

# **EAST WEST PETROLEUM CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED JUNE 30, 2012**

### **Background**

This discussion and analysis of financial position and results of operation is prepared as at August 24, 2012 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2012 of East West Petroleum Corp. (the "Company"). The Company has adopted International Financial Reporting Standards ("IFRS") and the following disclosure and associated financial statements are presented in accordance with IFRS. Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

### **Company Overview**

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

During fiscal 2010 the Company negotiated the acquisition of interests in petroleum and natural gas properties, and conducted a number of private placement financings. As a result, effective October 1, 2010, the Company's listing of its common shares was transferred from NEX to the TSXV, as a Tier 2 oil and gas issuer trading under the symbol "EW". Effective May 5, 2011, 13,636,500 warrants which were issued in the Company's \$30 million private placement financing of December 2010, commenced trading on the TSXV under the symbol "EW.WT".

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

The Company has filed a normal course issuer bid which authorizes the Company to repurchase for cancellation up to 7,995,189 common shares until October 13, 2012 or the date by which the Company has acquired the maximum number of shares under the bid. See also "Selected Financial Data - Results of Operations" and "Outstanding Share Data".

### **Exploration 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.

### ***Carbon Property, Alberta***

Effective September 1, 2010 the Company executed a purchase and sale agreement with Sphere Energy Corp. (“Sphere”), a private company, whereby the Company paid \$1,125,000 to acquire Sphere’s working interests, ranging from 4.1125% to 20%, in three producing oil wells and thirteen gas wells (eight flowing coal bed methane (“CBM”) gas) (the “Carbon Property”) located approximately 50 miles northeast of Calgary, Alberta. The wells are producing from the Horseshoe Canyon, Basal Belly River, Belly River, Viking and Glauconitic formations.

The Company has filed an independent reserves and resource evaluation on SEDAR, dated February 24, 2012, relating to the resource base of the Company in the Carbon Property as of December 31, 2011. Prepared by AJM Deloitte, the report follows all industry standard procedures and is in conformity with the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 (“NI 51-101”).

The Carbon Property is located approximately fifty miles northeast of Calgary, Alberta in Township 29, Range 22W4M. The Company holds interests ranging from 4.1125 to 20 percent in three producing oil wells and 13 gas wells. The wells are producing from the Horseshoe Canyon, Basal Belly River, Belly River, Viking, Glauconitic, and Ellerslie Formations. Approximately two-thirds of the proved plus probable value discounted at 10 percent of this property lies in four wells: 00/04-12-029-22W4/2, 00/15-12-029-22W4/0, 00/04-13-029-22W4/0, and 00/06-13-029-22W4/0.

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

In November 2010 the Company entered into a Heads of Agreement with Kuwait Energy Company (“Kuwait Energy”) to jointly study the unconventional potential of multiple exploration and producing concessions held by Kuwait Energy in the Middle East, North Africa and Eurasia regions. Under the terms of this agreement, the Company shares its unconventional technological resources and expertise with Kuwait Energy to identify unconventional reservoir targets where the application of these technologies can add new unconventional reservoir production. In addition, conventional reservoirs have been studied to determine if the application of certain unconventional technologies can enhance existing production rates and total petroleum recovery from existing producing reservoirs. The agreement runs for a period of three years, but can be cancelled by either party by providing requisite notice.

The agreement initially covered a total of 13 exploration and production licenses in four countries in which Kuwait Energy held exploration and production participation interests. Gross acreage covered initially under the agreement was over 20,000 sq. km. (5,000,000 acres). Technical studies were completed for Russia, Egypt and the Ukraine and the Company concluded there are no commercially viable unconventional targets for mutual cooperation. Work on Yemen has not been initiated due to the political unrest and security issues in the country.

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

Effective November 21, 2011 the Company entered into a contractual agreement with Halliburton Consulting and Project Management (“Halliburton”), a leading global energy service company. Halliburton has extensive experience in unconventional plays ranging from assessment through execution. This collaborative effort is targeting high potential shale plays in North America and a limited number of other selected geographic areas. Some shale deposits in North America have been proven to hold large accumulations of oil and gas and are an emerging source of hydrocarbon reserves in other areas of the world. The Company’s goal is to secure acreage positions in unconventional resource plays and work with Halliburton to assess and develop its assets.

To date, two unconventional shale projects have been studied in the United States under the agreement, with the decision made not to pursue deals due to technical and/or commercial reasons.

### ***Romania***

On June 30, 2010 the Company was awarded four exploration blocks, EX-2 (Tria), EX-3 (Baile Felix), EX-7 (Periam) and EX-8 (Biled), located in the Pannonian Basin in western Romania. Total acreage covered in the four blocks is approximately 1,000,000 acres. The Pannonian Basin is a prolific basin with significant remaining potential for conventional oil and gas, as well as opportunities for unconventional shale gas.

On May 20, 2011 the Company signed the four Concession Agreements with the National Agency of Mineral Resources (“NAMR”). Final government ratification of the award blocks is expected to be completed in late 2012.

On May 20, 2011 the Company entered into a binding Memorandum of Understanding agreement with Naftna Industrija Srbije j.s.c. Novi Sad (“NIS”) to cooperate in the exploration and development of the four Romanian blocks. Under the terms of the agreement, NIS would acquire an 85% participation interest in all four blocks and pay 100% of the obligatory Phase I work program costs and optional Phase II work program costs.

On October 27, 2011 the Company entered into a farm-out agreement with NIS whereby NIS will acquire an 85% participation interest in the four Romanian blocks EX-2 (Tria), EX-3 (Baile Felix), EX-7 (Periam) and EX-8 (Biled) and eventually assume operatorship. The Phase I program will include environmental baseline surveys, the acquisition and processing of approximately 900 km. of 2D and 600 sq. km. of 3D seismic data, with a minimum of 12 wells to be drilled on the four blocks. NIS will also pay 100% of the Company’s sunk costs which totalled approximately \$525,000. The Company retains a 15% carried interest in each block until the achievement of commercial production, at which time the Company will be responsible for its 15% interest. The assignment of interest is subject to ratification of the Concessions by the Government of Romania and receiving NAMR’s approval for of the assignment of interest.

On December 23, 2011, the Company entered into four Joint Operating Agreements with NIS which provided for NIS to assume operatorship for the Romanian blocks EX-2 (Tria), EX-3 (Baile Felix), EX-7 (Periam) and EX-8 (Biled), subject to receiving NAMR’s approval of change of operator. The application for the change of operatorship will be requested after the Government of Romania ratifies the Concessions.

On May 7, 2012, the Romanian Parliament endorsed a new Prime Minister and Cabinet of Ministers. Once in place, the four Concession Agreements will be circulated to a total of five Ministers for review and comment before the Prime Minister signs off to complete the ratification process.

The Company has entered into several consulting agreements to study the hydrocarbon potential of the Concessions and prepare for exploration operations. These agreements include environmental baseline and environmental impact surveys and geological and geophysical interpretation projects involving the study existing data by local Romanian consulting companies. A number of exploration prospects and leads have been identified and high-graded which will be further studied once operations commence, immediately after ratification. The Company and NIS have also initiated tendering processes for seismic acquisition programs, drilling programs and operational and logistic support. NIS, which is expected to become operator once ratification occurs, has opened and staffed a field office in Timisora, western Romania, in preparation for conducting field operations and data interpretation.

### *India*

In March 2011 the Company was initially notified by the Directorate General of Hydrocarbons of India (“DGH”) it was a successful bidder for an exploration block in the New Exploration Licensing Policy (“NELP”) IX competitive bid round. The block lies in the Assam-Arakan Basin of northeast India. The DGH had announced the winning bids on a provisional basis, subject to final administrative review.

The acquired Block, AA-ONN-2010/2, was awarded to a consortium consisting of Oil India Ltd. (“OIL”), (Operator, 40%), Oil and Natural Gas Corporation of India (“ONGC”) (30%), Gas Authority of India Ltd. (“GAIL”) (20%) and East West Petroleum (10%). The primary term of this exploration production sharing contract is five years.

On March 28, 2012 the Company, along with its partners OIL, ONGC and GAIL, received final approvals and signed the AA-ONN-2010/2 PSC agreement with the DGH at an official signing ceremony in New Delhi. OIL, as block operator, is in the process of planning the forward work program which will initially consist of the acquisition of the 3D seismic data followed by the drilling of two exploratory wells. An application for a Petroleum Exploration License is being prepared for the State of Assam for commencement of operations.

As part of the Block agreement, the Company must provide a bank guarantee for 7.5% of its 10% share of the work program obligation for Phase I of the program. The Company expects to have this Bank Guarantee in place in the third quarter of 2012 once the operator receives final approval from the regional government of Assam to allow operations to commence.

Block AA-ONN-2010/2 covers approximately 395 sq. km. within the Karbi Anglong District of the Assam-Arakan Basin, a proven petroliferous region which covers more than 116,000 sq. km. in north-eastern India. The oil and gas industry has been active in the region, drilling over 1,000 wells and finding more than 100 oil and gas fields. Current

production for the area is estimated at 95,000 BOEPD. The work program bid for the block consists of the drilling of two wells and the acquisition of about 400 sq. km. of 3D seismic data.

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

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

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

### ***Morocco***

On September 30, 2011 the Company and the Office National des Hydrocarbures et des Mines (“ONHYM”), an agency of the Moroccan government, entered into agreements whereby the Company has been granted a 75% participation interest in the Doukkala exploration permit (the “Exploration Permit”) covering approximately 500,000 acres situated along the Atlantic coast approximately 125 kilometres southwest from Casablanca, Morocco. The Exploration Permit has an overall duration of eight years, comprising three Phases. During the three-year Phase 1 period, the Company will carry out geological and geophysical studies to assess the conventional and unconventional potential of the acreage. The cost of the Phase I work program is estimated at US \$5,500,000. On completion of the Phase 1 program, the Company can elect to enter into an extension for a Phase 2 program under which the Company will be committed to drill two wells over a two year period, estimated at approximately US \$14,000,000. On completion of the Phase 2 program, the Company can elect to enter into a three year extension for a Phase 3 program under which the Company will be committed to acquire 3D seismic and drilling of one well, estimated at approximately US \$14,000,000 over a three year duration. The Company has provided a US \$3,500,000 bank guarantee in favour of ONHYM. The agreement received final approval from the Ministries of Energy, Mines, Water and Environment and Finance November 28, 2011.

The Company’s unconventional team is in the process of studying core samples collected from the Concession to assess the unconventional potential of the acreage. Existing 2D seismic data are being reviewed for mapping and reprocessing. Seismic reprocessing over high-graded areas of interest is expected to commence in the third quarter, 2012.

### ***United States***

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

### **Selected Financial Data**

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

	Fiscal 2012		Fiscal 2011				Fiscal 2010	
	Jun. 30 2012 \$	Mar. 31 2012 \$	Dec. 31 2011 \$	Sep. 30 2011 \$	Jun. 30 2011 \$	Mar. 31 2011 \$	Dec. 31 2010 \$	Sep. 30 2010 \$
<b>Operations:</b>								
Revenues, net of royalties	29,080	43,842	46,567	51,561	72,196	44,735	53,944	18,958
Expenses	(891,863)	(680,181)	(1,050,136)	(372,214)	(1,695,578)	(2,157,280)	(1,136,719)	(838,953)
Other items	193,956	(369)	(30,920)	414,755	(449,147)	(139,981)	(31,408)	(4,530)
Net income (loss)	(668,827)	(636,708)	(1,034,489)	94,102	(2,072,529)	(2,252,526)	(1,114,183)	(824,525)
Basic and diluted income (loss) per share	(0.01)	(0.01)	(0.01)	0.00	(0.02)	(0.03)	(0.03)	(0.03)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

	Fiscal 2012		Fiscal 2011				Fiscal 2010	
	Jun. 30 2012 \$	Mar. 31 2012 \$	Dec. 31 2011 \$	Sep. 30 2011 \$	Jun. 30 2011 \$	Mar. 31 2011 \$	Dec. 31 2010 \$	Sep. 30 2010 \$
<b>Balance Sheet:</b>								
Working capital	24,295,842	24,863,303	25,472,381	26,110,195	29,651,913	26,423,008	26,611,096	2,444,246
Total assets	28,926,174	29,467,636	30,253,173	31,012,576	31,121,772	31,922,081	32,582,444	3,813,371
Decommissioning liabilities	(58,064)	(59,297)	(56,837)	(195,000)	(183,890)	(186,203)	(168,546)	(64,524)

## Results of Operations

During the six months ended June 30, 2012 (the “2012 period”) the Company reported petroleum and natural gas revenues from the Carbon Property (net of royalties) of \$72,922 from the sale of 1,318 BOE, for an average price of \$55.33/BOE; incurred lease operating costs of \$22,029 (\$16.71/BOE) and recorded depletion of \$62,099 (\$47.12/BOE). During the six months ended June 30, 2011 (the “2011 period”) the Company reported oil and gas revenues, net of royalties, of \$116,931 from the sale of 3,474 BOE, for an average price of \$33.66/BOE, incurred lease operating costs of \$29,636 (\$8.53/BOE) and recorded depletion of \$83,819 (\$24.13/BOE).

During the 2012 period the Company reported a net loss of \$1,305,535 (\$0.02 per share), compared to a net loss of \$4,325,055 (\$0.05 per share), for the 2011 period, a decrease in loss of \$3,019,520. The overall decrease in loss in the 2012 period is primarily attributed to the recognition of share-based compensation of \$2,444,496 during the 2011 period versus \$388,909 during the 2012 period.

General and administrative expenses incurred for the 2012 and 2011 periods are as follows:

	2012 \$	2011 \$
Accounting and administrative	45,686	48,382
Audit	38,250	29,000
Bank charges	13,356	-
Consulting	516,676	590,313
Corporate development	67,457	112,478
Legal	26,626	83,838
Office	28,708	27,933
Regulatory fees	7,395	23,844
Rent	16,731	10,740
Salaries and benefits	239,079	106,093
Shareholder costs	8,684	4,470
Telephone	7,522	-
Transfer agent fees	6,744	15,370
Travel	68,803	240,043
	<u>1,091,717</u>	<u>1,292,504</u>

General and administrative expenses of \$1,091,717 were reported for the 2012 period, a decrease of \$200,787, from \$1,292,504 in the 2011 period. Specific expenses of note during the 2012 period are as follows:

- accounting and administrative fees of \$45,686 (2011 - \$48,382) of which \$43,500 (2011 - \$46,825) was charged by a private corporation owned by a director of the Company;
- consulting fees totalling \$516,676 (2011 - \$590,313) were paid of which \$255,000 (2011 - \$258,000) were paid to directors and officers of the Company, \$184,613 (2011 - \$160,560) were paid to consultants for due diligence on exploration and evaluation properties and \$nil (2011 - \$156,000) were paid to consultants for financial consulting;
- legal fees of \$26,626 (2011 - \$83,838) were paid of which \$8,128 (2011 - \$19,660) was paid to a law firm of which the Corporate Secretary of the Company is a partner;
- travel expenses of \$68,803 (2011 - \$240,043) were incurred by the Company. Significant travel was incurred during the 2011 period for visits to Europe to oversee market awareness programs and to Romania, India, Morocco, Kuwait and Egypt for due diligence on exploration and evaluation properties;
- office expenses of \$28,708 (2011 - \$27,933) were incurred for costs associated with offices in Plano, Texas and Vancouver, British Columbia;

- salaries and health benefits expenses totalling \$239,079 (2011 - \$99,574) were paid to or incurred with respect to the President of the Company and Vice-President of Engineering, reflecting an increase in salaries in 2012 and the hiring of the Company's Vice-President of Engineering in September 2011;
- audit fees of \$38,250 (2011 - \$29,000) for the audit of the Company's year-end financial statements. The change between the 2012 period and the 2011 period was solely due to the timing of the audit of the Company's year-end financial statements; and
- corporate development expenses of \$67,457 (2011 - \$112,478) was incurred for various market awareness programs.

During the 2012 period the Company recorded share-based compensation expense of \$388,909 (2011 - \$2,444,496) on the granting and vesting of share options.

During the 2011 period the Company received \$756,750 on the exercise of 1,975,000 warrants, 45,000 share options and 300,000 compensation options. No share issuances occurred during the 2012 period.

On October 11, 2011 the Company filed a normal course issuer bid, which authorized the Company to repurchase for cancellation for up to 7,995,189 common shares. During the 2012 period the Company repurchased 759,000 common shares for \$379,038. As at June 30, 2012 the Company had repurchased a total of 932,000 common shares.

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

As at June 30, 2012 the Company had working capital of \$24,295,842. The Company believes that it currently has sufficient financial resources to conduct anticipated exploration programs and meet anticipated corporate administration costs for the upcoming twelve month period. However, exploration activities may change due to ongoing results and recommendations, or the Company may acquire additional properties, which may entail significant funding or exploration commitments. In the event that the occasion arises, the Company may be required to obtain additional financing. The Company has relied solely on equity financing to raise the requisite financial resources. While it has been successful in the past, there can be no assurance that the Company will be successful in raising future financing should the need arise.

### **Contractual Commitments**

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

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

The Company has provided a US \$3,500,000 guarantee in favour of ONHYM as security for performance of the Phase 1 program. The amount is deposited in a savings account with a major Canadian bank. As the Company implements its work programs the guarantee will be reduced.

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

- (b) During fiscal 2010 the Company was informed by the government of Romania that it had been awarded four exploration blocks located in the Pannonian Basin, in western Romania. In May 2011 the Company signed petroleum concession agreements with government agencies in Romania which regulate the oil and gas industry, however the agreements have yet to be ratified by all authorities.

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

On May 20, 2011 the Company and Naftna Industrija Srbije j.s.c. Novi Sad (“NIS”), an arm’s length corporation, signed a memorandum of understanding (“MOU”) to jointly explore the four exploration blocks in Romania. Under the terms of the MOU, NIS paid the Company \$250,000 and will pay a further \$275,000 upon final concession approvals by the government of Romania and assignment of an 85% participation interest and operatorship of the Romania Work Programs to NIS. NIS will also fully fund the Romania Work Programs including environmental work, 2D and 3D seismic acquisition and processing, and the drilling of 12 wells to earn an 85% participation interest. The Company retains a 15% carried interest in each block until the achievement of commercial production, at which time the Company will then be responsible for its 15% interest. During fiscal 2011 the Company recorded a gain of \$218,879 resulting from the application of the \$250,000 against capitalized costs.

- (c) Effective March 28, 2012 the Company (10% interest), Oil India Limited (40% interest), Oil and Natural Gas Corporation Limited (30% interest) and Gail (India) Limited (20% interest) (collectively the “Partners”) and the government of India signed a production sharing contract (the “PSC”) for Block AA-ONN-2010/2 (the “AA Block”) located in the Assam-Arakan Basin of northeast India. Under the terms of the PSC work program commitment, the Partners will acquire 395 square kilometres of 3D seismic data and drill two wells, at an estimated cost to the Company of US \$2.8 million.
- (d) Effective August 1, 2011 the Company entered into an operating lease, expiring July 31, 2016, for the rental of an office in Vancouver, BC with a gross monthly lease payment of \$5,511. The Company has entered into a sub-lease with a public company, which is related through a common director and officer, whereby the Company will be reimbursed \$2,755 per month. During the six months ended June 30, 2012 the Company received \$16,530 from the public company for shared premises.
- (e) 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 of compensation is payable.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Proposed Transactions**

The Company does not have any proposed transactions.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of significant estimates made by management include the determination of mineralized reserves, plant and equipment lives, estimating the fair values of financial instruments, impairment of long-lived assets, reclamation and

rehabilitation provisions, valuation allowances for future income tax assets and assumptions used for share-based compensation. Actual results may differ from those estimates.

### 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 the six months ended June 30, 2012 and 2011 the following amounts were incurred with respect to the President, Chairman, Chief Financial Officer and Vice-President of Engineering of the Company:

	2012 \$	2011 \$
Professional fees	76,500	69,825
Salaries	219,567	97,681
Health benefits	7,064	1,894
Share-based compensation	<u>266,290</u>	<u>1,212,873</u>
	<u>569,421</u>	<u>1,382,273</u>

As at June 30, 2012, \$8,000 (2011 - \$29,072) remained unpaid and has been included in accounts payable and accrued liabilities.

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 of compensation is payable.

#### (b) *Transactions with Other Related Parties*

During the six months ended June 30, 2012 and 2011 the following amounts were incurred with respect to other officers and directors of the Company and family members:

	2012 \$	2011 \$
Professional fees	222,000	235,000
Legal	8,128	19,660
Rent	-	5,250
Share-based compensation	<u>228,062</u>	<u>829,615</u>
	<u>458,190</u>	<u>1,089,525</u>

As at June 30, 2012, \$41,560 (2011 - \$9,000) remained unpaid and has been included in accounts payable and accrued liabilities

The Company also paid \$1,984 (2011 - \$2,208) to the spouse of the President of the Company for professional services rendered.

- (c) 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 six months ended June 30, 2012 the Company received \$16,530 from the public company for shared premises.

### **Risks and Uncertainties**

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

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

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

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

### **Investor Relations Activities**

The Company provides information packages to investors; the package consists of materials filed with regulatory authorities. The Company updates its website ([www.eastwestpetroleum.ca](http://www.eastwestpetroleum.ca)) on a continuous basis.

### **Outstanding Share Data**

The Company's authorized share capital is unlimited common shares with no par value. As at August 24, 2012, there were 82,884,648 outstanding common shares, 8,233,530 share options outstanding with exercise prices ranging from \$0.16 to \$1.16 per share, 26,105,595 warrants outstanding with exercise prices ranging from \$0.34 to \$1.75 per share and 731,000 compensation options outstanding with an exercise price of \$0.25 per unit, with each unit to comprise one common share and one warrant to purchase an additional share at a price of \$0.34 per share on or before September 29, 2013.

On October 11, 2011 the Company announced that it would make a normal course issuer bid for up to 7,995,189 common shares of the Company commencing on October 14, 2011 to October 13, 2012 or the date by which the Company has acquired the maximum number of common shares under the bid. As at the date of this MD&A the Company has purchased a total of 991,000 common shares for cash consideration of \$427,871.