

# **EAST WEST PETROLEUM CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2014**

This discussion and analysis of financial position and results of operation is prepared as at November 27, 2014 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the six months ended September 30, 2014 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 was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia). 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 the NEX Board ("NEX") to the TSX Venture Exchange ("TSXV") as a Tier 2 oil and gas issuer trading under the symbol "EW".

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 exploration concessions in New Zealand, California USA, Romania and India and producing properties in the Taranaki Basin, New Zealand and

Alberta, Canada. The Company has focussed its 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.

### **Corporate Update**

On September 29, 2014 the Company held its annual general meeting of shareholders ("AGM") and the shareholders re-elected Messrs. David Sidoo, Nick DeMare, Hon. Herb Dhaliwal and Dr. Marc Bustin as directors of the Company. The shareholders also re-appointed Davidson & Company, LLP as the auditor for the Company for the ensuing year.

At a directors meeting held following the AGM, the directors appointed Mr. Sidoo as the President and Chief Executive Officer ("CEO") of the Company and Mr. DeMare as the Chief Financial Officer ("CFO") and Corporate Secretary. In addition, Mr. DeMare, Hon. Herb Dhaliwal and Dr. Bustin were appointed to the audit committee.

### **Normal Course Issuer Bid**

On January 31, 2014 the Company announced that it will conduct a further normal course issuer bid (the "NCIB") for up to 8,882,872 shares of the Company over a period of one year, with up to 1,864,438 shares of the Company purchasable over any 30-day period within the NCIB period, being 2% of Company's issued and outstanding common shares. The NCIB period commenced on February 3, 2014 and will continue until the earlier of February 3, 2015 or the date by which the Company has acquired the maximum 8,882,872 shares which may be purchased under the bid. As of the date of this MD&A, the Company has repurchased 1,269,000 common shares under the NCIB for \$226,986.

### **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 along with an interest in an early stage exploration permit in the East Coast Basin of New Zealand. All licenses are operated by the Company's partner, TAG Oil Ltd. ("TAG"). In the Taranaki Basin, all wells are targeting shallow targets in the Urenui and Mt. Messenger formations which have been shown to be productive for oil and gas throughout the Taranaki Basin, including on TAG's adjacent Cheal field. The East Coast Basin is an emerging oil & gas basin where the primary focus is currently on demonstrating the potential of unconventional hydrocarbons.

#### ***PEP 54876 (Southern Cross) - East West 50%***

The initial permit work program for PEP 54876 includes reprocessing of 200 km of 2D seismic data and drilling one exploration well. The initial \$2.5 million was funded by East West and subsequent amounts are shared with the Company's joint venture partner, TAG, based on each company's pro-rata interest in the permit. Under the terms of the joint venture agreement, East West is entitled to recover the first \$2.5 million of oil and natural gas revenue and paying 100% of all costs to do so, before all future revenue and costs are split according to each party's working interest. As at the date of this MD&A, reprocessing of the seismic data has been completed as required and two wells, the Southern Cross-1 well and the Southern Cross-1ST1, were drilled and abandoned as non-commercial wells.

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

The initial permit work at the Cheal E-Site located on PEP 54877 included the drilling of five exploration wells (Cheal-E1, E2, E3, E4 and E5) which were successfully completed in mid-December 2013. The Cheal-E1 well was placed onto production in November 2013, followed during the first quarter of calendar 2014 by three Cheal E-Site wells capable of production (Cheal-E3, E4 and E5). Two of the five wells were funded 100% to \$5 million by East West which holds a 30% interest in the permit. Under the terms of the joint venture, East West is entitled to recover the first \$5 million of oil and natural gas revenue while also paying 100% of all costs associated with that revenue,

before all future revenue and costs are split according to each party's working interest. Effective February 8, 2014 East West had recovered the first \$5 million in revenue and all costs and revenues are being split on a working interest basis going forward. The Cheal-E1 and E4 are flowing naturally, while the E5 is using artificial lift with a jet pump. The joint venture has approved the recompletion of the E2 well. In November 2014 the Cheal-E6 well was successfully drilled to a total depth of 1,939 metres and was interpreted to have intersected over nine metres of net oil and gas bearing sands. The E6 well will now be completed as a potential oil well with production testing scheduled to commence shortly.

#### *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. East West is committed to funding the first \$2.5 million in capital expenditure, and is entitled to receive the first \$2.5 million in revenue sales while also paying 100% of the costs to produce that revenue, before costs and interest in the wells will revert to 50% East West and 50% TAG. A 15-day flow test was completed on the Cheal-G1 well which produced 1,016 barrels of oil. The test oil was subsequently sold for net proceeds of \$42,190. No decision has been made on the commerciality of PEP 54879 and all net revenues have been recorded as a recovery against the capitalized costs.

#### *PEP 55770 - East West 40%*

In December 2013, East West was awarded a 40% interest in PEP 55770 with partner TAG (60%). The block covers an area of 106,157 acres in the East Coast Basin unconventional fairway of New Zealand. Pursuant to a joint bid agreement, East West will pay 100% of the costs up to a maximum of NZ \$11.8 million of the initial work program which includes: reprocessing of existing seismic data in the first 12 months; acquisition of 60 km of 2D seismic data within the first 18 months and; the drilling of one exploration well in the first three years. As at the date of this MD&A, a joint venture agreement has been finalized and seismic reprocessing of the existing data and analysis of offsetting well data is underway. The Company must decide by January 31, 2015 whether it wishes to proceed with the Phase 2 work program or withdraw from PEP 55770.

#### *Reserves Data*

An independent reserves and resource evaluation, relating to the resource base of the Company in the Cheal Area of New Zealand, effective March 31, 2014, 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).

#### *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 oil and gas basin with significant remaining potential for conventional oil and gas.

On May 20, 2011 the Company signed the four concession agreements with the National Agency of Mineral Resources ("NAMR"). The Company then 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 would acquire an 85% participation interest in the four Romanian blocks EX-2 (Tria), EX-3 (Baile Felix), EX-7 (Periam) and EX-8 (Biled) (collectively the "Concessions") and eventually assume operatorship. The Phase I program includes environmental baseline surveys, the acquisition and processing of a minimum of 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 in the commercial discoveries. The assignment of interest is subject to ratification of the Concessions by the Government of Romania and receiving NAMR's approval for 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 Concessions, 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 each Concession.

In December 2012 the Romanian Government ratified the EX-2 Tria Concession. NAMR subsequently approved the farmout to NIS for an 85% participation interest in the Concession and approved change of operatorship to NIS. On November 22, 2013, following publication in the Official Gazette of Romania No 0721, the EX-3 Baile Felix, EX-7 Periam and EX-8 Biled Concessions were formally ratified.

Initial work during the ratification process focused on environmental studies and the review and interpretation of existing historic data on the licenses to identify prospective areas for future focus. Following ratification, NIS, as operator, has commenced the acquisition of 2D and 3D seismic data. Once acquisition and analysis is completed, the newly acquired seismic data will be used to select the drilling locations of the 12-well exploration program across the licenses.

### *United States*

On September 4, 2012 the Company announced it had signed a Letter of Intent with Lani LLC ("Lani") to carry out a joint exploration program in the San Joaquin Basin of California, USA. At the time of the agreement, Lani, a private E&P company based in Ventura, California, held an exploration acreage position of approximately 4,500 gross acres in the southern region of the basin with a number of prospects and leads identified. Under the terms of the agreement, the Company indicated it would assume a 21.25% - 50% net participation interest in Lani's acreage position through a total of US \$2,500,000 contribution to drill two exploration wells and for the acquisition of additional leases. In conjunction with the joint exploration program, the Company also made an investment of US \$500,000 as part of Lani's planned restructuring as a public US company named North American Oil and Gas ("NAMG"). NAMG began trading as a public company in November 2012, with the Company owning 8.3%.

On November 19, 2012 the Company announced it had completed a farm-in agreement, which superseded the September 4, 2012 Letter of Intent, and area of mutual interest agreement ("AMI") with Lani to carry out joint exploration programs in the San Joaquin Basin. The agreement provided the Company with participation interests in approximately 4,500 gross (3,200 net) acres in two prospective areas named Tejon Extension and Tejon Main, holding a 25% participation interest in the Tejon Extension leases and a 21.25% participation interest in Tejon Main leases. Under the agreement the Company agreed to fund US \$2,200,000 to be used in the drilling of two exploratory wells and to acquire additional joint leases in the area and provide a US \$300,000 loan for G&A funding.

On August 1, 2013 the Company entered into a Sales and Purchase Agreement with Solimar Energy, LLC whereby 28.75% participation interest was purchased in leases making up the Tejon Main area, bringing the Company's interest to 50%. The cost to the Company was US \$110,000.

In December 2012 the Company and its partner NAMG spud the Lani 77-20 exploratory well on the Tejon Extension leases. The well flowed oil to the surface in uncommercial quantities and has been suspended pending additional studies. The Company has funded the required US \$1,300,000 to earn its 25% participation interest in the Tejon Extension leases. The 77-20 well was suspended with further petrophysical analysis underway to determine the hydrocarbon of the shallower section in the well. Following analysis and consideration of prospects for further testing, East West has determined that this well is unlikely to be commercial and the costs associated with the 77-20 well have been provided for.

As at the date of this MD&A the Company and its partner's acreage position is approximately 8,000 gross acres.

### *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 was 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 had an overall duration of eight years, comprising three Phases. During the three-year Phase 1 period, the Company was required to carry out geological and geophysical studies to assess the conventional and

unconventional potential of the acreage. The cost of the Phase I work program was estimated at US \$5,500,000. On August 15, 2014 a demand (the "Demand") was made by ONHYM for payment of the guarantee amount and the Guarantee was subsequently released. The Company is now evaluating its legal remedies in regards to ONHYM's actions. The joint venture with ONHYM is, effectively, terminated.

### ***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 Ltd. ("OIL"), (Operator, 40%), Oil and Natural Gas Corporation of India ("ONGC") (30%), Gas Authority of India Ltd. ("GAIL") (20%) and East West (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. OIL, as block operator, is in the process of planning the forward work program which will consist of the acquisition of the 3D seismic data followed by the drilling of two exploratory wells. An application for a Petroleum Exploration License was submitted to the State of Assam for commencement of operations and the partnership is awaiting final approval.

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 put in place 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. 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. The partners are now negotiating a joint operating agreement which will take effect once final approval is received from the Government of Assam.

### ***Canada***

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 four producing 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. Approximately two-thirds of the proved plus probable value discounted at 10% 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.

As of the date of this MD&A, the Carbon Property is not a material property.

### **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.

The Company changed its fiscal year end from December 31 to March 31 effective March 31, 2014. The change in the fiscal year was made for the purpose of streamlining the Company's financial reporting. The condensed consolidated interim financial statements and this MD&A are presented for a period of six months ended September 30, 2014 compared to six months ended September 30, 2013.

	Fiscal 2015		Fiscal 2014					Fiscal 2012	
	Sep. 30 2014 \$	Jun. 30 2014 \$	Mar. 31 2014 \$	Dec. 31 2013 \$	Sep. 30 2013 \$	Jun. 30 2013 \$	Mar. 31 2013 \$	Dec. 31 2012 \$	Sep. 30 2012 \$
<b>Operations:</b>									
Revenues, net of costs	1,377,347	1,170,082	3,142,475	24,591	23,716	32,060	28,550	24,901	6,725
Expenses	(1,278,702)	(3,709,911)	(5,713,656)	(416,353)	(583,652)	(1,074,265)	(594,705)	(675,630)	(854,481)
Other items	204,035	(854,009)	(3,025,455)	368,729	(96,721)	256,317	194,990	213,524	(95,250)
(Loss) income before deferred income tax	302,680	(3,393,838)	(5,596,636)	(23,033)	(656,657)	(785,888)	(371,165)	(437,205)	(943,006)
Deferred income tax	Nil	(25,000)	(210,000)	(340,500)	17,500	154,000	(46,000)	450,000	Nil
Net income (loss)	302,680	(3,418,838)	(5,806,636)	(363,533)	(639,157)	(631,888)	(417,165)	12,795	(943,006)
Other comprehensive income (loss), net	(1,187,515)	166,978	(626,442)	(2,768,875)	123,855	1,449,400	(325,115)	3,180,335	Nil
Comprehensive (loss) income	(884,835)	(3,251,860)	(6,433,078)	(3,132,408)	(515,302)	817,512	(742,280)	3,193,130	(943,006)
Basic and diluted (loss) income per share	0.01	(0.04)	(0.07)	(0.00)	(0.01)	(0.01)	(0.01)	0.00	(0.01)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Balance Sheet:</b>									
Working capital	9,362,466	8,745,415	10,966,215	15,487,110	18,964,676	19,437,767	20,715,806	21,254,627	23,495,054
Total assets	22,510,465	23,426,418	29,682,150	34,952,549	35,939,795	31,681,207	30,735,830	31,455,981	28,251,339
Decommissioning liabilities	(886,520)	(983,377)	(995,388)	(516,664)	(248,841)	(81,741)	(78,438)	(81,404)	(62,919)

## Results of Operations

*Three Months Ended September 30, 2014 (“Q2”) Compared to Three Months Ended June 30, 2014 (“Q3”)*

Revenues and costs for the three months ended September 30, 2014 (“Q2”) compared to the three months ended June 30, 2014 (“Q3”) are as follows:

	Three Months Ended September 30, 2014		Three Months Ended June 30, 2014	
	New Zealand Properties	Canada Properties	New Zealand Properties	Canada Properties
Sales (BOE)	18,847	1,155	15,394	1,169
Petroleum and natural gas sales (\$)	1,962,430	44,305	1,764,113	48,811
Average realized price (\$)	104.12	38.36	114.60	41.75
Production costs (\$)	321,633	17,057	288,319	19,156
Average per BOE (\$)	17.07	14.77	18.73	16.39
Transportation and storage costs (\$)	202,011	-	251,275	-
Average per BOE (\$)	10.72	-	16.32	-
Royalties (\$)	86,991	1,696	79,625	4,467
Average per BOE (\$)	4.62	1.47	5.17	3.82
Netback (\$)	1,351,795	25,552	1,144,894	25,188
Average per BOE (\$)	71.72	22.12	74.37	21.55
Depletion (\$)	740,678	23,209	618,455	23,482
Average per BOE (\$)	39.30	20.09	40.18	20.09

During Q2 the Company reported a net income of \$302,680 (\$0.01 per share), compared to a net loss of \$3,418,838 (\$0.04 per share), for Q1, a decrease in loss of \$3,721,518.

The overall decrease in loss in Q2 was attributed to the recognition of costs incurred on the completion of drilling activities on PEP 54876 which have been recorded as general exploration costs. During Q2 the Company recorded \$22,981 compared to \$2,639,088 in Q1.

*Six Months Ended September 30, 2014 Compared to Six Months Ended September 30, 2013*

Revenues and costs for the six months ended September 30, 2014 (the “2014 period”) compared to the six months ended September 30, 2013 (the “2013 period”) are as follows:

	Six Months Ended September 30, 2014		Six Months Ended September 30, 2013	
	New Zealand Properties	Canada Properties	New Zealand Properties	Canada Properties
Sales (BOE)	34,241	2,324	-	2,652
Petroleum and natural gas sales (\$)	3,726,543	93,116	-	91,333
Average realized price (\$)	108.83	40.07	-	34.44
Production costs (\$)	609,952	36,213	-	29,126
Average per BOE (\$)	17.81	15.58	-	10.98
Transportation and storage costs (\$)	453,286	-	-	-
Average per BOE (\$)	13.24	-	-	-
Royalties (\$)	166,616	6,163	-	6,431
Average per BOE (\$)	4.87	2.65	-	2.42
Netback (\$)	2,496,689	50,740	-	55,776
Average per BOE (\$)	72.92	21.83	-	21.03
Depletion (\$)	1,359,133	46,691	-	52,383
Average per BOE (\$)	39.69	20.09	-	19.75

During the six months ended September 30, 2014 (the “2014 period”) the Company reported a net loss of \$3,091,158 (\$0.03 per share) compared to a net loss of \$1,442,545 (\$0.02 per share) during the six months ended September 30, 2013 (the “2013 period”), an increase in loss of \$1,648,613. The overall increase in loss during the 2014 period was attributed to the recognition of general exploration of \$2,662,069 and unrealized foreign exchange loss of \$583,305 in the 2014 period offset against the increase in petroleum and natural gas revenues.

General and administrative expenses incurred during the 2014 period and 2013 period are as follows:

	2014 \$	2013 \$
Accounting and administrative	39,571	27,087
Audit	49,326	38,250
Bank charges	55,505	18,370
Corporate development	21,848	15,945
Legal	24,826	67,485
Office	28,924	44,979
Other (recovery)	(16,533)	-
Professional fees	468,765	561,574
Regulatory fees	6,179	12,040
Rent	34,206	16,950
Salaries and benefits	-	261,611
Shareholder costs	2,805	4,880
Telephone	3,869	5,208
Transfer agent fees	3,265	6,100
Travel	85,510	132,830
	<u>808,066</u>	<u>1,213,309</u>

General and administrative expenses of \$808,066 were reported for the 2014 period compared to \$1,213,309 during the 2013 period. Specific expenses of note for the 2014 period and 2013 period are as follows:

- accounting and administrative fees of \$39,571 (2013 - \$27,087) of which \$38,000 (2013 - \$22,500) was charged by a private corporation owned by a director of the Company;
- professional fees totalling \$468,765 (2013 - \$561,574) were paid of which \$320,500 (2013 - \$256,500) were paid to directors and officers of the Company, \$31,140 (2013 - \$121,141) were paid to consultants for due diligence on exploration and evaluation properties and \$117,125 (2013 - \$183,933) were paid to consultants for financial and administrative consulting;
- legal fees of \$24,826 (2013 - \$67,485) were paid. During the 2013 period the Company incurred legal fees due to the significant number of corporate transactions conducted with its joint venture partner, TAG;

- travel expenses of \$85,510 (2013 - \$132,830) were incurred by the Company. Travel expenditures were lower during the 2014 period due to reduced corporate travel by management;
- salaries and health benefits expenses totalling \$nil (2013 - \$261,611) were paid with respect to the former President of the Company and former Vice-President of Operations;
- rent expense of \$34,206 (2013 - \$16,950) were incurred by the Company. The Company previously had an agreement with a public company, which was related through a common director and officer, to share office premises. During the 2013 period the Company received a recovery of \$16,950. On March 31, 2014 the arrangement was terminated and, accordingly, the Company did not receive any reimbursement during the 2014 period; and
- bank charges of \$55,505 (2013 - \$18,730) were incurred by the Company. During the 2014 period, the Company paid additional bank fees of \$39,176 on the release of the guarantee amount to ONHYM.

During the 2014 period the Company recorded general exploration of \$2,662,069 on the New Zealand property PEP 54876 as the results confirmed that there were no commercial deposits.

During the 2014 period the Company recorded share-based compensation expense of \$99,624 (2013 - \$382,907) on the granting and vesting of share options.

During the 2014 period the Company sold 1,215,698 shares of NAMG for proceeds of \$108,495 recognizing a realized loss of \$12,711. The Company also recorded a comprehensive loss of \$432,272, net of deferred income tax of \$25,000. As at September 30, 2014 the quoted value of the 3,784,302 remaining NAMG shares was \$139,968.

Interest income is generated from cash on deposit with senior financial institution and short-term money market instrument issued by major financial institutions. During the 2014 period the Company reported interest income of \$65,894, a decrease of \$67,089, compared to \$132,983 for the 2013 period. The decrease in interest income in the 2014 period was due to lower levels of cash compared to the 2013 period.

On February 3, 2014 the Company filed a new NCIB to repurchase for cancellation up to 8,882,872 common shares until February 2, 2015 or the date by which the Company has acquired the maximum number of common shares under the NCIB. During the 2014 period the Company repurchased a total of 575,500 (15 months ended March 31, 2014 - 983,000) common shares for \$131,666 (15 months ended March 31, 2014 - \$299,443) cash consideration. The average carrying value of the common shares was \$0.23 (15 months ended March 31, 2014 - \$0.30) per share. The difference between the purchase price and the carrying value of the common shares was \$124,452 (15 months ended March 31, 2014 - \$150,868).

## Exploration and Evaluation Assets

	New Zealand				United States			Total
	PEP 54876 \$	PEP 54877 \$	PEP 54879 \$	PEP 55770 \$	Tejon Ranch Extension \$	Tejon Main Area \$	White Wolf \$	
Balance at December 31, 2012	-	-	-	-	817,017	-	52,327	869,344
Capital expenditures	2,195,195	8,087,972	5,223,273	-	613,569	122,154	265,794	16,507,957
Net revenues pre-commercial discovery	-	(1,548,553)	-	-	-	-	-	(1,548,553)
Provision for decommissioning liabilities	223,243	282,518	223,243	-	32,525	-	-	761,529
Transfer to property, plant and equipment	-	(6,821,937)	-	-	-	-	-	(6,821,937)
Foreign exchange movement	80,662	-	219,899	-	-	-	-	300,561
Impairment	(2,499,100)	-	-	-	(1,463,111)	-	-	(3,962,211)
Balance at March 31, 2014	-	-	5,666,415	-	-	122,154	318,121	6,106,690
Capital expenditures	-	-	245,097	61,460	-	-	-	306,557
Net revenues pre-commercial discovery	-	-	(42,190)	-	-	-	-	(42,190)
Revision of estimate for decommissioning liabilities	-	-	(11,704)	-	-	-	-	(11,704)
Foreign exchange movement	-	-	(514,203)	(3,009)	-	-	-	(517,212)
Balance at September 30, 2014	-	-	5,343,415	58,451	-	122,154	318,121	5,842,141

During the 2014 period the Company incurred a total of \$306,557 (15 months ended March 31, 2014 - \$16,507,957) for exploration and evaluation assets comprising of \$306,577 (15 months ended March 31, 2014 - \$15,506,440) on the



New Zealand properties and \$nil (15 months ended March 31, 2014 - \$1,001,517) on the US properties. During the 2014 period the Company received net revenues of \$42,190 from production from the testing of the G1 well on PEP 54879. Details of the Company's activities are discussed in "Projects Update".

### **Property, Plant and Equipment**

During the 2014 period the Company incurred a total of \$332,649 (15 months ended March 31, 2014 - \$912,390) for property, plant and equipment additions comprising of \$330,850 on the New Zealand properties and \$1,799 for office equipment.

### **Cash Flows**

During the 2014 period cash decreased by \$2,956,711. Operations provided \$357,550; investing activities, mainly for expenditures on exploration and evaluation assets and property, plant and equipment, utilized \$3,335,881 and financing activities utilized \$131,666 for the repurchase of common shares.

During the fifteen months ended March 31, 2014 cash decreased by \$8,934,971. Operations generated \$1,366,727; investing activities, mainly for expenditures on exploration and evaluation assets, utilized \$13,058,376 and financing activities generated \$3,178,072 from the issuance of common shares net of repurchase of common shares.

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

As at September 30, 2014 the Company had cash resources of \$9,317,099 a decrease of \$2,956,711 from \$12,273,810 as at March 31, 2014. The decrease in cash resources is mainly from the Company's ongoing use of resources for its general and administrative expenses and expenditures on the New Zealand properties.

As at September 30, 2014 the Company had working capital of \$9,362,466. The Company is currently focussing on the exploration, development and production of oil and gas from its Cheal properties. Commercial production continues on the Cheal E1 well and the production testing phase is on-going on the Cheal E4 well. The Company is also considering further work on the E2 and E3 wells. 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.

### **Contractual Commitments**

(a) On December 11, 2012 the Government of New Zealand awarded the Company and its partner, TAG, interests in three onshore exploration blocks located in the Taranaki Basin, New Zealand. Under the terms of the agreements, the Company will participate in the drilling of a minimum of nine exploration wells on Petroleum Exploration Permits ("PEP") 54876, 54877 and 54879. The Company will earn a 50% participation interest in PEP 54876 and PEP 54879 and a 30% participation interest in PEP 54877 by funding 100% (\$2,500,000 each - the "Initial Funding") of the initial well cost on PEP 54876, the first two wells on PEP 54877 and the initial well on PEP 54879. All subsequent costs on the wells will be funded based on each company's participation interest. The Company will be entitled to receive 100% of the oil and gas revenues, on a well-to-well basis, to recover its Initial Funding. As at March 31, 2014 the Company has recovered \$1,548,553. All additional net revenues will be shared according to each party's interest. TAG is the operator of the joint venture.

On December 5, 2013, the Government of New Zealand awarded the Company and its partner, TAG, an interest in an onshore exploration block located in the East Coast Basin, New Zealand. Under the terms of the agreement, the Company will participate in the initial work program of seismic reprocessing, seismic data acquisition and drilling of one exploration well on PEP 55770. The Company could earn a 40% participation interest by funding costs up to a maximum of NZ \$11.8 million. All subsequent costs will be funded based on each company's participation interest. TAG is the operator of the joint venture.

- (b) On August 29, 2012 the Company entered into a letter of intent with 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. During the fifteen months ended March 31, 2014 the Company determined that the well is unlikely to be commercial and have recorded an impairment charge of \$1,463,111;
  - (ii) 50% working interest in the Tejon Main Area. The Company is required to fund 71.25% of the working interest costs associated with the drilling and completing one exploration well on the Tejon Main Area leases, up to a maximum of US \$926,250; and
  - (iii) 50% working interest in leases in the White Wolf. The Company is required to pay US \$347,500 to Lani to be used for lease delay rental payments and for leasing new acreage in White Wolf of which US \$317,556 was cumulatively paid as of September 30, 2014.
- (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 NAMR.
- 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 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 the twelve months ended December 31, 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.
- On November 22, 2013 the Company received final concession approval by the government of Romania on the three remaining exploration blocks. The Company transferred the 85% participation interest in the exploration blocks to NIS Petrol.
- (d) Effective March 28, 2012 the Company (10% interest), OIL (40% interest), ONGC (30% interest) and GAIL (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, over a five year period.
- (e) 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 \$5,701.

## 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 September 30, 2014 and 2013 the following amounts were incurred with respect to the Company's current President and Chairman (Mr. David Sidoo), the former President (Mr. Greg Renwick), the Chief Financial Officer ("CFO") and Corporate Secretary (Mr. Nick DeMare), and the former Vice-President of Operations (Mr. Barry Chovanetz):

	2014 \$	2013 \$
Salaries - Greg Renwick	-	128,879
Salaries - Barry Chovanetz	-	108,260
Health benefits - Greg Renwick	-	2,266
Health benefits - Barry Chovanetz	-	6,894
Professional fees - David Sidoo <sup>(1)</sup>	99,500	33,000
Professional fees - Nick DeMare <sup>(2)</sup>	21,000	18,000
Share-based compensation - Greg Renwick	-	32,398
Share-based compensation - Barry Chovanetz	-	31,703
Share-based compensation - David Sidoo	5,063	128,905
Share-based compensation - Nick DeMare	3,663	24,298
	<u>129,226</u>	<u>514,603</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.

As at September 30, 2014, \$3,500 (2013 - \$42,425) remained unpaid.

(b) *Transactions with Other Related Parties*

- (i) During the six months ended September 30, 2014 and 2013 the following amounts were incurred with respect to non-executive current and former officers and directors of the Company:

	2014	2013
	\$	\$
Professional fees - Marc Bustin, Director <sup>(1)</sup>	178,000	186,000
Professional fees - Herb Dhaliwal, Director <sup>(2)</sup>	22,000	19,500
Legal - James Harris, former Corporate Secretary	-	48,839
Share-based compensation - Marc Bustin, Director	3,175	24,483
Share-based compensation - Herb Dhaliwal, Director	3,052	20,249
Share-based compensation - James Dewar, former Director	-	15,838
	<u>206,227</u>	<u>314,909</u>

(1) Paid to RMB Earth Science Service Consulting Ltd., a private company owned by Mr. Bustin.

(2) Paid to ADH Holdings Ltd., a private company owned by Mr. Dhaliwal.

As at September 30, 2014, \$27,000 (2013 - \$62,000) remained unpaid.

- (ii) During the six months ended September 30, 2014 the Company also incurred a total of \$38,000 (2013 - \$22,500) to Chase for accounting and administration services provided by Chase personnel, excluding Mr. DeMare. The Company also paid \$nil (2013 - \$2,242) to Ms. Galena Renwick, the spouse of Mr. Renwick, for professional services rendered. As at September 30, 2014, \$9,100 (2013 - \$7,500) remained unpaid.
- (c) The Company had entered into a sub-lease with Ava Resources Corp. ("Ava") whereby the Company will be reimbursed \$2,850 per month. On March 31, 2014 the sub-lease with Ava was terminated as Ava ceased operations and was wound up. The Company also recorded the \$16,533 rent deposit which was forfeited by Ava as a credit to rent expense. Ava was a public company of which Messrs. Sidoo, DeMare and Dhaliwal were also directors and/or officers.

### **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 an oil super major. 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 and restricted cash is held with a Canadian chartered bank and is monitored to ensure a stable return.

The carrying amount of cash, accounts receivable, deposits and restricted cash represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at September 30, 2014 and did not provide for any doubtful accounts. As at September 30, 2014, there were no significant amounts past due or impaired.

### ***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.

The Company did not have any commodity price contracts in place as at or during the six months ended September 30, 2014.

### ***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 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 the six months ended September 30, 2014 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 four categories: fair value through profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale.

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

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs

including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

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

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

### **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.

### **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 November 27, 2014, there were 91,839,665 outstanding common shares (net of shares repurchased) and 7,076,530 share options outstanding with exercise prices ranging from \$0.20 to \$0.50 per share.