

# **EAST WEST PETROLEUM CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2016**

This discussion and analysis of financial position and results of operation is prepared as at July 28, 2016 and should be read in conjunction with the audited consolidated financial statements for the years ended March 31, 2016 and 2015 of East West Petroleum Corp. ("East West" or the "Company"). The following disclosure and associated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the Company's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information. Such factors include, but are not limited to: the ability to raise sufficient capital to fund exploration and development; the quantity of and future net revenues from the Company's reserves; oil and natural gas production levels; commodity prices, foreign currency exchange rates and interest rates; capital expenditure programs and other expenditures; supply and demand for oil and natural gas; schedules and timing of certain projects and the Company's strategy for growth; competitive conditions; the Company's future operating and financial results; and treatment under governmental and other regulatory regimes and tax, environmental and other laws.

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be subclassified based on project maturity. Best estimate resources are considered to be the best estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term is a measure of central tendency of the uncertainty distribution (most likely/mode, P50/median, or arithmetic average/mean). As estimates, there is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources that the estimated reserves or resources will be recovered or produced.

This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise.

All of the Company's public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) and readers are urged to review these materials, including the reserve reports filed with respect to the Company's petroleum and natural gas properties.

### **Company Overview**

The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange ("TSXV") under the symbol "EW" as a Tier 1 issuer. The Company carries on business in one operating segment, being the acquisition of, exploration for and production from petroleum and natural gas properties. The Company's current portfolio consists of interests in exploration concessions in New Zealand and Romania and producing properties in the Taranaki Basin, New Zealand and Alberta, Canada. The Company is not the operator of any of its petroleum and gas interest and is currently focussed participating on further activities on the exploration, evaluation and development of its petroleum interests in the Taranaki Basin, New Zealand. The Company's principal office is located at #1210 - 1095 West Pender Street, Vancouver, BC, V6E 2M6.

## Normal Course Issuer Bid Purchases

The Company has filed ongoing normal course issuer bid (“NCIB”) renewals. Most recently on February 3, 2016, the Company filed a renewal NCIB which authorizes the Company to repurchase for cancellation up to 8,507,552 common shares until February 2, 2017 or the date by which the Company has acquired the maximum number of common shares under the normal course issuer bid. The purchases are to be made through the facilities of the TSXV during the period February 3, 2016 to February 2, 2017.

During fiscal 2015 the Company repurchased a total of 2,454,500 common shares for \$371,803 cash consideration. During fiscal 2016 the Company repurchased a total of 1,068,500 common shares for \$112,073 cash consideration. No common shares were repurchased by the Company from April 1, 2016 to the date of this MD&A.

## Projects Update

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

### *New Zealand*

The Company has active drilling, testing and production operations in the Taranaki Basin of New Zealand. All licenses are operated by the Company’s partner, TAG Oil Ltd. (“TAG”), and all wells are targeting shallow Miocene targets in the Urenui and Mt. Messenger formations which have been shown to be productive for oil and gas throughout the Basin, including TAG’s adjacent Cheal field.

Within the Taranaki Basin, East West holds the following working interests:

#### *PEP 54877 (Cheal North East) - East West 30%*

PEP 54877 is the location of the Cheal E-Site and the Cheal E-site production facility as well as the Cheal-E1, E2, E3, E4, E5, and E6 wells. Two wells, Cheal-E1 and Cheal-E4, continue to produce, with both wells experiencing increasing gas-oil ratios. Three other wells are currently shut-in for a variety of reasons: Cheal-E2 due to a wellbore isolation failure in May 2015, Cheal-E5 due to a casing failure in May 2015 and Cheal-E6 due to issues with the jet pump in October 2015. The Cheal-E3 has never been put on production, and is scheduled to be sidetracked in the future.

During fiscal 2016, there was no exploration drilling that occurred in PEP 54877. During the first quarter of fiscal 2016, the Cheal-E5 well workover commenced to repair damaged casing. The well is currently shut-in pending installation of an artificial lift system once the current economic climate improves

In May 2015 the Company was informed by TAG that the TAG owned Cheal E to A pipeline was completed and operational, giving the Company the ability to monetize future oil and gas wells drilled in the Cheal-E development area, sell previously flared gas generating additional revenues and lowering operating costs through facility optimizations. TAG is currently implementing a water-flood expansion project with an aim to improve recoveries. A further shallow exploration well is expected to be drilled and completed on the PEP 54877 in fiscal 2017.

Petroleum production from Cheal North East averaged 143 net BOE’s per day (53% oil) in Q4 compared to an average of 163 BOE’s per day (56% oil) in Q3. The decrease compared to Q3 is due to natural field decline rates.

#### *PEP 54879 (Cheal South) - East West 50%*

The initial permit work for PEP 54879 included drilling three exploration wells, the Cheal-G1, G2 and G3, with the G2 and G3 wells subsequently being plugged and abandoned. A 15-day flow test was completed on the G1 well which produced 1,016 barrels of oil. The test oil was subsequently sold for net proceeds of

\$44,972 and all net revenues have been recorded as a recovery against the capitalized costs. The testing of the G1 well indicated the potential for this well to be a full time producer and initial studies were completed to assess if the G1 well could be placed on production on a full time basis, however, in light of the decrease in the price of oil, these studies have not been advanced. Under the terms of the agreement with the Government of New Zealand an earning well was to have been drilled in fiscal 2016, however a change of conditions (“COC”) was filed to defer any drilling and conduct a detailed seismic program to assist in identifying additional drill targets on PEP 54879. Subsequent to March 31, 2016, 3D seismic on PEP 54879 was acquired and the resulting data is now in the process of being analyzed. TAG has scheduled further geological and geophysical studies on PEP 54879 for fiscal 2017.

#### Reserves Data

An independent reserves evaluation, relating to the resource base of the Company in the Cheal Area of New Zealand, effective March 31, 2016, has been prepared by Sproule International Limited. 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”). Readers are encouraged to review the Form 51-101 F1 - *Statement of Reserve Data and Other Oil and Gas Information*, which is a summary of the report, filed on the SEDAR website at [www.sedar.com](http://www.sedar.com).

#### Reconciliation of Company Gross <sup>(1)</sup> Reserves (Before Royalty) by Principal Product Type As of March 31, 2016

	Light and Medium Oil			Natural Gas			Barrels of Oil Equivalent		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)	Gross Proved (MBOE)	Gross Probable (MBOE)	Gross Proved Plus Probable (MBOE)
<b>March 31, 2015</b>	73	133	206	89	190	278	88	164	252
Infill Drilling	0	0	0	0	0	0	0	0	0
Technical Revisions	6	(62)	(56)	190	(3)	188	38	(62)	(25)
Economic Factors	(9)	4	(5)	(23)	9	(14)	(13)	5	(8)
Production	(43)	0	(43)	(161)	0	(161)	(70)	0	(70)
<b>March 31, 2016</b>	27	74	102	95	196	291	43	107	150

(1) The Gross Reserves presented here are the Company’s working interest reserves before calculations of royalties, and before consideration of the Company’s royalty interest.

Values may not add due to rounding

Net proved plus probable (“2P”) reserves estimates within the Taranaki Basin at March 31, 2016 were 150 MBOE compared to the March 31, 2015 2P reserves of 252 MBOE. Taking into account the 70 MBOE the Company produced over the fiscal year and the 33 MBOE reduction for technical revisions and economic factors, the Company’s reserves decreased by 40%. The technical revisions and economic factors relate to the addition of 188 MMcf of natural gas added in fiscal 2016 and the removal of reserves previously attributed to wells which will be used as injection sites for the water-flood program and reserves which are not economically recoverable at the current price.

#### Canada

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

The Carbon Property is located approximately fifty miles northeast of Calgary, Alberta in Township 29, Range 22W4M. The Company holds interests ranging from 4.1125% to 20% in three producing oil wells and twelve gas wells. The wells are producing from the Horseshoe Canyon, Basal Belly River, Belly River, Viking, Glauconitic, and Ellerslie Formations.

The Company considers the Carbon Property to be uneconomical and has no intention to conduct further development, resulting in no expected material future production and cash flow. Accordingly, during fiscal 2016 the Company recorded an impairment of \$206,421 to a \$nil carrying value.

## ***Romania***

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

On May 20, 2011 the Company and 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 has paid the Company a total of \$525,000 for the 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.

NAMR has granted an extension until June 2017 to conduct the Phase I work program for the exploration block, EX-2 Tria.

## ***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 Limited (“OIL”), (Operator, 40%), Oil and Natural Gas Corporation Company (“ONGC”) (30%), GAIL (India) Limited (“GAIL”) (20%) and the Company (10%). The primary term of this exploration production sharing contract is five years.

On March 28, 2012 the Company, along with its partners, received final approvals and signed the AA-ONN-2010/2 PSC agreement with the DGH at an official signing ceremony in New Delhi. 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 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. In January 2015 the Petroleum Exploration License deed of agreement for Block AA-ONN-2010/2 was signed between the partners and the Government of Assam. In July 2015 the Company provided notice that it would be withdrawing from the PSC. On April 27, 2016 OIL agreed to an assignment of the Company’s 10% interest for \$nil consideration.

## **Investment in Associated Company**

On April 7, 2015 the Company purchased an initial 3,900,000 common shares of Advantage Lithium Corp. (“Advantage Lithium”) (*formerly North South Petroleum Corp.*) for \$195,000 pursuant to a non-brokered private placement conducted by Advantage Lithium, a public company trading on the NEX board of the TSXV. On closing of the initial purchase the Company owned 16.74% of the outstanding common shares of Advantage Lithium. Mr. David Sidoo, the President and CEO of the Company and Honorable Herb Dhaliwal, a director of the Company were subsequently appointed directors of Advantage Lithium.

Since the initial purchase the Company has acquired a further 626,500 common shares of Advantage Lithium through open market purchases for a total consideration of \$129,042, and, as at March 31, 2016, the Company owned 4,526,500 common shares of Advantage Lithium, approximately 19.43% of the issued and outstanding common shares of Advantage Lithium. The Company’s judgment is that it had significant influence in the operations of

Advantage Lithium in fiscal 2016 and, accordingly, the investment in Advantage Lithium was accounted for under the equity method.

The initial investment was made as the Company planned to pursue oil and gas opportunities in Mexico, through Advantage Lithium, however with the decrease in the price of oil and also due to the quality of projects available in Mexico this plan was abandoned. The Company determined to sell a portion of its shares, at cost, to a new management team proposed for Advantage Lithium. As a result, on June 24, 2016, the Company sold 2,000,000 common shares of Advantage Lithium for \$160,000, cash reducing its ownership interest to 2,526,500 common shares (approximately 10.48%). In addition, Advantage Lithium has; changed its business focus and is pursuing exploration and development of lithium properties. It has announced a private placement financing which will further reduce the Company's ownership interest and on July 25, 2016 the Honorable Herb Dhaliwal resigned as a director of the Advantage Lithium. The Company has determined that it no longer has significant influence and, accordingly, will cease to account for its investment in Advantage Lithium under the equity method and will commence measuring its retained interest through fair value.

### Selected Financial Data

The following selected consolidated financial information is derived from the audited consolidated financial statements prepared in accordance with IFRS. Due to the change in the Company's year end, the following information includes the 12 month periods ended March 31, 2016 and 2015, and the 15 month period ended March 31, 2014 .

	Twelve Months Ended March 31, 2016 \$	Twelve Months Ended March 31, 2015 \$	Fifteen Months Ended March 31, 2014 \$
<b>Operations:</b>			
Revenues, net of costs	1,448,143	4,182,413	3,221,392
Expenses	(5,709,659)	(11,100,494)	(8,352,631)
Other income (expenses)	389,860	358,646	(2,302,140)
Loss before deferred income tax	(3,871,656)	(6,559,435)	(7,433,379)
Deferred income tax	Nil	(25,000)	(425,000)
Net loss	(3,871,656)	(6,584,435)	(7,858,379)
Other comprehensive loss, net	(808,284)	(712,620)	(2,147,177)
Comprehensive loss	(4,679,940)	(7,297,055)	(10,005,556)
Basic and diluted loss per share	(0.04)	(0.07)	(0.09)
Dividends per share	Nil	Nil	Nil
<b>Balance Sheet:</b>			
Working capital	7,845,372	8,901,697	10,966,215
Total assets	14,816,036	19,539,844	29,682,150
Total long-term liabilities	(1,183,793)	(1,062,292)	(995,388)

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

	Fiscal 2016				Fiscal 2015			
	Mar. 31 2016 \$	Dec. 31 2015 \$	Sep. 30 2015 \$	Jun. 30 2015 \$	Mar. 31 2015 \$	Dec. 31 2014 \$	Sep. 30 2014 \$	Jun. 30 2014 \$
<b>Operations:</b>								
Revenues, net of costs	134,343	210,059	470,608	633,133	747,049	899,935	1,371,347	1,164,082
Expenses	(1,993,130)	(1,096,794)	(1,375,713)	(1,244,022)	(3,681,902)	(2,441,979)	(1,272,702)	(3,703,911)
Other items	(103,738)	143,572	309,046	40,980	1,140,999	(132,379)	204,035	(854,009)
(Loss) income before deferred income tax	(1,962,525)	(743,163)	(596,059)	(569,909)	(1,793,854)	(1,674,423)	302,680	(3,393,838)
Deferred income tax	Nil	Nil	Nil	Nil	Nil	Nil	Nil	(25,000)
Net income (loss)	(1,962,525)	(743,163)	(596,059)	(569,909)	(1,793,854)	(1,674,423)	302,680	(3,418,838)
Other comprehensive income (loss), net	(524,051)	747,479	1,282	(1,032,994)	(360,051)	667,968	(1,187,515)	166,978
Comprehensive (loss) income	(2,486,576)	4,316	(594,777)	(1,602,903)	(2,153,905)	(1,006,455)	(884,835)	(3,251,860)
Basic and diluted (loss) income per share	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	0.01	(0.03)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

	Fiscal 2016				Fiscal 2015			
	Mar. 31 2016 \$	Dec. 31 2015 \$	Sep. 30 2015 \$	Jun. 30 2015 \$	Mar. 31 2015 \$	Dec. 31 2014 \$	Sep. 30 2014 \$	Jun. 30 2014 \$
<b>Balance Sheet:</b>								
Working capital	7,845,372	8,398,762	8,614,985	8,708,868	8,901,697	8,591,136	9,362,466	8,745,415
Total assets	14,816,036	17,231,425	17,229,246	17,925,164	19,539,844	21,794,694	22,510,465	23,426,418
Decommissioning liabilities	(1,183,793)	(1,198,604)	(1,057,191)	(977,938)	(1,062,292)	(952,108)	(886,520)	(983,377)

## Results of Operations

*Three Months Ended March 31, 2016, Three Months Ended December 31, 2015, and Three Months Ended March 31, 2015.*

Revenues and operating costs for the three months ended March 31, 2016 (“Q4/2016”), the three months ended December 31, 2015 (“Q3/2016”) and the three months ended March 31, 2015 (“Q4/2015”) are as follows:

	Q4/2016	Q3/2016	Q4/2015
Total sales	\$ 518,421	\$ 670,695	\$ 1,264,464
Total volume	12,798 BOE	18,650 BOE	17,782 BOE
Average realized price per BOE	\$ 40.51	\$ 35.96	\$ 71.11
Petroleum sales	\$ 292,327	\$ 479,082	\$ 1,264,464
Petroleum volume	7,061 BOE	12,292 BOE	17,782 BOE
Average petroleum realized price per BOE	\$ 41.40	\$ 38.98	\$ 71.11
Natural gas sales	\$ 226,094	\$ 191,613	-
Natural gas volume	5,737 BOE	6,358 BOE	-
Average natural gas realized price per BOE	\$ 39.41	\$ 30.14	-
Production costs	\$ 253,257	\$ 393,274	\$ 252,592
Average per BOE	\$ 19.79	\$ 21.09	\$ 14.20
Transportation and storage costs	\$ 52,631	\$ 95,253	\$ 213,836
Average per BOE	\$ 4.11	\$ 5.11	\$ 12.03
Royalties	\$ 23,566	\$ 26,733	\$ 50,987
Average per BOE	\$ 1.84	\$ 1.43	\$ 2.87
Netback	\$ 188,967	\$ 155,435	\$ 747,049
Average per BOE	\$ 14.77	\$ 8.33	\$ 42.01

### *Q4/2016 compared to Q4/2015*

Petroleum sales revenues decreased from \$1,264,464 in Q4/2015 to \$292,327 in Q4/2016, a decline of 77%, primarily due to a 42% drop in petroleum prices from \$71.11 in Q4/2015 compared to \$41.40 in Q4/2016 and the decline in production volumes sold.

Natural gas revenues increased from \$nil in Q4/2015 to \$226,094 in Q4/2016. The completion of the pipeline to enable sales of natural gas from the Cheal-E area was not completed until May 2015.

Production costs in Q4/2016 compared to Q4/2015 were similar, \$252,592 in Q4/2015 to \$253,257 in Q4/2016.

Transportation and storage costs in Q4/2016 compared to Q4/2015 decreased by 75% from \$213,836 in Q4/2015 to \$52,631 in Q4 due to the commissioning of the pipeline used to transport gas and oil thus reducing transportation costs.

Royalties expense declined by 54%, from \$50,987 in Q4/2015 to \$23,566 in Q4/2016, due to the lower prices received for petroleum sales in addition to lower petroleum volumes.

#### *Q4/2016 compared to Q3/2016*

Petroleum sales revenues decreased from \$479,082 in Q3/2016 to \$292,327 in Q4/2016, a decline of 39%, primarily due to the decline in production volumes sold. The decline was partially offset by the recovery of petroleum prices, from an average of \$38.98 per BOE in Q3/2016 to \$41.40 per BOE in Q4/2016.

Natural gas revenues increased from \$191,613 in Q3/2016 to \$226,094 in Q4/2016, an increase of 18% due to the increase in the average realized sales price offset by a slight decline in volume.

Production costs in Q4/2016 compared to Q3/2016 decreased by 36% from \$393,274 in Q3/2016 to \$253,257 in Q4/2016 due to ongoing work by the operator to reduce costs and increase efficiencies at the site.

Transportation and storage costs in Q4/2016 compared to Q3/2016 decreased by 45% from \$95,253 in Q3/2016 to \$52,631 in Q4/2016 due to the commissioning of the pipeline used to transport gas and oil thus reducing transportation costs.

Royalties expense declined by 12%, from \$26,733 in Q3/2016 to \$23,566 in Q4/2016, due to the decline in production in Q4/2016 compared to Q3/2016.

#### *Fiscal 2016 Compared to Fiscal 2015*

Revenues and operating costs for fiscal 2016 compared to fiscal 2015 are as follows:

	2016	2015
Total sales	\$ 3,342,553	\$ 6,547,177
Total volume	74,970 BOE	73,692 BOE
Average realized price per BOE	\$ 44.59	\$ 88.85
Petroleum sales	\$ 2,607,255	\$ 6,547,177
Petroleum volume	51,909 BOE	73,692 BOE
Average petroleum realized price per BOE	\$ 50.23	\$ 88.85
Natural gas sales	\$ 735,298	-
Natural gas volume	23,061 BOE	-
Average natural gas realized price per BOE	\$ 31.88	-
Production costs	\$ 1,285,840	\$ 1,144,612
Average per BOE	\$ 17.15	\$ 15.53
Transportation and storage costs	\$ 468,647	\$ 932,333
Average per BOE	\$ 6.25	\$ 12.65
Royalties	\$ 139,923	\$ 287,819
Average per BOE	\$ 1.87	\$ 3.91
Netback	\$ 1,448,143	\$ 4,182,413
Average per BOE	\$ 19.32	\$ 56.76

Overall petroleum and natural gas revenues decreased from \$6,547,177 in fiscal 2015 to \$3,342,553 in fiscal 2016, a decline of 49% primarily due to lower crude oil prices.

Oil sales volumes declined 30% while average realized sales prices for crude oil declined 43% from fiscal 2015 to fiscal 2016. Gas production contributed 23,061 BOE since the connection of the Cheal E site to the A pipeline and commencement of gas production in May 2015. All gas production from the Cheal wells was previously flared.

Production costs in fiscal 2016 compared to fiscal 2015 on a per BOE basis increased from \$15.53 per BOE in fiscal 2015 to \$17.15 per BOE in fiscal 2016. The increase was primarily due to additional maintenance at the Cheal E site.

Transportation and storage costs decreased in fiscal 2016 compared to fiscal 2015 on a per BOE basis from \$12.65 per BOE in fiscal 2015 to \$6.25 per BOE in fiscal 2016 due to the commissioning of the pipeline used to transport gas and oil thus reducing costs.

As a result of reduced commodity prices and lower production volumes, royalties declined by 51% from \$287,819 in fiscal 2015 to \$139,923 in fiscal 2016.

During fiscal 2016 the Company reported a net loss of \$3,871,656 compared to a net loss of \$6,584,435 during fiscal 2015, a decrease in loss of \$2,712,779.

General and administrative expenses incurred during fiscal 2016 and 2015 are as follows:

	2016 \$	2015 \$
Accounting and administrative	60,150	62,535
Audit and related	67,812	83,021
Bank charges and letter of credit fees	4,641	58,477
Corporate development	28,610	29,582
Legal	93,959	55,508
Office	51,206	36,132
Other (recovery)	-	(16,533)
Professional fees	622,054	841,498
Regulatory fees	10,079	15,929
Rent	69,311	68,502
Salaries and benefits	123,972	66,662
Shareholder costs	10,206	4,179
Telephone	9,676	11,272
Transfer agent fees	7,461	6,713
Travel	162,961	214,957
	<u>1,322,098</u>	<u>1,538,434</u>

Specific expenses of note for fiscal 2016 and 2015 are as follows:

- (i) professional fees totalling \$622,054 were incurred in fiscal 2016 compared to \$841,498 in fiscal 2015 as follows:
  - \$507,500 was paid to directors and officers of the Company in fiscal 2015, a decrease of \$152,000 from \$659,500 in fiscal 2015. The decrease was due to an overall voluntary reduction in compensation agreed to by the Company's executive officers and directors. See also "Related Party Transactions";
  - \$80,680 was paid to consultants for administrative consulting in fiscal 2016 compared to \$105,868 in fiscal 2015, reflecting the employment of an individual in October 2014, whereas in fiscal 2015 the person was contracted as a consultant. Accordingly, during fiscal 2016 period the Company recorded \$123,972 (2015 - \$68,502) for salaries and benefits attributed to the individual; and
  - \$33,874 was paid in fiscal 2016 to consultants for financial consulting services provided and is comparable to the \$76,130 paid in fiscal 2015;
- (ii) legal fees of \$93,959 were incurred in fiscal 2016, an increase of \$38,451 from \$55,508 in fiscal 2015, reflecting increased legal services provided for the property bidding process in Mexico;
- (iii) bank charges of \$4,641 (2015 - \$58,477) were incurred by the Company. During fiscal 2015 period the Company incurred significant bank fees on the release of a guarantee; and
- (iv) travel expenses decreased by \$51,996 from \$214,957 in fiscal 2015 to \$162,961 in fiscal 2016 due to a reduction in travel.

During fiscal 2016 the Company recorded general exploration expenses of \$279,550 (2015 - \$2,990,586) of which \$36,180 (2015 - \$2,732,060) was for the drilling of PEP 54876 and \$243,370 (2015 - \$258,526) was for ongoing review of current and potential exploration and evaluation assets.

During fiscal 2016 the Company recorded share-based compensation expense of \$14,385 (2015 - \$588,050) on the granting and vesting of share options. In addition the Company recorded share-based compensation expense of \$20,140 (2015 - \$67,582) on the re-pricing of share options which had previously been granted. The Company also recorded a compensation recovery of \$11,902 (2015 - \$nil) on the reversal of prior year's compensation expense previously recorded on forfeited unvested share options.



During fiscal 2015 the Company sold the North American Oil and Gas Corp. (“NAMG”) shares for proceeds of \$200,253 recognizing a realized loss of \$298,247. The Company also recorded a comprehensive loss of \$194,945, net of deferred income tax recovery of \$25,000.

Interest income is generated from cash on deposit with a senior financial institution and short-term money market instrument issued by major financial institutions. During fiscal 2016 the Company reported interest income of \$67,515, a decrease of \$46,941, compared to \$114,456 for fiscal 2015. The decrease in interest income in fiscal 2016 was due to lower levels of cash compared to fiscal 2015 and lower yields obtained during fiscal 2016.

During fiscal 2016 the Company repurchased 1,068,500 (2015 - 2,454,500) common shares for \$112,074 (2015 - \$371,803). See also “Normal Course Issuer Bid”.

### Exploration and Evaluation Assets

	New Zealand		United States		Total \$
	PEP 54879 \$	PEP 55770 \$	Tejon Main Area \$	White Wolf \$	
Balance at March 31, 2014	5,666,415	-	122,154	318,121	6,106,690
Capital expenditures	289,744	63,357	-	-	353,101
Net revenues pre-commercial discovery	(44,972)	-	-	-	(44,972)
Revision of estimate for decommissioning liabilities	(8,134)	-	-	-	(8,134)
Foreign exchange movement	(67,941)	-	-	-	(67,941)
Impairment	-	(63,357)	(122,154)	(318,121)	(503,632)
Balance at March 31, 2015	5,835,112	-	-	-	5,835,112
Capital expenditures	246,441	-	-	-	246,441
Revision of estimate for decommissioning liabilities	(4,965)	-	-	-	(4,965)
Foreign exchange movement	(296,586)	-	-	-	(296,586)
Balance at March 31, 2016	5,780,002	-	-	-	5,780,002

During fiscal 2016 the Company incurred additions of \$246,441 (2015 - \$353,101) for exploration and evaluation assets on the New Zealand properties. During fiscal 2015 the Company received net revenues of \$44,972 from production from the testing of the G1 well on PEP 54879, which was credited to exploration and evaluation assets. During fiscal 2015 the Company recorded an impairment of \$503,632 on its exploration and evaluation assets. Details of the Company’s activities are discussed in “Projects Update”.

### Property, Plant and Equipment

During fiscal 2016 the Company incurred additions of \$361,367 (2015 - \$1,760,940) for property, plant and equipment expenditures on PEP 54877. The Company also recorded a debit of \$424,527 (2015 - \$60,983) for revisions to the decommissioning estimates and a decrease of \$565,855 (2015 - \$30,122) for the impact of foreign exchange translation.

An impairment test is performed on capitalized property, plant and equipment costs at a CGU level when indicators of impairment exist. Impairment is calculated as the difference in the CGU’s carrying value and its recoverable amount.

During fiscal 2016 the Company recognized an impairment of \$206,421 (2015 - \$60,500) on the Carbon Property to a \$nil (2015 - \$390,000) carrying value, as the Carbon Property was determined to be uneconomical and the Company has no intention of further development, resulting in no expected material future production and cash flow.

During fiscal 2016 the Company recognized an impairment of \$1,216,009 (2015 - \$2,507,939) on PEP 54877 based on the estimated fair value less costs to sell and was determined using estimated future cash flows based on estimated proven developed (“1P”) reserves, discounted at 10%.

### Financial Condition / Capital Resources

As at March 31, 2016 the Company had cash resources of \$7,694,932, a decrease of \$706,190 from \$8,401,122 as at March 31, 2015. Operating activities during fiscal 2016 was positive generating cash of \$675,948. Investing activities used \$993,445 cash of which \$564,589 was for capital and exploration expenditures, \$324,042 for purchase

of common shares of Advantage Lithium and \$104,814 for other. The Company also spent \$112,073 for the ongoing purchase of its common shares under the NCIB.

As at March 31, 2016 the Company had working capital of \$7,845,372. The Company is currently focussing on the exploration, development and production of oil and gas from its Cheal properties. The Company believes that it currently has sufficient financial resources to conduct anticipated exploration and development programs and meet anticipated corporate administration costs for the upcoming twelve month period. However, exploration activities may change due to ongoing results and recommendations, discoveries may require appraisal and development work or the Company may acquire additional properties, which may entail significant funding or exploration commitments. In the event that the occasion arises, the Company may be required to obtain additional financing. The Company has relied solely on equity financing to raise the requisite financial resources. While it has been successful in the past, there can be no assurance that the Company will be successful in raising future financing should the need arise.

### **Commitments**

As at March 31, 2016 the Company has capital expenditures of approximately \$6,600,000, of which \$1,131,000 is to be incurred in fiscal 2017. The capital expenditure amounts may be subject to change upon application.

### **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, classification of investments and assumptions used for share-based compensation. Actual results may differ from those estimates.

### **Changes in Accounting Policies**

There are no changes in accounting policies.

### **Related Party Disclosures**

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

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

During fiscal 2016 and 2015 the following amounts were incurred with respect to Mr. David Sidoo, the Company's President and Chief Executive Officer ("CEO") and Mr. Nick DeMare, the Company's Chief Financial Officer ("CFO"):

	2016 \$	2015 \$
Professional fees - David Sidoo <sup>(1)</sup>	144,000	196,500
Professional fees - Nick DeMare <sup>(2)</sup>	42,000	52,000
Share-based compensation - David Sidoo	-	183,153
Share-based compensation - Nick DeMare	-	125,230
	<u>186,000</u>	<u>556,883</u>

- (1) Paid to Siden Investments Ltd., a private company owned by Mr. Sidoo.
- (2) Paid to Chase Management Ltd. (“Chase”) a private company owned by Mr. DeMare.

(b) *Transactions with Other Related Parties*

- (i) During fiscal 2016 and fiscal 2015 the following amounts were incurred with respect to non-executive officers and directors of the Company:

	2016 \$	2015 \$
Professional fees - Marc Bustin, Director <sup>(1)</sup>	284,000	341,000
Professional fees - Herb Dhaliwal, Director <sup>(2)</sup>	37,500	70,000
Share-based compensation - Marc Bustin, Director	-	126,480
Share-based compensation - Herb Dhaliwal, Director	-	126,357
	<u>321,500</u>	<u>663,837</u>

- (1) Paid to RMB Earth Science Service Consulting Ltd.(“RMB Earth Science”), a private company owned by Mr. Bustin.
- (2) Paid to ADH Holdings Ltd., a private company owned by Mr. Dhaliwal.

As at March 31, 2016, \$16,000 (2015 - \$23,000) remained unpaid to RMB Earth Science.

- (ii) During fiscal 2016 the Company incurred a total of \$60,150 (2015 - \$60,550) to Chase for accounting and administration services provided by Chase personnel, excluding Mr. DeMare. As at March 31, 2016, \$8,750 (2015 - \$9,000) remained unpaid.
- (c) On March 6, 2015 the Company entered into a letter of intent (the “LOI”) with Frontier Natural Resources Inc. (“Frontier”) whereby it provided Frontier a credit facility of US \$250,000 (the “Credit Facility”). The advances under the Credit Facility bear interest at 3% per annum. On December 31, 2015 the advances became due and payable. The Company also has the option to convert the advances into Class A Preferred Shares of Frontier at a conversion price of US \$0.20 per share.

As at March 31, 2016 the Company had advanced US \$250,000 (2015 - US \$165,000). During fiscal 2016 the Company recorded interest income of \$9,636 (2015 - \$214). Frontier paid US \$6,250 of accrued interest during fiscal 2016 and, as at March 31, 2016, \$1,623 (2015 - \$214) of interest remained unpaid and is included in amounts receivable.

In fiscal 2016 Frontier issued a bonus of 250,000 Class B Preferred Shares to the Company at a fair value of \$nil.

Frontier is a privately held oil and natural gas company incorporated in Pennsylvania, U.S.A. in 2014. Mr. Bustin, a director of the Company, is also a shareholder and director of Frontier.

- (d) The Company has made significant investments in Advantage Lithium. See “Investment in Associated Company”.

**Financial Instruments and Risk Management**

The nature of the Company’s operations expose the Company to credit risk, liquidity risk and market risk, and changes in commodity prices, foreign exchange rates and interest rates may have a material effect on cash flows, net income and comprehensive income.

This note provides information about the Company’s exposure to each of the above risks as well as the Company’s objectives, policies and processes for measuring and managing these risks.

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company’s activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework and policies.

### ***Credit Risk***

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production. All of the Company's production is sold directly to a major oil company. The Company is paid for its oil sales within 30 days of shipment. The Company has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition.

Cash is held with a Canadian chartered bank and is monitored to ensure a stable return.

The carrying amount of cash, amounts receivable and advances receivable represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts on its amounts receivable as at March 31, 2016 and did not provide for any doubtful accounts.

### ***Commodity Price Risk***

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and the level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. All of the Company's oil production is sold at spot rates exposing the Company to the risk of price movements. Effective May 16, 2015 the Company entered into a gas supply agreement to sell its share of gas production from the Cheal E field at a price of NZD \$4.75 per gigajoule, ending December 31, 2016.

### ***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.

### ***Market Risk***

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

### ***Foreign Currency Exchange Rate Risk***

Foreign currency exchange rate risk is the risk that future cash flows, net income and comprehensive income will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum sales are denominated in United States dollars and gas sales, operational and capital activities related to the Company's properties are transacted primarily in New Zealand dollars and/or United States dollars with some costs also being incurred in Canadian dollars.

The Company currently does not have significant exposure to other currencies and this is not expected to change in the foreseeable future as the work commitments in New Zealand are expected to be carried out in New Zealand and to a lesser extent, in United States dollars.

### ***Interest Rate Risk***

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash which bears a floating rate of interest. The risk is not considered significant.

The Company did not have any interest rate swaps or financial contracts in place during fiscal 2016 or 2015 and any variations in interest rates would not have materially affected net income.

### ***Fair Value of Financial Instruments***

Financial instruments are classified into one of the following five categories: fair value through profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; available-for-sale and other financial liabilities.

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

### **Risks and Uncertainties**

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

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

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

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

### **Outstanding Share Data**

The Company’s authorized share capital is unlimited common shares with no par value. As at July 28, 2016, there were 89,585,665 outstanding common shares (net of shares repurchased) and 5,558,000 share options outstanding with exercise prices ranging from \$0.09 to \$0.14 per share.