	52,327	869,344
Capital expenditures	46,968	8,087,972	565,017	613,569	120,956	251,285	9,685,767
Recovery of Initial Funding	-	(1,548,553)	-	-	-	-	(1,548,553)
Provision for decommissioning liabilities	-	282,518	116,960	33,439	-	-	432,917
Balance at December 31, 2013	46,968	6,821,937	681,977	1,464,025	120,956	303,612	9,439,475

6. Exploration and Evaluation Assets (continued)

(a) On August 29, 2012 the Company entered into a letter of intent with Lani, LLC ("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) an initial 21.25% working interest in the Tejon Main Area. On August 1, 2013 the Company entered into a purchase and sale agreement with Solimar Energy Limited ("Solimar") a party at arms-length to the Company, whereby the Company paid US $110,000 to Solimar to acquire an additional 28.75% working interest to increase the Company's working interest to 50%. The Company is required to fund 71.25% 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 $926,250; 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.

On November 20, 2012 Lani and NAMG (formerly known as Calendar Dragon Inc.) entered into an agreement and plan of merger whereby NAMG acquired 100% of Lani. In conjunction with terms of the Lani Agreement the Company made an investment of US $500,000 in NAMG as part of Lani's restructuring. See also Note 5.

During fiscal 2012 the Company advanced a total of US $1,700,000 to NAMG to fund exploration activities. As of December 31, 2013, $56,276 (December 31, 2012 - $816,932) of this amount is included in deposits.

The Company has also advanced a total of US $300,000 to NAMG for working capital purposes. During the twelve months ended December 31, 2013 NAMG has applied the Company's share of working interest costs of US $93,066 against this advance. As of December 31, 2013 $166,915 (US $156,934) (December 31, 2012 - $59,694 (US $60,000)) is included in deposits. The advances are non-interest bearing and are repayable from production revenues or equity financing conducted by NAMG, whichever comes first.

(b) On December 11, 2012 the Government of New Zealand awarded the Company and its partner, TAG Oil Ltd. ("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. 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 permit-by-permit basis, to recover its Initial Funding. As at December 31, 2013 the Company has recovered $1,548,533. All additional net revenues will be shared according to each party's interest. TAG is the operator of 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 the National Agency for Minerals and Hydrocarbons ("NAMR") the government agency in Romania which regulates the oil and gas industry.

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

6. Exploration and Evaluation Assets (continued)

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 Naftna Industrija Srbije j.s.c. Novi Sad ("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 ("NSI Petrol"), a wholly-owned subsidiary of NIS. The Company also received a pro-rated payment of $68,750 from NIS. On November 22, 2013 the Company received final concession approval by the government of Romania on the three remaining exploration blocks. The Company transferred the 85% participation interest in the exploration blocks to NIS Petrol and received the final payment of $206,250 from NIS.

(d) 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 was granted an exploration permit (the "Exploration Permit") for 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 :

(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 (Cdn $3,722,600) 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 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 certain 3D seismic data and drill two wells, at an estimated cost to the Company of US $2.8 million, over a five year period.

(Unaudited - Expressed in Canadian Dollars)

7. Property, Plant and Equipment

	Petroleum and Natural Gas Properties $	Office Furniture and Equipment $	Leasehold Improvements $	Total $
Cost:				
Balance at December 31, 2011	1,180,046	28,460	23,668	1,232,174
Revision of estimate for decommissioning costs	22,940	-	-	22,940
Balance at December 31, 2012	1,202,986	28,460	23,668	1,255,114
Revision of estimate for decommissioning costs	(8,451)	-	-	(8,451)
Balance at December 31, 2013	1,194,535	28,460	23,668	1,246,663
Accumulated Depletion, Depreciation and Impairment:				
Balance at December 31, 2011	(227,887)	(5,743)	(1,972)	(235,602)
Depletion and depreciation	(130,473)	(8,538)	(5,917)	(144,928)
Impairment	(168,000)	-	-	(168,000)
Balance at December 31, 2012	(526,360)	(14,281)	(7,889)	(548,530)
Depletion and depreciation	(102,723)	(8,536)	(5,916)	(117,175)
Balance at December 31, 2013	(629,083)	(22,817)	(13,805)	(665,705)
Carrying Value:				
Balance at December 31, 2012	676,626	14,179	15,779	706,584
Balance at December 31, 2013	565,452	5,643	9,863	580,958

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 4.12% to 20%, in four producing oil wells and fourteen gas wells (the "Carbon Property") located northeast of Calgary, Alberta.

The Company performed an impairment test calculation at December 31, 2012 to assess whether the carrying value of the petroleum and natural gas properties were recoverable. As a result of lower oil prices and well operating performance, an impairment loss of $168,000 was recognized during fiscal 2012.

8. Decommissioning Liabilities

	Twelve Months Ended December 31, 2013 $	Year Ended December 31, 2012 $
Balance, beginning of period	81,404	56,837
Liability incurred	432,917	-
Finance cost	10,794	1,627
Revision of estimate	(8,451)	22,940
Balance, end of period	516,664	81,404

(Unaudited - Expressed in Canadian Dollars)

8. Decommissioning Liabilities (continued)

The total amount of estimated cash flows required to settle the Company's estimated obligation is $673,879 which has been discounted using pre-tax risk-free rates of between 1.07% to 4.41% and inflation rates of between 0.9% to 2.58%. The present value of the decommissioning liabilities may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

The total future asset decommissioning obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future years. These liabilities will be settled at various dates which are currently expected to extend up to 2048. Settlement of the liabilities is expected to be funded from general corporate funds at the time of retirement.

9. Share Capital

(a) *Authorized Share Capital*

The Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Reconciliation of Changes in Share Capital*

No equity financings were conducted by the Company during the twelve months ended December 31, 2013 or in fiscal 2012.

On October 11, 2012 the Company renewed its normal course issuer bid (the "Renewed 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 Renewed Bid.

During the twelve months ended December 31, 2013 the Company repurchased a total of 880,500 (2012 - 951,000) common shares for $403,356 (2012 - $396,403) cash consideration. The average carrying value of the common shares was $0.46 (2012 - $0.50) per share. The difference between the purchase price and the carrying value of the common shares was $142,849 (2012 - $78,519). On October 15, 2013 the Renewed Bid expired. See also Note 15(b).

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2013 and 2012 and the changes for the twelve months ended on those dates is as follows:

	2013		2012	
	Number	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
Balance, beginning of period	11,685,000	0.34	26,105,595	1.12
Issued	695,000	0.34	-	-
Exercised	(8,776,294)	0.34	-	-
Expired	(3,603,706)	0.34	(14,420,595)	1.75
Balance, end of period	-	-	11,685,000	0.34

(Unaudited - Expressed in Canadian Dollars)

9. Share Capital (continued)

(d) *Share Option Plan*

The Company has established a fixed share option plan (the "Plan"), in which a total of 12,408,697 common shares have been reserved for issuance under the Plan. The minimum exercise price of the share options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSXV. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years from the date of grant.

During the twelve months ended December 31, 2013 the Company granted 1,725,000 (2012 - 300,000) share options and recorded compensation expense of $408,428 (2012 - $546,048) on the granting and vesting of share options.

The fair value of share options granted and vested during the twelve months ended December 31, 2013 and 2012 is estimated using the Black-Scholes option pricing model using the following assumptions:

	2013	2012
Risk-free interest rate	1.00% - 1.28%	0.96% - 1.34%
Estimated volatility	60% - 111%	109% - 131%
Expected life	2 years - 5 years	2 years - 4 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average grant date fair value of all share options granted and vested during the twelve months ended December 31, 2013 was $0.23 (2012 - $0.32) per share option.

During the twelve months ended December 31, 2013 the Company repriced share options previously granted to purchase 1,400,000 (2012 - 1,726,000) common shares, from original exercise prices ranging from $0.83 to $1.16 (2012 - $0.87 to $1.16) per share to a revised exercise price of $0.40 (2012 - $0.40) per share. The fair value of share options repriced during the twelve months ended December 31, 2013 and 2012 is estimated using the Black-Scholes option pricing model using the following assumptions:

	2013	2012
Risk-free interest rate	1.00% - 1.04%	1.16% - 1.44%
Estimated volatility	61% - 74%	106% - 124%
Expected life	2.5 years - 2.9 years	2 years - 4 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The value assigned to the re-pricing of the share options was $84,000 (2012 - $86,220).

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

(Unaudited - Expressed in Canadian Dollars)

9. Share Capital (continued)

A summary of the Company's share options at December 31, 2013 and 2012 and the changes for the twelve months ended on those dates, is as follows:

	2013		2012	
	Number of Options Outstanding	Weighted Average Exercise Price $	Number of Options Outstanding	Weighted Average Exercise Price $
Balance, beginning of period	8,233,530	0.40	8,033,530	0.56
Granted	1,725,000	0.37	300,000	0.40
Exercised	(1,800,000)	0.17	-	-
Forfeited	(216,668)	0.37	(33,334)	0.50
Expired	(458,332)	0.27	(66,666)	0.50
Balance, end of period	7,483,530	0.36	8,233,530	0.40

The following table summarizes information about the share options outstanding and exercisable at December 31, 2013:

Number Outstanding	Number Exercisable	Exercise Price $	Expiry Date
300,000	300,000	0.26	January 7, 2015
300,000	200,000	0.40	April 11, 2015
670,000	670,000	0.20	July 19, 2015
852,530	852,530	0.25	October 1, 2015
610,000	610,000	0.50	October 1, 2015
1,850,000	1,850,000	0.40	February 2, 2016
80,000	80,000	0.40	March 14, 2016
36,000	36,000	0.40	April 6, 2016
1,160,000	1,160,000	0.40	May 31, 2016
225,000	225,000	0.45	September 14, 2016
1,400,000	466,666	0.37	April 4, 2018
7,483,530	6,450,196		

See also Note 15(a).

(e) *Compensation Options*

During fiscal 2010 the Company granted 1,031,000 compensation options with each compensation option entitling the holder to purchase one unit for $0.25 per unit expiring September 29, 2013 Each unit was to comprise one common share and one warrant to purchase an additional common share at a price of $0.34 per share on or before September 29, 2013.

(Unaudited - Expressed in Canadian Dollars)

9. Share Capital (continued)

A summary of the Company's compensation options at December 31, 2013 and 2012 and the changes for the twelve months ended on those dates, is as follows:

	2013		2012	
	Number Outstanding	Weighted Average Exercise Price $	Number Outstanding	Weighted Average Exercise Price $
Balance, beginning of period	731,000	0.25	731,000	0.25
Exercised	(695,000)	0.25	-	-
Expired	(36,000)	0.25	-	-
Balance, end of period	-	-	731,000	0.25

10. 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 twelve months ended December 31, 2013 and 2012 the following amounts were incurred with respect to the Company's current President and Chairman, former President, current Chief Financial Officer ("CFO") and former Vice-President of Operations of the Company:

	2013 $	2012 $
Salaries	372,243	447,142
Professional fees	120,000	102,000
Health benefit premiums	13,656	13,898
Share-based compensation	280,277	457,613
	786,176	1,020,653

As at December 31, 2013, $3,500 (2012 - $41,138) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

(i) During the twelve months ended December 31, 2013 and 2012 the following amounts were incurred with respect to other current and former non-management officers and directors of the Company:

	2013 $	2012 $
Professional fees	414,000	444,000
Legal	51,061	14,456
Share-based compensation	96,804	327,954
	561,865	786,410

As at December 31, 2013, $31,000 (2012 - $31,600) remained unpaid and has been included in accounts payable and accrued liabilities.

(Unaudited - Expressed in Canadian Dollars)

10. Related Party Disclosures (continued)

(ii) During the twelve months ended December 31, 2013 the Company also incurred a total of $42,350 (2012 - $41,000) 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 $3,153 (2012 - $3,802) to the spouse of the former President of the Company for professional services rendered. As at December 31, 2013, $7,600 (2012 - $6,000) remained unpaid and has been included in accounts payable and accrued liabilities.

(c) See also Notes 5 and 12(a).

11. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following four categories: fair value through profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2013 $	December 31, 2012 $
Cash	FVTPL	16,105,327	21,208,781
Amounts receivable	Loans and receivables	2,279,808	127,812
Investment	Available-for-sale	2,393,100	4,128,835
Restricted cash	FVTPL	3,722,600	3,482,150
Accounts payable and accrued liabilities	Other liabilities	(3,074,990)	(137,815)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for amounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The fair value of cash, investment and restricted cash under the fair value hierarchy is measured using Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, restricted cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and restricted cash is remote.

11. Financial Instruments and Risk Management (continued)

The Company is not the operator of certain petroleum and natural gas properties in which it has an ownership interest. The Company is dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the Company's activities may be impacted by the ability, expertise, judgement and financial capability of the operators.

Commodity Price Risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the US dollar. Significant changes in commodity prices may materially impact the Company's ability to raise capital. The Company does not have any financial risk management contracts in place at December 31, 2013 to manage these risks.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

	Contractual Maturity Analysis at December 31, 2013				
	Less than 3 Months $	3 - 12 Months $	1 - 5 Years $	Over 5 Years $	Total $
Cash	16,105,327	-	-	-	16,105,327
Amounts receivable	2,279,808	-	-	-	2,279,808
Investment	-	-	2,393,100	-	2,393,100
Restricted cash	-	-	3,722,600	-	3,722,600
Accounts payable and accrued liabilities	(3,074,990)	-	-	-	(3,074,990)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

(b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and the Company's operating expenses are incurred in Canadian Dollars and New Zealand Dollars. The Company also maintains cash deposits in US Dollars. Management believes the foreign exchange risk related to currency conversions are minimal and therefore does not hedge its foreign exchange risk. At December 31, 2013, 1 Canadian Dollar was equal to 1.14 New Zealand Dollar and 0.94 US Dollar.

(Unaudited - Expressed in Canadian Dollars)

11. Financial Instruments and Risk Management (continued)

Balances at December 31, 2013 are as follows:

	New Zealand Dollars	United States Dollars	CDN $ Equivalent
Cash	2,126,993	1,048,808	2,981,536
Amounts receivable	2,564,745	-	2,249,776
GST receivable	174,772	-	153,309
Deposits	-	209,845	223,191
Investment	-	2,250,000	2,393,100
Restricted cash	-	3,500,000	3,722,600
Accounts payable and accrued liabilities	(3,413,917)	(18,084)	(3,013,902)
	1,452,593	6,990,569	8,709,610

Based on the net exposures as of December 31, 2013 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the New Zealand Dollar and the US Dollar would result in the Company's net loss being approximately $790,000 higher (or lower).

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain development of the business. The Company defines capital that it manages as share capital. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

12. Commitments

(a) 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 (2012 - $5,510). 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 twelve months ended December 31, 2013 the Company received $33,900 (2012 - $33,060) from the public company for shared premises.

(b) See also Note 6.

(Unaudited - Expressed in Canadian Dollars)

13. Supplemental Cash Flow Information

During the twelve months ended December 31, 2013 and 2012 non-cash activities were conducted by the Company as follows:

	2013 $	2012 $
Investing activities		
Expenditures on property, plant and equipment	8,451	(22,940)
Expenditures on exploration and evaluation assets	(1,244,394)	-
Initial estimated decommissioning liabilities	(432,917)	-
	(1,668,860)	(22,940)
Operating activities		
Provision for decommissioning liabilities	424,466	22,940
Increase in accounts payable and accrued liabilities	1,244,394	-
	1,668,860	22,940
Financing activities		
Issuance of common shares	483,842	-
Share-based payments reserve	(483,842)	-
	-	-

14. Segmented Information

The Company currently operates in one business segment, being the acquisition, exploration and production of oil and gas properties.

	As at December 31, 2013			
	Canada $	United States $	New Zealand $	Total $
Current assets	14,305,217	532	4,256,351	18,562,100
Investment	2,393,100	-	-	2,393,100
Deposit	-	223,191	-	223,191
Restricted cash	3,722,600	-	-	3,722,600
Exploration and evaluation assets	-	1,888,593	7,550,882	9,439,475
Property, plant and equipment	580,958	-	-	580,958
Other	16,533	-	4,592	21,125
	21,018,408	2,112,316	11,811,825	34,942,549

	As at December 31, 2012		
	Canada $	United States $	Total $
Current assets	21,283,164	92,745	21,375,909
Investment	4,128,835	-	4,128,835
Deposit	-	876,626	876,626
Restricted cash	3,482,150	-	3,482,150
Exploration and evaluation assets	-	869,344	869,344
Property, plant and equipment	706,584	-	706,584
Other	16,533	-	16,533
	29,617,266	1,838,715	31,455,981

15. Events after the Reporting Period

(a) Subsequent to December 31, 2013:

(i) the Company issued 70,723 common shares on the exercise of share options for proceeds of $22,825; and

(ii) share options to purchase 324,277 common shares at exercise prices ranging from $0.37 to $0.45 per common share, expired without exercise.

(b) On February 3, 2014 the Company filed a normal course issuer bid (the "NCIB") which authorizes the Company to repurchase for cancellation up to 8,882,872 common shares until February 2, 2015 or the date by which the Company has acquired the maximum number of common shares under the NCIB.

(c) As at February 24, 2014 the quoted market value of the 5,000,000 NAMG shares was $1,110,410.