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**EAST WEST PETROLEUM CORP.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2013

*(Unaudited - Expressed in Canadian Dollars)*

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**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

**EAST WEST PETROLEUM CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
*(Unaudited - Expressed in Canadian Dollars)*

	Note	March 31, 2013 \$	December 31, 2012 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	3	20,672,730	21,208,781
Amounts receivable	4	94,133	148,300
Prepaid expenses		<u>53,918</u>	<u>18,828</u>
<b>Total current assets</b>		<u>20,820,781</u>	<u>21,375,909</u>
<b>Non-current assets</b>			
Investment	5	3,757,720	4,128,835
Deposits	6(a)	347,423	876,626
Restricted cash	6(d)	3,554,600	3,482,150
Exploration and evaluation assets	6	1,564,333	869,344
Property, plant and equipment	7	674,440	706,584
Other		<u>16,533</u>	<u>16,533</u>
<b>Total non-current assets</b>		<u>9,915,049</u>	<u>10,080,072</u>
<b>TOTAL ASSETS</b>		<u>30,735,830</u>	<u>31,455,981</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		104,975	137,815
<b>Non-current liabilities</b>			
Decommissioning liabilities	8	<u>78,438</u>	<u>81,404</u>
<b>TOTAL LIABILITIES</b>		<u>183,413</u>	<u>219,219</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	37,875,410	37,907,477
Share-based compensation reserve		4,418,746	4,335,556
Deficit		(14,596,959)	(14,186,606)
Accumulated other comprehensive income		<u>2,855,220</u>	<u>3,180,335</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>30,552,417</u>	<u>31,236,762</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>30,735,830</u>	<u>31,455,981</u>

**Nature of Operations** - see Note 1

**Commitments** - see Note 12

**Events after the Reporting Period** - see Note 15

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on May 21, 2013 and are signed on its behalf by:

/s/ Greg Renwick  
 Greg Renwick  
 Director

/s/ Nick DeMare  
 Nick DeMare  
 Director

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

**EAST WEST PETROLEUM CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**  
*(Unaudited - Expressed in Canadian Dollars)*

	Note	Three Months Ended	
		March 31,	
		2013	2012
		\$	\$
<b>Revenue</b>			
Petroleum and natural gas sales		42,523	48,125
Royalties		<u>(1,907)</u>	<u>(4,283)</u>
		<u>40,616</u>	<u>43,842</u>
<b>Expenses</b>			
Operating		12,066	11,616
Depletion and depreciation	5	28,666	36,476
Finance expense of decommissioning liabilities	6	512	30
General and administrative		482,337	547,045
Share-based compensation	7(d)	<u>83,190</u>	<u>85,014</u>
		<u>606,771</u>	<u>680,181</u>
<b>Loss before other items</b>		<u>(566,155)</u>	<u>(636,339)</u>
<b>Other items</b>			
Interest and other income		72,876	77,116
Foreign exchange		<u>122,114</u>	<u>(77,485)</u>
		<u>194,990</u>	<u>(369)</u>
<b>Loss before deferred income taxes</b>		(371,165)	(636,708)
<b>Deferred income tax</b>		<u>(46,000)</u>	<u>-</u>
<b>Net loss for the period</b>		(417,165)	(636,708)
<b>Other comprehensive loss, net of deferred income taxes</b>	5	<u>(325,115)</u>	<u>-</u>
<b>Comprehensive loss for the period</b>		<u>(742,280)</u>	<u>(636,708)</u>
<b>Basic and diluted loss per common share</b>		<u>\$(0.01)</u>	<u>\$(0.01)</u>
<b>Weighted average number of common shares outstanding</b>		<u>82,742,936</u>	<u>83,761,015</u>

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

**EAST WEST PETROLEUM CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
*(Unaudited - Expressed in Canadian Dollars)*

	<b>Three Months Ended March 31, 2013</b>					
	<b>Share Capital</b>		<b>Share-Based Compensation Reserve</b>	<b>Deficit</b>	<b>Accumulated Other Comprehensive Gain</b>	<b>Total Equity</b>
	<b>Number of Shares</b>	<b>Amount \$</b>				
<b>Balance at December 31, 2012</b>	82,749,648	37,907,477	4,335,556	(14,186,606)	3,180,335	31,236,762
Repurchase of common shares	(70,000)	(32,067)	-	6,812	-	(25,255)
Share-based compensation	-	-	83,190	-	-	83,190
Unrealized loss on available-for-sale investment	-	-	-	-	(371,115)	(371,115)
Deferred income tax on unrealized loss on available-for-sale investment	-	-	-	-	46,000	46,000
Net loss for the period	-	-	-	(417,165)	-	(417,165)
<b>Balance at March 31, 2013</b>	<b>82,679,648</b>	<b>37,875,410</b>	<b>4,418,746</b>	<b>(14,596,959)</b>	<b>2,855,220</b>	<b>30,552,417</b>

	<b>Three Months Ended March 31, 2012</b>				
	<b>Share Capital</b>		<b>Share-Based Compensation Reserve</b>	<b>Deficit</b>	<b>Total Equity</b>
	<b>Number of Shares</b>	<b>Amount \$</b>			
<b>Balance at December 31, 2011</b>	83,700,648	38,382,398	3,620,539	(12,029,379)	29,973,558
Repurchase of common shares	(348,500)	(174,038)	-	15,556	(158,482)
Share-based compensation	-	-	85,014	-	85,014
Net loss and comprehensive loss for the period	-	-	-	(636,708)	(636,708)
<b>Balance at March 31, 2012</b>	<b>83,352,148</b>	<b>38,208,360</b>	<b>3,705,553</b>	<b>(12,650,531)</b>	<b>29,263,382</b>

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net loss for the period	(417,165)	(636,708)
Adjustments for:		
Depletion and depreciation	28,666	36,476
Finance expense of decommissioning liabilities	512	30
Share-based compensation	83,190	85,014
Foreign exchange	(72,450)	64,592
Deferred income tax	46,000	-
	<u>(331,247)</u>	<u>(450,596)</u>
Changes in non-cash working capital items:		
(Increase) decrease in amounts receivable	54,167	(72,868)
Increase in prepaid expenses	(35,090)	(3,392)
Decrease in accounts payable and accrued liabilities	(32,840)	(77,821)
	<u>(13,763)</u>	<u>(154,081)</u>
<b>Net cash used in operating activities</b>	<u>(345,010)</u>	<u>(604,677)</u>
<b>Investing activities</b>		
Decrease in deposits	529,203	-
Expenditures on exploration and evaluation assets	(694,989)	-
<b>Net cash used in investing activities</b>	<u>(165,786)</u>	<u>-</u>
<b>Financing activity</b>		
Repurchase of common shares	(25,255)	(158,482)
<b>Net cash used in by financing activity</b>	<u>(25,255)</u>	<u>(158,482)</u>
<b>Net change in cash</b>	(536,051)	(763,159)
<b>Cash at beginning of period</b>	<u>21,208,781</u>	<u>25,601,140</u>
<b>Cash at end of period</b>	<u>20,672,730</u>	<u>24,837,981</u>

**Supplemental cash flow information** - See Note 13

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

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2013**  
*(Unaudited - Expressed in Canadian Dollars)*

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**1. Nature of Operations**

East West Petroleum Corp. (the "Company") was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia). The Company is listed and trades on the TSX Venture Exchange ("TSXV") under the symbol "EW". The Company's principal office is located at #1210 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6 Canada.

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

**2. Basis of Preparation**

*Statement of Compliance*

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

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

*Basis of Presentation*

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

**3. Cash**

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	\$	\$
Cash	1,781,089	2,286,414
Demand deposits	<u>18,891,641</u>	<u>18,922,367</u>
	<u>20,672,730</u>	<u>21,208,781</u>

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2013**  
*(Unaudited - Expressed in Canadian Dollars)*

**4. Amounts Receivable**

	March 31, 2013 \$	December 31, 2012 \$
Production receivable	26,155	20,924
Canadian harmonized sales tax	42,778	20,488
Other	25,200	106,888
	<u>94,133</u>	<u>148,300</u>

**5. Investment**

<u>As at March 31, 2013</u>			
Number of Common Shares	Cost \$	Accumulated Unrealized Gain on Available- for-Sale Investment \$	Carrying Value \$
North American Oil and Gas Corp. ("NAMG")	<u>5,000,000</u>	<u>498,500</u>	<u>3,757,720</u>
		<u>3,259,220</u>	<u>3,757,720</u>
<u>As at December 31, 2012</u>			
Number of Common Shares	Cost \$	Accumulated Unrealized Gain on Available- for-Sale Investment \$	Carrying Value \$
NAMG	<u>5,000,000</u>	<u>498,500</u>	<u>4,128,835</u>
		<u>3,630,335</u>	<u>4,128,835</u>

During fiscal 2012 the Company purchased 5,000,000 common shares of NAMG at a cost of \$498,500 (US \$500,000). As at March 31, 2013 the quoted market value of the NAMG shares was \$3,757,720 (December 31, 2012 - \$4,128,835). See also Note 6(a).

During the three months ended March 31, 2013 the Company recorded a net unrealized comprehensive loss of \$325,115 (fiscal 2012 - comprehensive gain of \$3,180,335), net of deferred tax expense of \$46,000 (fiscal 2012 - deferred tax recovery of \$450,000).

The President of the Company was appointed as a director of NAMG in conjunction with the Company's purchase of the NAMG shares.



**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**6. Exploration and Evaluation Assets**

	Tejon Ranch Extension \$	White Wolf \$	Total \$
Balance at December 31, 2011	-	-	-
Leasehold costs	1,606	52,327	53,933
Intangible work in progress costs	776,630	-	776,630
Tangible work in progress costs	<u>38,781</u>	<u>-</u>	<u>38,781</u>
Balance at December 31, 2012	817,017	52,327	869,344
Leasehold costs	494	206,739	207,233
Intangible work in progress costs	178,832	-	178,832
Tangible work in progress costs	<u>308,824</u>	<u>-</u>	<u>308,824</u>
Balance at March 31, 2013	<u>1,305,167</u>	<u>259,066</u>	<u>1,564,333</u>

(a) On August 29, 2012 the Company entered into a letter of intent with Lani, LLC (“Lani”) and subsequently, on November 13, 2012, the Company entered into a farm-in agreement (collectively the “Lani Agreement”) whereby the Company was assigned certain participation interests in Lani’s petroleum and gas leases covering exploration properties in the San Joaquin Basin of California. Under the terms of the Lani Agreement the Company was assigned:

- (i) 25% working interest in the Tejon Ranch Extension. The Company funded 100% of the working interest costs associated with the drilling and completing of one exploration well on the Tejon Ranch Extension leases, for an amount of US \$1,300,000. The Company is now responsible for its 25% participation interest;
- (ii) 21.25% working interest in the Tejon Main Area. The Company is required to fund 42.5% of the working interest costs associated with the drilling and completing one exploration well on the Tejon Main Area leases, up to a maximum of US \$552,500; and
- (iii) 50% working interest in leases in the White Wolf. The Company is required to pay US \$347,500 to Lani to be used for lease delay rental payments and for leasing new acreage in White Wolf before July 1, 2013.

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

During fiscal 2012 the Company advanced a total of US \$1,700,000 to NAMG to fund exploration activities. As of March 31, 2013, \$134,147 (December 31, 2012 - \$816,932) of this amount is included in deposits.

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

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2013**  
*(Unaudited - Expressed in Canadian Dollars)*

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**6. Exploration and Evaluation Assets (continued)**

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

The four concessions have specific mandatory work programs (the “Romania Work Programs”), which were estimated at US \$56,630,000 for all four programs, to be completed over two years. Production from the concessions is also subject to royalties of between 3.5% to 13.5% based on quarterly gross production payable to the government.

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

- (d) Effective November 28, 2011 the Company and the Office National des Hydrocarbures et des Mines (“ONHYM”), an agency of the Moroccan government, entered into agreements whereby the Company was granted an exploration permit (the “Exploration Permit”) for a 75% participation interest in a prospective exploration block (the “Doukkala Block”) situated along the Atlantic coast southwest from Casablanca, Morocco. The Exploration Permit has an overall duration of eight years, comprising :
- (i) Phase 1 program under which the Company is committed to carry out a specified exploration work program, estimated to cost approximately US \$5,500,000, over three years;
- (ii) on completion of the Phase 1 program, the Company can elect to enter into an extension for a Phase 2 program under which, amongst other things, the Company will be committed to drill two wells, estimated to cost approximately US \$14,000,000 over a two year duration; and
- (iii) on completion of the Phase 2 program the Company can elect to enter into an extension for a Phase 3 program under which, amongst other things, the Company will be committed to acquire 3D seismic and drilling of one well, estimated to cost approximately US \$14,000,000 over a three year duration.

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**6. Exploration and Evaluation Assets (continued)**

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

The Company has provided a US \$3,500,000 (Cdn \$3,554,600) guarantee in favour of ONHYM as security for performance of the Phase 1 program. The amount is deposited in a savings account with a major Canadian bank.

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

- (e) Effective March 28, 2012 the Company (10% interest), Oil India Limited (40% interest), Oil and Natural Gas Corporation Limited (30% interest) and Gail (India) Limited (20% interest) (collectively the "Partners") and the government of India signed a production sharing contract (the "PSC") for Block AA-ONN-2010/2 (the "AA Block") located in the Assam-Arakan Basin of northeast India. Under the terms of the PSC work program commitment, the Partners will acquire certain 3D seismic data and drill two wells, at an estimated cost to the Company of US \$2.8 million, over a five year period.

**7. Property, Plant and Equipment**

	Petroleum and Natural Gas Properties \$	Office Furniture and Equipment \$	Leasehold Improvements \$	Total \$
<b>Cost:</b>				
Balance at December 31, 2011	1,180,046	28,460	23,668	1,232,174
Revision of estimate for decommissioning costs	<u>22,940</u>	-	-	<u>22,940</u>
Balance at December 31, 2012	1,202,986	28,460	23,668	1,255,114
Revision of estimate for decommissioning costs	<u>(3,478)</u>	-	-	<u>(3,478)</u>
Balance at March 31, 2013	<u>1,199,508</u>	<u>28,460</u>	<u>23,668</u>	<u>1,251,636</u>
<b>Accumulated Depletion and Depreciation:</b>				
Balance at December 31, 2011	(227,887)	(5,743)	(1,972)	(235,602)
Depletion and depreciation	(130,473)	(8,538)	(5,917)	(144,928)
Impairment	<u>(168,000)</u>	-	-	<u>(168,000)</u>
Balance at December 31, 2012	(526,360)	(14,281)	(7,889)	(548,530)
Depletion and depreciation	<u>(25,053)</u>	<u>(2,134)</u>	<u>(1,479)</u>	<u>(28,666)</u>
Balance at March 31, 2013	<u>(551,413)</u>	<u>(16,415)</u>	<u>(9,368)</u>	<u>(577,196)</u>
<b>Carrying Value:</b>				
Balance at December 31, 2011	<u>952,159</u>	<u>22,717</u>	<u>21,696</u>	<u>996,572</u>
Balance at December 31, 2012	<u>676,626</u>	<u>14,179</u>	<u>15,779</u>	<u>706,584</u>
Balance at March 31, 2013	<u>648,095</u>	<u>12,045</u>	<u>14,300</u>	<u>674,440</u>

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**7. Property, Plant and Equipment (continued)**

Effective September 1, 2010 the Company executed a purchase and sale agreement with Sphere Energy Corp. (“Sphere”), a private company, whereby the Company paid \$1,125,000 to acquire Sphere’s working interests, ranging from 4.12% to 20%, in four producing oil wells and fourteen gas wells (the “Carbon Property”) located northeast of Calgary, Alberta.

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

**8. Decommissioning Liabilities**

	<b>Three Months Ended March 31, 2013 \$</b>	<b>Year Ended December 31, 2012 \$</b>
Balance, beginning of period	81,404	56,837
Finance cost	512	1,627
Revision of estimate	<u>(3,478)</u>	<u>22,940</u>
Balance, end of period	<u>78,438</u>	<u>81,404</u>

The total amount of estimated cash flows required to settle the Company’s estimated obligation is \$122,628 which has been discounted using pre-tax risk-free rates of between 1.10% to 2.72%. The decommissioning liabilities relate to the Carbon Property in Canada. The present value of the decommissioning liabilities may be subject to change based on management’s current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

The total future asset decommissioning obligations were estimated based on the Company’s net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future years. These liabilities will be settled at the end of the useful lives of the underlying assets which are currently expected to extend up to 48 years. Settlement of the liabilities is expected to be funded from general corporate funds at the time of retirement.

**9. Share Capital**

(a) *Authorized Share Capital*

At March 31, 2013 the Company’s authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Reconciliation of Changes in Share Capital*

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

On October 11, 2012 the Company renewed its normal course issuer bid (the “Second Normal Course Issuer Bid”) to repurchase for cancellation up to 7,433,924 common shares until October 15, 2013 or the date by which the Company has acquired the maximum number of common shares under the Second Normal Course Issuer Bid.

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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*(Unaudited - Expressed in Canadian Dollars)*

**9. Share Capital (continued)**

During the three months ended March 31, 2013 the Company repurchased 70,000 (2012 - 348,500) common shares for \$25,255 (2012 - \$242,800) cash consideration. The average carrying value of the common shares was \$0.36 (2012 - \$0.45) per share. The difference between the purchase price and the carrying value of the common shares was \$6,812 (2012 - \$15,556).

See also Note 15.

(c) *Warrants*

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

	2013		2012	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning and end of period	11,685,000	0.34	26,105,595	1.12

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at March 31, 2013:

Number	Exercise Price \$	Expiry Date
11,685,000	0.34	September 29, 2013

(d) *Share Option Plan*

The Company has established a rolling share 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 share options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSXV. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years from the date of grant.

During the three months ended March 31, 2013 and 2012 the Company did not grant any share options.

During the three months ended March 31, 2013 the Company recorded compensation expense of \$83,190 (2012 - \$85,014) on the vesting of share options previously granted.

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

	<u>2013</u>	<u>2012</u>
Risk-free interest rate	1.16%	0.96% - 1.17%
Estimated volatility	111%	125%
Expected life	3 years	2.25 years - 4 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

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**9. Share Capital (continued)**

The weighted average grant date fair value of all share options vested during the three months ended March 31, 2013 was \$0.07 (2012 - \$0.14) per share option.

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

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

	<u>2013</u>		<u>2012</u>	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning and end of period	<u>8,233,530</u>	0.40	<u>8,033,530</u>	0.56

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

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
300,000	300,000	0.26	January 7, 2015
300,000	100,000	0.40	April 11, 2015
1,700,000	1,700,000	0.16	June 11, 2015
720,000	720,000	0.20	July 19, 2015
1,252,530	1,252,530	0.25	October 1, 2015
610,000	610,000	0.50	October 1, 2015
240,000	240,000	1.16	February 2, 2016
1,610,000	1,610,000	0.40	February 2, 2016
80,000	80,000	0.90	March 14, 2016
36,000	36,000	0.87	April 6, 2016
1,160,000	773,334	0.40	May 31, 2016
<u>225,000</u>	<u>150,000</u>	0.45	September 14, 2016
<u>8,233,530</u>	<u>7,571,864</u>		

On March 8, 2013 the Company amended, subject to disinterested shareholder approval, the terms of 1,400,000 share options previously granted to a director of the Company, whereby the exercise price of the share options was reduced from \$0.83 per share on 1,160,000 share options and \$1.16 per share on 240,000 share options to \$0.40 per share. Other than the imposition of certain trading restrictions, all other terms of the options remain the same.

On April 4, 2013 the Company agreed, subject to shareholder approval, to amend the Plan, from a rolling 10% share option plan to a fixed 15% share option plan (the "15% Plan"). The Company also granted share options to directors, officers and consultants of the Company to purchase 1,725,000 common shares at \$0.37 per share for a period of five years. The grant of these options is conditional upon shareholders approving the 15% Plan.

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**9. Share Capital (continued)**

(e) *Compensation Options*

During fiscal 2010 the Company granted 1,031,000 compensation options with each compensation option entitling the holder to purchase one unit for \$0.25 per unit. 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.

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

	2013		2012	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning and end of period	731,000	0.25	731,000	0.25

As at March 31, 2013, 731,000 compensation options were outstanding and exercisable at an exercise price of \$0.25 expiring September 29, 2013.

(f) *Escrow Shares*

As at March 31, 2013 there are 1,997,023 common shares which remain held in escrow and will be released in accordance with the requirements of the TSXV over a remaining period ending October 4, 2013.

**10. Related Party Disclosures**

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

(a) *Transactions with Key Management Personnel*

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

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

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

See also Note 12(b).

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**10. Related Party Disclosures** (continued)

(b) *Transactions with Other Related Parties*

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

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

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

(ii) During the three months ended March 31, 2013 the Company also incurred a total of \$11,000 (2012 - \$12,500) to Chase Management Ltd. ("Chase"), a private corporation owned by the CFO of the Company, for accounting and administration services provided by Chase personnel, excluding the CFO. The Company also paid \$nil (2012 - \$721) to the spouse of the President of the Company for professional services rendered. As at March 31, 2013, \$11,000 (2012 - \$9,500) remained unpaid and has been included in accounts payable and accrued liabilities.

(c) See also Notes 5 and 6(a).

**11. Financial Instruments and Risk Management**

*Categories of Financial Assets and Financial Liabilities*

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

Financial Instrument	Category	March 31, 2013 \$	December 31, 2012 \$
Cash	FVTPL	20,672,730	21,208,781
Amounts receivable	Loans and receivables	94,133	148,300
Investments	Available-for-sale	3,757,720	4,128,835
Restricted cash	FVTPL	3,554,600	3,482,150
Accounts payable and accrued liabilities	Other liabilities	(104,975)	(137,815)

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

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

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



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**11. Financial Instruments and Risk Management (continued)**

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

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

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

*Credit Risk*

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

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

*Commodity Price Risk*

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

*Liquidity Risk*

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

	<b>Contractual Maturity Analysis at March 31, 2013</b>				
	<b>Less than 3 Months \$</b>	<b>3 - 12 Months \$</b>	<b>1 - 5 Years \$</b>	<b>Over 5 Years \$</b>	<b>Total \$</b>
Cash	20,672,730	-	-	-	20,672,730
Amounts receivable	94,133	-	-	-	94,133
Investment	-	-	3,757,720	-	3,757,720
Restricted cash	-	-	3,554,600	-	3,554,600
Accounts payable and accrued liabilities	(104,975)	-	-	-	(104,975)

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**11. Financial Instruments and Risk Management (continued)**

	<b>Contractual Maturity Analysis at December 31, 2012</b>				
	<b>Less than 3 Months \$</b>	<b>3 - 12 Months \$</b>	<b>1 - 5 Years \$</b>	<b>Over 5 Years \$</b>	<b>Total \$</b>
Cash	21,208,781	-	-	-	21,208,781
Amounts receivable	148,300	-	-	-	148,300
Investment	-	-	4,128,835	-	4,128,835
Restricted cash	-	-	3,482,150	-	3,482,150
Accounts payable and accrued liabilities	(137,815)	-	-	-	(137,815)

*Market Risk*

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

(a) Interest Rate Risk

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

(b) Foreign Currency Risk

The Company 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 March 31, 2013, 1 Canadian Dollar was equal to 0.98 US Dollar.

Balances are as follows:

	<b>US Dollar</b>	<b>Canadian Dollar Equivalent</b>
Cash	1,638,248	1,671,681
Investment	3,700,000	3,757,720
Restricted cash	3,500,000	3,554,600
Accounts payable and accrued liabilities	(38,518)	(39,304)
	<u>8,799,730</u>	<u>8,944,697</u>

Based on the net exposures as of March 31, 2013 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 \$780,000 higher (or lower).

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**11. Financial Instruments and Risk Management (continued)**

*Capital Management*

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

**12. Commitments**

(a) Effective August 1, 2011 the Company entered into an operating lease, expiring July 31, 2016, for the rental of an office in Vancouver, BC with a gross monthly lease payment of \$5,650 (2012 - \$5,510). The Company has entered into a sub-lease with a public company, which is related through a common director and officer, whereby the Company will be reimbursed \$2,755 per month. During the three months ended March 31, 2013 the Company received \$8,475 (2012 - \$8,265) from the public company for shared premises.

(b) The Company and Greg Renwick have entered into an executive agreement whereby Mr. Renwick provides his services as the President and Chief Executive Officer of the Company. Under the agreement the Company is currently paying Mr. Renwick a base salary of US \$250,000 per annum. The agreement expires on September 30, 2013.

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

(c) See also Note 6.

**13. Supplemental Cash Flow Information**

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

	2013 \$	2012 \$
Investing activity		
Expenditures on property, plant and equipment	<u>3,478</u>	<u>(2,430)</u>
Operating activity		
Provision for decommissioning liabilities	<u>(3,478)</u>	<u>2,430</u>

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**14. Segmented Information**

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

	<b>As at March 31, 2013</b>		
	<b>Canada</b>	<b>United States</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	20,443,266	377,515	20,820,781
Investment	3,757,720	-	3,757,720
Deposit	-	347,423	347,423
Restricted cash	3,554,600	-	3,554,600
Exploration and evaluation assets	-	1,564,333	1,564,333
Property, plant and equipment	674,440	-	674,440
Other	16,533	-	16,533
	<u>28,446,559</u>	<u>2,289,271</u>	<u>30,735,830</u>
	<b>As at December 31, 2012</b>		
	<b>Canada</b>	<b>United States</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	21,283,164	92,745	21,375,909
Investment	4,128,835	-	4,128,835
Deposit	-	876,626	876,626
Restricted cash	3,482,150	-	3,482,150
Exploration and evaluation assets	-	869,344	869,344
Property, plant and equipment	706,584	-	706,584
Other	16,533	-	16,533
	<u>29,617,266</u>	<u>1,838,715</u>	<u>31,455,981</u>

**15. Events after the Reporting Period**

Subsequent to March 31, 2013 the Company repurchased an additional 618,500 common shares under its Second Normal Course Issuer Bid for \$181,861 cash consideration.