
EAST WEST PETROLEUM CORP.

(formerly Avere Energy Inc.)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

LANCASTER & DAVID

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of East West Petroleum Corp.:

We have audited the accompanying consolidated financial statements of East West Petroleum Corp., which comprise the consolidated balance sheet as at December 31, 2010 and 2009, and the consolidated statement of loss and comprehensive loss and deficit, and statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2010 and 2009, and its financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/ Lancaster & David

CHARTERED ACCOUNTANTS

Vancouver, BC
March 2, 2011

EAST WEST PETROLEUM CORP.
(Formerly Avere Energy Inc.)
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2010	2009
	\$	\$
A S S E T S		
CURRENT ASSETS		
Cash	26,912,843	714,192
Amounts receivable	141,340	18,764
Prepaid expenses	<u>13,402</u>	<u>-</u>
	27,067,585	732,956
OFFICE EQUIPMENT	-	4,014
MINERAL PROPERTY INTERESTS (Note 4)	-	25,000
OIL AND GAS PROPERTIES AND EQUIPMENT (Note 5)	1,163,990	-
DEPOSIT AND OTHER COSTS (Note 6)	<u>4,254,349</u>	<u>-</u>
	<u><u>32,485,924</u></u>	<u><u>761,970</u></u>

L I A B I L I T I E S

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	456,489	184,541
Due to related parties (Note 11(b))	<u>-</u>	<u>218,351</u>
	456,489	402,892
ASSET RETIREMENT OBLIGATION (Note 16)	<u>67,475</u>	<u>-</u>
	<u>523,964</u>	<u>402,892</u>

S H A R E H O L D E R S ' E Q U I T Y

SHARE CAPITAL (Note 7)	37,581,656	4,333,051
CONTRIBUTED SURPLUS (Note 9)	1,405,090	-
DEFICIT	<u>(7,024,786)</u>	<u>(3,973,973)</u>
	<u>31,961,960</u>	<u>359,078</u>
	<u><u>32,485,924</u></u>	<u><u>761,970</u></u>

SUBSEQUENT EVENTS (Note 17)

APPROVED BY THE DIRECTORS

"Greg Renwick" , Director

"Nick DeMare" , Director

The accompanying notes and schedule are an integral part of these annual consolidated financial statements.

EAST WEST PETROLEUM CORP.
(Formerly Avere Energy Inc.)
**CONSOLIDATED STATEMENTS OF LOSS AND
 COMPREHENSIVE LOSS AND DEFICIT
 FOR THE YEARS ENDED DECEMBER 31**

	2010	2009
	\$	\$
REVENUE		
Net oil and gas sales	<u>72,902</u>	<u>-</u>
EXPENSES		
Operating	16,690	-
Depletion, depreciation and accretion	59,606	-
General and administrative	1,888,589	270,367
Stock-based compensation (Note 8)	<u>964,714</u>	<u>-</u>
	<u>2,929,599</u>	<u>270,367</u>
LOSS BEFORE OTHER ITEMS	<u>(2,856,697)</u>	<u>(270,367)</u>
OTHER ITEMS		
Loss on disposal of office equipment	(4,014)	-
Interest and other income	7,937	-
Foreign exchange	(39,861)	-
Abandonment of acquisition (Note 5(c))	(158,178)	-
Write down of mineral property interests (Note 4)	<u>-</u>	<u>(55,235)</u>
	<u>(194,116)</u>	<u>(55,235)</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(3,050,813)	(325,602)
DEFICIT - BEGINNING OF YEAR	<u>(3,973,973)</u>	<u>(3,648,371)</u>
DEFICIT - END OF YEAR	<u>(7,024,786)</u>	<u>(3,973,973)</u>
 LOSS PER COMMON SHARE - BASIC AND DILUTED	 <u>\$(0.09)</u>	 <u>\$(0.03)</u>
 WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	 <u>34,099,786</u>	 <u>12,119,672</u>

The accompanying notes and schedule are an integral part of these annual consolidated financial statements.

EAST WEST PETROLEUM CORP.
(Formerly Avere Energy Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2010	2009
	\$	\$
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(3,050,813)	(325,602)
Adjustment for items not affecting cash		
Abandonment of acquisition	158,178	-
Write-down of mineral property interests	-	55,235
Loss on disposal of office equipment	4,014	-
Depletion, depreciation and accretion	59,606	-
Stock-based compensation	<u>964,714</u>	<u>-</u>
	(1,864,301)	(270,367)
Increase in amounts receivable	(122,576)	(12,556)
Decrease (increase) in prepaid expenses	(13,402)	1,313
Increase in accounts payable and accrued liabilities	223,201	77,003
Due to related parties	<u>-</u>	<u>114,725</u>
	<u>(1,777,078)</u>	<u>(89,882)</u>
INVESTING ACTIVITIES		
Addition to deposit and other costs	(3,547,349)	-
Additions to office equipment	-	(4,014)
Expenditures on oil and gas properties	(1,314,299)	-
Expenditures on mineral property interests	-	(47,554)
Proceeds on sale of mineral property interests	<u>25,000</u>	<u>-</u>
	<u>(4,836,648)</u>	<u>(51,568)</u>
FINANCING ACTIVITIES		
Share issue costs	(2,208,889)	-
Share subscriptions received	36,250	-
Repayment of advances from related parties, net	(218,351)	(358,861)
Issuance of common shares	<u>35,203,367</u>	<u>1,213,750</u>
	<u>32,812,377</u>	<u>854,889</u>
INCREASE IN CASH DURING THE YEAR	26,198,651	713,439
CASH - BEGINNING OF YEAR	<u>714,192</u>	<u>753</u>
CASH - END OF YEAR	<u><u>26,912,843</u></u>	<u><u>714,192</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION (Note 15)

The accompanying notes and schedule are an integral part of these annual consolidated financial statements.

EAST WEST PETROLEUM CORP.

(Formerly Avere Energy Inc.)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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). 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.

During fiscal 2010 the Company negotiated the acquisition of interests in oil and gas properties, as described in Note 5, 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.

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

Management considers that the Company has adequate resources to maintain its core operations and planned exploration programs for the 2011 fiscal year. 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. CHANGE IN ACCOUNTING POLICY

During fiscal 2009 the Company announced that it intended to utilize the full cost method to account for its investment in oil and gas properties. In fiscal 2010 the Company has determined to adopt the successful efforts method of accounting for oil and gas activities. Under this method costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves are expensed at the moment that the exploratory drilling proves to be unsuccessful. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed as they are incurred. Expenditures for maintenance, repairs and minor renewals necessary to maintain properties in operating condition are expensed as incurred. Costs associated with major replacement and renewals are capitalized when the service potential of the reserves have been enhanced.

Acquired resource properties with proved reserves and capitalized costs of producing oil and gas properties, after considering estimated salvage values, are depreciated and depleted over proved developed reserves using the unit of production method. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Undeveloped land without proved reserves associated with the property is not subject to depletion and is carried at cost. Costs are transferred to depletable costs as proved reserves are recognized.

Oil and gas properties are evaluated by field for potential impairment annually or if a significant event or change occurs. This can include a significant decrease in oil and gas prices, revisions to proved reserves, changes in operating expenses or changes in operating environment. An impairment loss is recognized when the estimated undiscounted before tax future net cash flows of an evaluated asset are less than its carrying value. Unproved oil and gas properties are periodically assessed for impairment after considering the remaining term of the lease, drilling results, the evaluation of geological data and other information.

EAST WEST PETROLEUM CORP.
(Formerly Avere Energy Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. CHANGE IN ACCOUNTING POLICY (continued)

As the Company had not conducted any oil and gas activities in fiscal 2009 the change in the accounting policy for oil and gas activities had no impact on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the accounts of the Company and its wholly-owned subsidiaries, Avere Energy Corp. ("Avere USA"), a company incorporated in the state of Delaware, USA, and EW Petroleum BEA Inc. and EW Petroleum Holdings Ltd., both companies incorporated under the laws of the British Virgin Islands. Inter-company balances and transactions are eliminated on consolidation.

Measurement Uncertainty and Use of Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period presented. Such estimates relate primarily to unsettled transactions and events as of the date of the consolidated financial statements. Management exercises significant judgment in the determination of estimates, including those related to valuations of financial and derivative instruments and impairment analysis of oil and gas properties. Actual results could differ materially from estimated amounts.

Amounts recorded for depreciation, depletion and accretion costs and amounts used for impairment calculations are based on estimates of crude oil and natural gas reserves and commodity prices and capital costs required to develop those reserves. By their nature, reserves estimates and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

Inherent in the fair value calculation of the asset retirement obligation are assumptions and judgments which are subject to measurement uncertainty, including the inflation factor, the ultimate settlement amount, the credit-adjusted risk-free interest rate and the timing of settlement. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation, a corresponding adjustment is made to the oil and gas properties balance.

Significant assumptions with respect to stock-based compensation include an estimate of the volatility of the Company's shares and the expected life of the options, and are subject to measurement uncertainty.

Cash and Cash Equivalents

Cash consists only of bank deposits for the purpose of meeting short-term cash requirements and not for investing or other purposes. The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. At December 31, 2010 and 2009 the Company had no cash equivalents.

EAST WEST PETROLEUM CORP.
(Formerly Avere Energy Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Property Interests

Costs related to the acquisition and exploration of mineral properties are capitalized by property as incurred. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the units-of-production method. When a property is abandoned, capitalized costs are written off to operations. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Impairment write-downs are charged to the statement of operations.

Oil and Gas Properties and Equipment

See Note 2.

Joint Operations

Substantially all of the Company's operations are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Asset Retirement Obligations

The Company recognizes the fair value of an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of the fair value can be made. The fair value of the asset retirement obligation is capitalized as part of the cost of oil and gas properties and depleted on the same basis. The accumulated asset retirement is adjusted for the passage of time, which is recognized in depletion, depreciation and accretion expense in the statement of operations, and for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligation reduce the asset retirement obligation to the extent of the liability recorded. Differences between the actual costs incurred upon settlement of the asset retirement obligation and the liability recorded are recognized in the Company's operations in the period in which the settlement occurs.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus. If and when the stock options are exercised the applicable amounts of contributed surplus are transferred to share capital.

Income Taxes

Income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

EAST WEST PETROLEUM CORP.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss Per Share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Financial Instruments

Under Section 3251, *Equity* and Section 3855, *Financial Instruments - Recognition and Measurement*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing will be expensed in the period incurred.

The Company has designated its cash as held-for-trading which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Revenue Recognition

The Company recognizes revenues on the sale of oil and gas when they are delivered and title passes to the buyers and collection of the revenues is reasonably assured.

Translation of Foreign Currencies

As the Company's foreign subsidiaries have been dependent on funding from their parent, the operations are considered to be integrated. As a result, the temporal method of translating the accounts of the foreign subsidiary have been adopted. Under this method, the Company translates monetary items at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at average rates in effect during the period in which they were earned or incurred. Revenues and expenses are translated at average rates in effect during the period except for depreciation and amortization which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

EAST WEST PETROLEUM CORP.

(Formerly Avere Energy Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Policies

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company does not expect the adoption of these accounting policies to have a material impact on its consolidated financial statements.

4. MINERAL PROPERTY INTERESTS

	2010 \$	2009 \$
Mineral properties		
Acquisition costs	-	25,000
Deferred exploration costs		
Geological report	-	7,317
Geophysical work program	-	56,184
Mining exploration credit	-	(12,632)
Recording fees	-	4,366
	-	55,235
	-	80,235
Less provision for impairment	-	(55,235)
	-	25,000

The Company previously held a 100% interest in two mineral claims (the "Easy Joe Property") comprising approximately 312 hectares located in the Pemberton-Lillooet area of British Columbia. During fiscal 2009 the Company recorded a write-down of \$55,235 to reflect management's estimate of the net realizable value of the East Joe Property. In February 2010 the Company completed the sale of the Easy Joe Property for \$25,000 cash.

EAST WEST PETROLEUM CORP.

(Formerly Avere Energy Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

5. OIL AND GAS PROPERTIES AND EQUIPMENT

	2010		2009	
	Cost \$	Accumulated Depletion and Depreciation \$	Net Carrying Value \$	Net Carrying Value \$
Canada (a)				
Oil and gas properties	900,000	(42,574)	857,426	-
Equipment and other	289,119	(13,676)	275,443	-
Romania (b)				
Oil and gas properties	31,121	-	31,121	-
	1,220,240	(56,250)	1,163,990	-

- (a) 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 4.8% to 20%, in four producing oil wells and thirteen gas wells (the “Carbon Property”) located approximately 50 miles northeast of Calgary, Alberta.
- (b) During fiscal 2010 the Company was informed by the government of Romania that it had been awarded four exploration blocks, for a total area of approximately 1,000,000 acres, located in the Pannonian Basin, in western Romania. The Company will be entering into direct negotiations to finalize concession agreements.
- (c) On January 27, 2010, as amended February 23, 2010, the Company entered into a farm-in letter agreement (the “Letter Agreement”) with American Exploration Corp. (“American Exploration”) to acquire a 20% interest in the Haynesville shale gas prospect located in Mississippi. The Company was required to pay 20% of the costs of drilling and completion of an initial deep gas well, and pay payments aggregating US \$850,000, including a non-refundable deposit of \$77,725 (US \$75,000). The Company was subsequently unable to complete a financing to fund the Letter Agreement and the arrangement was terminated with an additional \$80,453 (US \$75,000) paid to American Exploration.

6. DEPOSIT AND OTHER COSTS

	2010 \$	2009 \$
Refundable deposit	3,526,950	-
Capitalized interest and financing costs	727,399	-
	4,254,349	-

On December 6, 2010 the Company entered into a sale and purchase agreement whereby the Company has agreed to acquire a 20% participation interest in Burg El Arab field in Egypt from Kuwait Energy Egypt Limited, a private corporation, for US \$17,500,000. Under the terms of the agreement, the Company has made a refundable deposit of US \$3,500,000. The closing of the agreement is subject to a number of conditions precedent and regulatory approvals.

EAST WEST PETROLEUM CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

6. DEPOSIT AND OTHER COSTS (continued)

The Company arranged bridge loan financings totalling US \$3,500,000 to provide funding of the deposit. The bridge loans bore interest at a rate of 16% per annum and were repayable on demand. In December 2010 the Company repaid the bridge loans plus interest of \$20,399. In addition the Company issued 669,508 common shares of the Company, at a fair value of \$707,000, as a bonus to the lenders.

Certain directors of the Company provided US \$1,000,000 of the bridge loans.

7. SHARE CAPITAL

Authorized: unlimited number of common shares without par value

	2010		2009	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Issued:				
Balance, beginning of year	23,452,806	4,333,051	1,952,806	3,119,301
Issued for cash				
Private placements	40,873,000	33,400,300	20,000,000	1,250,000
Exercise of stock options	223,334	46,067	-	-
Exercise of warrants	16,095,000	1,757,000	-	-
Subscriptions receivable	-	36,250	-	(36,250)
Reallocation from contributed surplus on exercise of stock options	-	50,133	-	-
Bonus shares (Note 6)	669,508	707,000	-	-
For finder's fees	-	-	1,500,000	75,000
	57,860,842	35,996,750	21,500,000	1,288,750
Less share issue costs	-	(2,748,145)	-	(75,000)
	57,860,842	33,248,605	21,500,000	1,213,750
Balance, end of year	81,313,648	37,581,656	23,452,806	4,333,051

(a) During fiscal 2010 the Company completed private placements of:

- (i) 13,600,000 units at a price of \$0.25 per unit for gross proceeds of \$3,400,000. Each unit consisted of one common share of the Company and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of \$0.34 per share on or before September 29, 2013.

The Company paid finders' fees totalling \$257,750 cash and granted 1,031,000 compensation options (the "Compensation Options") with each Compensation Option entitling the holder to purchase one unit for \$0.25 per unit. Each unit will comprise of 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. The fair value of \$247,440 assigned to the Compensation Options have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 79%; a risk-free interest rate of 1.81%; and an expected life of three years. The Company also incurred \$70,081 in filing and legal fees associated with the private placement.

EAST WEST PETROLEUM CORP.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. SHARE CAPITAL (continued)

Certain directors, officers and family members of directors and officers have purchased 490,000 units of this private placement; and

- (ii) 27,273,000 units at a price of \$1.10 per unit, for gross proceeds of \$30,000,300. Each unit consisted of one common share of the Company and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$1.75 per share on or before December 22, 2012.

The Company paid agents fees totalling \$1,725,009 cash and granted broker warrants exercisable to acquire 784,095 common shares at a price of \$1.75 per share on or before December 22, 2012. The fair value of \$243,069 assigned to the broker warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 76%; a risk-free interest rate of 1.38%; and an expected life of two years. The Company also incurred \$200,762 in filing and legal fees associated with the private placement.

A director purchased 21,000 units of this private placement.

- (b) During fiscal 2009 the Company completed private placements of:

- (i) 5,000,000 units at a price of \$0.10 per unit for gross proceeds of \$500,000. Each unit consisted of one common share of the Company and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of \$0.20 per share on or before March 6, 2010. During fiscal 2010, 1,475,000 warrants were exercised for proceeds of \$295,000 and the remaining 3,525,000 warrants expired without exercise.
- (ii) 15,000,000 units at a price of \$0.05 per unit for gross proceeds of \$750,000 of which \$36,250 was received in January 2010. Each unit consisted of one common share of the Company and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of \$0.10 per share on or before December 21, 2010.

The Company issued 1,500,000 common shares of the Company at an ascribed value of \$75,000 as finders' fees. During fiscal 2010, 14,620,000 warrants were exercised for proceeds of \$1,462,000 and the remaining 380,000 warrants expired without exercise.

EAST WEST PETROLEUM CORP.*(Formerly Avere Energy Inc.)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****7. SHARE CAPITAL (continued)**

- (c) A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2010 and 2009 and the changes for the years ended on those dates is as follows:

	2010		2009	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	20,000,000	0.13	-	-
Issued	28,020,595	1.07	20,000,000	0.13
Exercised	(16,095,000)	0.11	-	-
Expired	<u>(3,905,000)</u>	0.19	<u>-</u>	-
Balance, end of year	<u>28,020,595</u>	1.07	<u>20,000,000</u>	0.13

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at December 31, 2010:

Number	Exercise Price \$	Expiry Date
13,636,500	1.75	December 22, 2012
784,095	1.75	December 22, 2012
<u>13,600,000</u>	0.34	September 29, 2013
<u>28,020,595</u>		

- (d) See also Note 17.

8. STOCK OPTIONS AND STOCK-BASED COMPENSATION

The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the stock 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 TSX Venture Exchange. 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 fiscal 2010 the Company granted 6,589,530 stock options to its directors, employees and consultants and recorded compensation expense of \$964,714. The fair value of stock options granted and vested during fiscal 2010 is estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate - 1.66% to 2.82%; estimated volatility - 76% to 100%; expected life - 5 years; and expected dividend yield - 0%.

The weighted average grant date fair value of all stock options granted during fiscal 2010 to the Company's directors, employees and consultants was \$0.23 per option.

No stock options were granted during fiscal 2009.

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8. STOCK OPTIONS AND STOCK-BASED COMPENSATION (continued)

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 stock options.

A summary of the Company's stock options at December 31, 2010 and 2009 and the changes for the years ended on those dates, is as follows:

	2010		2009	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	-	-	-	-
Granted	6,589,530	0.25	-	-
Exercised	(223,334)	0.21	-	-
Expired / cancelled	<u>(1,638,666)</u>	0.26	<u>-</u>	-
Balance, end of year	<u><u>4,727,530</u></u>	0.25	<u><u>-</u></u>	-

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2010:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
300,000	100,000	0.26	January 7, 2015
1,700,000	566,666	0.16	June 11, 2015
740,000	340,000	0.20	July 19, 2015
1,277,530	470,863	0.25	October 1, 2015
<u>710,000</u>	<u>310,000</u>	0.50	October 1, 2015
<u><u>4,727,530</u></u>	<u><u>1,787,529</u></u>		

See also Note 17.

9. CONTRIBUTED SURPLUS

The Company's contributed surplus is comprised of the following:

	2010 \$	2009 \$
Balance, beginning of year	-	-
Stock-based compensation on stock options (Note 8)	964,174	-
Stock-based compensation on Compensation Options (Note 7(a)(i))	247,440	-
Stock-based compensation on brokers' warrants (Note 7(a)(ii))	243,069	-
Stock option exercised	<u>(50,133)</u>	<u>-</u>
Balance, end of year	<u><u>1,405,090</u></u>	<u><u>-</u></u>

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10. INCOME TAX

A reconciliation of income taxes at statutory rates to the Company's effective income tax expense is as follows:

	2010	2009
	\$	\$
Loss before income taxes	3,050,813	325,602
Statutory tax rate	<u>28.5%</u>	<u>30%</u>
Expected income tax recovery	(869,500)	(98,000)
Permanent differences	149,600	-
Temporary differences related to resource properties	-	17,000
Effect of change in tax rates	14,100	43,000
Unrecognized tax losses and change in valuation allowance	<u>705,800</u>	<u>38,000</u>
Income tax recovery	<u>-</u>	<u>-</u>

The future tax asset of the Company is comprised of the following:

	2010	2009
	\$	\$
Non-capital losses carried-forward	845,600	192,000
Resource properties	21,800	14,000
Other	441,800	-
Valuation allowance	<u>(1,309,200)</u>	<u>(206,000)</u>
Future tax asset recognized	<u>-</u>	<u>-</u>

As at December 31, 2010 the Company has non-capital losses of approximately \$3,128,300 (2009 - \$847,400) and cumulative resource and other tax pools of approximately \$3,018,300 carried forward for Canadian income tax purposes and are available to reduce Canadian taxable income in future years. The non-capital losses expire commencing 2011 through 2030. The cumulative resource and certain other tax pools can be carried forward indefinitely.

The Company also has non-capital losses of approximately \$181,500 (2009 - \$nil) for United States income tax purposes, which are available for application against future taxable income. These non-capital losses expire in 2030.

Future income tax benefits which may arise as a result of these losses have not been recognized in the consolidated financial statements as their realization is unlikely.

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11. RELATED PARTY TRANSACTIONS

- (a) During fiscal 2010 and 2009 the Company was billed by certain directors and private corporations owned by current and former directors of the Company, as follows:

	2010	2009
	\$	\$
Accounting and administration	22,075	-
Legal	204,336	-
Management fees	-	58,370
Professional fees	129,370	-
Rent	3,790	17,511
	<u>359,571</u>	<u>75,881</u>

The above transactions have either been expensed to operations or recorded as share issue costs based on the nature of the expenditure.

The above transactions have been recorded at the exchange amounts agreed to by the related parties and the Company. As at December 31, 2010 accounts payable and accrued liabilities include \$149,020 (2009 - \$nil) due to the related parties.

- (b) 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.
- (c) See also Notes 6 and 7.

12. SEGMENTED INFORMATION

As at December 31, 2010 the Company currently operates in one business segment, being the acquisition, exploration and production of oil and gas properties. The Company's main oil and gas operations and corporate assets are located in Canada.

	<u>2010</u>		
	Canada	Other	Total
	\$	\$	\$
Current assets	27,056,565	11,020	27,067,585
Oil and gas properties and equipment	1,132,869	31,121	1,163,990
Deposit and other costs	-	4,254,349	4,254,349
	<u>28,189,434</u>	<u>4,296,490</u>	<u>32,485,924</u>
	<u>2009</u>		
	Canada	Other	Total
	\$	\$	\$
Current assets	732,956	-	732,956
Office equipment	4,014	-	4,014
Mineral property interests	-	25,000	25,000
	<u>736,970</u>	<u>25,000</u>	<u>761,970</u>

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of Financial Assets and Financial Liabilities

Under Canadian GAAP financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	2010	2009
		\$	\$
Cash	Held-for-trading	26,912,843	714,192
Amounts receivable	Loans and receivables	141,340	18,764
Deposits	Loans and receivables	3,526,950	-
Accounts payable and accrued liabilities	Other liabilities	(456,489)	(181,541)
Due to related parties	Other liabilities	-	(218,351)

The recorded amounts for cash, amount receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amount for the deposit approximates its fair value. The Company's carrying value and fair value of 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 amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is remote.

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 liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

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 and cash equivalents bear floating rates of interest. The interest rate risk on cash and cash equivalents and on the Company's obligations are not considered significant.

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Foreign Currency Risk

The Company maintains cash deposits in US Dollars with its Canadian bank and conducts activities denominated in US dollars. As such, the fluctuation of the Canadian Dollar in relation to the US Dollar will have an impact upon the operations of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At December 31, 2010, 1 Canadian Dollar was equal to 0.99 US Dollar.

Balances are as follows:

	US Dollar	Canadian Dollar Equivalent
Cash	10,910	11,020
Deposit	3,500,000	3,526,950
Accounts payable and accrued liabilities	<u>(5,706)</u>	<u>(5,764)</u>
	<u>3,505,204</u>	<u>3,532,206</u>

Based on the net exposures as of December 31, 2010 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar would result in the Company's net loss being approximately \$316,500 higher (or lower).

14. 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 oil and 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 future development of the business. The Company defines capital that it manages as share capital, cash equivalents and short-term investments. 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.

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15. SUPPLEMENTAL CASH FLOW INFORMATION

During fiscal 2010 and 2009 non-cash investing and financing activities were conducted by the Company as follows:

	2010	2009
	\$	\$
Investing activities		
Additions to deposit and other costs	(707,000)	-
Additions to oil and gas properties	<u>(64,119)</u>	<u>-</u>
	<u><u>(771,119)</u></u>	<u><u>-</u></u>
Financing activities		
Contributed surplus	440,376	-
Share capital	757,133	75,000
Share issue costs	<u>(539,256)</u>	<u>(75,000)</u>
	<u><u>658,253</u></u>	<u><u>-</u></u>
Other supplemental cash flow information:		
	2010	2009
	\$	\$
Interest paid in cash	<u><u>20,399</u></u>	<u><u>-</u></u>
Income taxes paid in cash	<u><u>-</u></u>	<u><u>-</u></u>

16. ASSET RETIREMENT OBLIGATION

	2010	2009
	\$	\$
Balance, beginning of year	-	-
Initial estimated liability	64,119	-
Accretion	<u>3,356</u>	<u>-</u>
Balance, end of year	<u><u>67,475</u></u>	<u><u>-</u></u>

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation is \$195,000 which has been discounted using a credit adjusted risk free rate of 10% and inflation rate of 2%. The reclamation obligation relates to the oil and gas property in Canada. The present value of the reclamation liability 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. Estimated date of retirement will be in 2023.

The total future asset retirement 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.

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17. SUBSEQUENT EVENTS

Subsequent to December 31, 2010 the Company:

- (i) granted stock options to its directors, employees and consultants to purchase 1,850,000 common shares of the Company at a price of \$1.16 per share, expiring February 2, 2016; and
- (ii) issued 45,000 common shares on the exercise of stock options for proceeds of \$10,250 and 1,285,000 common shares on the exercise of warrants for proceeds of \$436,900.