
EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
DECEMBER 31, 2014

(Unaudited - Expressed in Canadian Dollars)

**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 financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

	Note	December 31, 2014 \$	March 31, 2014 \$
ASSETS			
Current assets			
Cash		8,094,974	12,273,810
GST receivable		89,159	515,262
Amounts receivable	4	979,269	1,872,614
Prepaid expenses		<u>46,528</u>	<u>62,725</u>
Total current assets		<u>9,209,930</u>	<u>14,724,411</u>
Non-current assets			
Investment	5	15,538	718,445
Deposits	6(b)	-	159,653
Exploration and evaluation assets	6	5,965,438	6,106,690
Property, plant and equipment	7	6,570,722	7,956,418
Other		<u>33,066</u>	<u>16,533</u>
Total non-current assets		<u>12,584,764</u>	<u>14,957,739</u>
TOTAL ASSETS		<u>21,794,694</u>	<u>29,682,150</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		618,794	3,278,683
Due to joint venture partner		<u>-</u>	<u>479,513</u>
Total current liabilities		<u>618,794</u>	<u>3,758,196</u>
Non-current liabilities			
Decommissioning liabilities	8	<u>952,108</u>	<u>995,388</u>
TOTAL LIABILITIES		<u>1,570,902</u>	<u>4,753,584</u>
SHAREHOLDERS' EQUITY			
Share capital	9	40,688,515	41,436,619
Share-based compensation reserve		5,074,013	4,352,906
Foreign currency translation reserve		748,509	838,213
Available-for-sale investment		(67,920)	194,945
Deficit		<u>(26,219,325)</u>	<u>(21,894,117)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>20,223,792</u>	<u>24,928,566</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>21,794,694</u>	<u>29,682,150</u>

Nature of Operations - see Note 1

Commitments - see Note 13

Events after the Reporting Period - see Note 16

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on February 24, 2015 and are signed on its behalf by:

/s/ David Sidoo
David Sidoo
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 INCOME (LOSS)
(Unaudited - Expressed in Canadian Dollars)

	Note	Three Months Ended December 31,		Nine Months Ended December 31,	
		2014 \$	2013 \$	2014 \$	2013 \$
Revenue and costs					
Petroleum and natural gas sales		1,463,054	40,636	5,282,713	131,969
Production costs		(251,855)	(16,329)	(898,020)	(45,455)
Transportation and storage costs		(241,211)	-	(694,497)	-
Royalties		(64,053)	284	(236,832)	(6,147)
		<u>905,935</u>	<u>24,591</u>	<u>3,453,364</u>	<u>80,367</u>
Expenses					
Depletion and depreciation	7	729,639	28,900	2,135,463	88,509
Impairment of exploration and evaluation assets	6	503,359	-	503,359	-
General exploration	6(a)	15,988	-	2,678,057	-
Finance expense of decommissioning liabilities	8	6,360	8,190	19,390	10,282
General and administrative		571,150	352,932	1,379,216	1,566,241
Share-based compensation	9(d)	621,483	26,331	721,107	409,238
		<u>2,447,979</u>	<u>416,353</u>	<u>7,436,592</u>	<u>2,074,270</u>
Loss before other items		<u>(1,542,044)</u>	<u>(391,762)</u>	<u>(3,983,228)</u>	<u>(1,993,903)</u>
Other items					
Loss on sale of investment	5	(228,845)	-	(241,556)	-
Interest income		24,618	60,914	90,512	193,897
Provision on deposit	6(b)	-	-	(119,852)	-
Gain on disposal of exploration and evaluation assets	6(c)	-	206,250	-	206,250
Foreign exchange		71,848	101,565	(511,457)	128,178
		<u>(132,379)</u>	<u>368,729</u>	<u>(782,353)</u>	<u>528,325</u>
Loss before deferred income tax		<u>(1,674,423)</u>	<u>(23,033)</u>	<u>(4,765,581)</u>	<u>(1,465,578)</u>
Deferred income tax		<u>-</u>	<u>(340,500)</u>	<u>(25,000)</u>	<u>(169,000)</u>
Net loss for the period		<u>(1,674,423)</u>	<u>(363,533)</u>	<u>(4,790,581)</u>	<u>(1,634,578)</u>
Other comprehensive income (loss)					
Change in currency translation of foreign subsidiary	2	498,561	-	(89,704)	-
Change in fair value of investment	5	169,407	(2,768,875)	(262,865)	(1,195,620)
Comprehensive loss for the period		<u>(1,006,455)</u>	<u>(3,132,408)</u>	<u>(5,143,150)</u>	<u>(2,830,198)</u>
Basic and diluted loss per common share		<u>\$(0.02)</u>	<u>\$(0.00)</u>	<u>\$(0.05)</u>	<u>\$(0.02)</u>
Weighted average number of common shares outstanding		<u>92,024,987</u>	<u>92,991,274</u>	<u>92,672,701</u>	<u>85,959,612</u>

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

Nine Months Ended December 31, 2014

	Share Capital		Reserves			Deficit	Total Equity
	Number of Shares	Amount \$	Share-Based Compensation Reserve \$	Foreign Currency Translation Reserve \$	Available-for-Sale Investment \$		
Balance at March 31, 2014	93,108,665	41,436,619	4,352,906	838,213	194,945	(21,894,117)	24,928,566
Repurchase of common shares	(1,681,000)	(748,104)	-	-	-	465,373	(282,731)
Share-based compensation	-	-	721,107	-	-	-	721,107
Currency translation adjustment	-	-	-	(89,704)	-	-	(89,704)
Unrealized loss on investment	-	-	-	-	(48,194)	-	(48,194)
Deferred income tax on unrealized loss on investment	-	-	-	-	25,000	-	25,000
Reclassification on sale of investment	-	-	-	-	(239,671)	-	(239,671)
Net loss for the period	-	-	-	-	-	(4,790,581)	(4,790,581)
Balance at December 31, 2014	91,427,665	40,688,515	5,074,013	748,509	(67,920)	(26,219,325)	20,223,792

Nine Months Ended December 31, 2013

	Share Capital		Reserves			Total Equity
	Number of Shares	Amount \$	Share-Based Compensation Reserve \$	Available-for-Sale Investment \$	Deficit \$	
Balance at March 31, 2013	82,679,648	37,875,410	4,418,746	2,855,220	(14,596,959)	30,552,417
Repurchase of common shares	(810,500)	(371,289)	-	-	136,037	(235,252)
Common shares issued for cash:						
- exercise of share options	1,800,000	297,000	-	-	-	297,000
- exercise of warrants	8,776,294	2,983,940	-	-	-	2,983,940
- exercise of compensation options	695,000	173,750	-	-	-	173,750
Share-based compensation	-	-	409,238	-	-	409,238
Transfer on exercise of share options	-	285,667	(285,667)	-	-	-
Transfer on exercise of compensation options	-	198,175	(198,175)	-	-	-
Unrealized loss on investment	-	-	-	(1,364,620)	-	(1,364,620)
Deferred income tax on unrealized loss on investment	-	-	-	169,000	-	169,000
Net loss for the period	-	-	-	-	(1,634,578)	(1,634,578)
Balance at December 31, 2013	93,140,442	41,442,653	4,344,142	1,659,600	(16,095,500)	31,350,895

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)

	Nine Months Ended December 31,	
	2014 \$	2013 \$
Operating activities		
Net loss for the period	(4,790,581)	(1,634,578)
Adjustments for:		
Depletion and depreciation	2,135,463	88,509
Impairment of exploration and evaluation assets	503,359	-
Finance expense of decommissioning liabilities	19,390	10,282
Share-based compensation	721,107	409,238
Foreign exchange	(12,711)	(168,000)
Loss on sale of investment	241,556	-
Provision on advance	119,852	-
Deferred income tax	25,000	169,000
	<u>(1,037,565)</u>	<u>(1,125,549)</u>
Changes in non-cash working capital items:		
Decrease (increase) in amounts receivable	805,987	(2,228,453)
Decrease (increase) in GST receivable	400,193	(123,986)
Decrease in prepaid expenses	14,131	43,717
(Decrease) increase in accounts payable and accrued liabilities	<u>(2,715,636)</u>	<u>3,076,008</u>
	<u>(1,495,325)</u>	<u>767,286</u>
Net cash used in operating activities	<u>(2,532,890)</u>	<u>(358,263)</u>
Investing activities		
Expenditures on exploration and evaluation assets	(579,643)	(7,548,218)
Increase in other assets	(16,533)	(4,592)
Expenditures on property, plant and equipment	(488,349)	-
Decrease in deposits	39,801	124,232
Proceeds from sale of investment	186,197	-
Net revenues pre-commercial production	37,048	-
Repayment to joint venture partner	<u>(454,907)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,276,386)</u>	<u>(7,428,578)</u>
Financing activities		
Issuance of common shares	-	3,454,690
Repurchase of common shares	<u>(282,731)</u>	<u>(235,252)</u>
Net cash (used in) provided by financing activities	<u>(282,731)</u>	<u>3,219,438</u>
Effect of exchange rate changes on cash	(86,829)	-
Net change in cash	(4,178,836)	4,567,403
Cash at beginning of period	<u>12,273,810</u>	<u>20,672,730</u>
Cash at end of period	<u>8,094,974</u>	<u>16,105,327</u>

Supplemental cash flow information - See Note 14

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 NINE MONTHS ENDED DECEMBER 31, 2014
(Unaudited - Expressed in Canadian Dollars)

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) and its major activity is the development and exploration of international oil and gas properties. The Company is listed and trades on the TSX Venture Exchange (“TSXV”) under the symbol “EW”. In November 2013 the Company changed its fiscal year-end from December 31 to March 31. Accordingly, the Company’s 2014 fiscal year consists of fifteen months. The Company’s principal office is located at #1210 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6 Canada.

The Company has focused the majority of its capital resources on the exploration and development of its oil and gas interests in the Taranaki Basin, New Zealand. On January 7, 2014 a commercial discovery was declared on location PEP 54877. This decision was based on a number of factors including, amongst others, placement of the well on permanent production, stabilized production and indication that these results will continue. For accounting purposes the Company commenced recognizing earnings effective January 7, 2014.

The Company is in the process of exploring, developing and producing from its oil and gas properties and has two oil and gas properties that contain reserves that are economically recoverable. The success of the Company’s exploration and development of its oil and gas properties requires significant additional exploration and development activities to establish additional proved reserves and to commercialize its oil and gas exploration properties. The Company is also influenced by significant financial risks as well as commodity prices. In addition, the Company will use cash and operating cash flow to further explore and develop its properties towards planned principal operations. The Company monitors its cash and cash equivalents and adjusts its expenditure plans to conform to available funding. The Company plans to fund exploration and development activities through existing cash resources.

2. Change in Functional Currency

Until January 7, 2014 the functional currency of the Company’s wholly-owned New Zealand subsidiary, East West Petroleum (NZ) Limited (“EWNZ”), was the Canadian dollar. On January 7, 2014 a commercial discovery was declared on certain of EWNZ’s oil and gas properties. Although oil sales are denominated in United States dollars, the New Zealand dollar is the currency that mainly influences labour, materials and other costs of providing oil and natural gas. Accordingly, EWNZ changed prospectively its functional currency from the Canadian dollar to the New Zealand dollar.

Effective January 7, 2014 assets, liabilities and transactions of EWNZ are therefore translated into Canadian dollars using the report date closing exchange rate. Income and expenses are translated into Canadian dollars at the average exchange rate over the reporting period. Exchange differences are presented in other comprehensive loss and recognized in the foreign currency translation reserve.

3. 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 fifteen months ended March 31, 2014, 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 fifteen months ended March 31, 2014.

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3. Basis of Preparation

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.

4. Amounts Receivable

	December 31, 2014 \$	March 31, 2014 \$
Production receivable	912,676	1,563,562
Other	<u>66,593</u>	<u>309,052</u>
	<u>979,269</u>	<u>1,872,614</u>

5. Investment

	<u>December 31, 2014</u>			
	Number of Common Shares	Cost \$	Accumulated Unrealized Loss on Investment \$	Carrying Value \$
North American Oil and Gas Corp. ("NAMG")	<u>837,096</u>	<u>83,458</u>	<u>(67,920)</u>	<u>15,538</u>
	<u>March 31, 2014</u>			
	Number of Common Shares	Cost \$	Accumulated Unrealized Gain on Investment \$	Carrying Value \$
NAMG	<u>5,000,000</u>	<u>498,500</u>	<u>219,945</u>	<u>718,445</u>

During the nine months ended December 31, 2014 the Company sold 4,162,904 shares of NAMG for proceeds of \$186,197 recognizing a realized loss of \$241,556.

As at December 31, 2014 the quoted market value of the NAMG shares was \$15,538. See also Note 6(b).

EAST WEST PETROLEUM CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2014
(Unaudited - Expressed in Canadian Dollars)

6. 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	<u>(2,499,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,463,111)</u>	<u>-</u>	<u>-</u>	<u>(3,962,211)</u>
Balance at March 31, 2014	-	-	5,666,415	-	-	122,154	318,121	6,106,690
Capital expenditures	-	-	653,626	63,265	-	-	-	716,891
Net revenues pre-commercial discovery	-	-	(37,048)	-	-	-	-	(37,048)
Revision of estimate for decommissioning liabilities	-	-	(9,915)	-	-	-	-	(9,915)
Foreign exchange movement	-	-	(307,640)	(181)	-	-	-	(307,821)
Impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63,084)</u>	<u>-</u>	<u>(122,154)</u>	<u>(318,121)</u>	<u>(503,359)</u>
Balance at December 31, 2014	<u>-</u>	<u>-</u>	<u>5,965,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,965,438</u>

- (a) 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. The Company could 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 is entitled to receive 100% of the oil and gas revenues, on a permit-by-permit basis, to recover its Initial Funding. TAG is the operator of the joint venture.

In April 2014 the Company completed drilling on PEP 54876, the results of which confirmed that there were no commercial deposits as at March 31, 2014. During the fifteen months ended March 31, 2014 the Company recorded an impairment of \$2,499,100 for costs incurred to March 31, 2014. During the nine months ended December 31, 2014 the Company recorded a further \$2,678,057 for costs incurred subsequent to March 31, 2014 as a charge to general exploration.

During the nine months ended December 31, 2014 the Company received net revenues of \$37,048 from production from the testing of the G1 well on PEP 54879. 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.

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 agreed to 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 would be funded based on each company's participation interest. In December 2014 the Company and TAG agreed to the termination of the Company's interest.

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6. Exploration and Evaluation Assets (continued)

- (b) 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 it 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;
 - (ii) an initial 21.25% working interest in the Tejon Main Area. On August 1, 2013 the Company entered into a purchase and sale agreement with Solimar Energy Limited (“Solimar”) a party at arms-length to the Company, whereby the Company paid US \$110,000 to Solimar to acquire an additional 28.75% working interest to increase the Company’s working interest to 50%. 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 fund US \$347,500 to Lani to be used for lease delay rental payments and for leasing new acreage in White Wolf of which US \$329,402 was cumulatively paid as of December 31, 2014.

On November 20, 2012 Lani and NAMG entered into an agreement and plan of merger whereby NAMG acquired 100% of Lani. In conjunction with the 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 the fifteen months ended March 31, 2014 the Company determined that the exploration well drilled on the Tejon Ranch Extension was unlikely to be commercial and recorded an impairment charge of \$1,463,111 for all costs incurred.

NAMG is the operator of the subject leases. As of December 31, 2014 NAMG has been unsuccessful in obtaining sufficient financing to proceed with further exploration and development of the properties. In light of this uncertainty and results to date on the other properties the Company has determined to record impairment charges of \$122,154 on the Tejon Main Area and \$318,121 on White Wolf.

The Lani Agreement also required the Company to advance up to US \$300,000 to NAMG for working capital purposes. These advances are non-interest bearing and are repayable from production revenues or equity financing conducted by NAMG, whichever comes first. The Company advanced US \$300,000 and was subsequently repaid US \$193,390. During the nine months ended December 31, 2014 the Company recorded a provision of \$119,852 on the remaining balance.

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

On May 20, 2011 the Company and Naftna Industrija Srbije j.s.c. Novi Sad (“NIS”), an arm’s length corporation, signed a memorandum of understanding to jointly explore the four exploration blocks in Romania. On October 27, 2011 the Company and NIS signed a farm-out agreement (the “Farm-out”). Under the terms of the Farm-out, NIS paid the Company \$250,000 and agreed to pay a further \$275,000 upon final concession approvals

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6. Exploration and Evaluation Assets (continued)

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 (“NSI Petrol”), a wholly-owned subsidiary of NIS, and the Company received a pro-rated payment of \$68,750 from NIS. On November 22, 2013 the Company received final concession approval on the three remaining exploration blocks. The Company subsequently transferred the 85% participation interest in the exploration blocks to NIS Petrol and received the final payment of \$206,250 during the fifteen months ended March 31, 2014.

(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 had an overall duration of eight years, comprising :

- (i) Phase 1 program under which the Company was 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 could elect to enter into an extension for a Phase 2 program under which, amongst other things, the Company would 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 could elect to enter into an extension for a Phase 3 program under which, amongst other things, the Company would 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 retained a 25% carried interest to declaration of commerciality on the Doukkala Block.

The Company had provided a US \$3,500,000 guarantee (the “Guarantee”) in favour of ONHYM as security for performance of the Phase 1 program. The Company had requested an extension from ONHYM for the time required to complete the Phase 1 work program. ONHYM did not consent to an extension and, as a result, it was unlikely that the Company would incur the full amount of the Phase 1 work program by the deadline. During the fifteen months ended March 31, 2014 the Company determined that its Guarantee was at risk of being called and the Company recorded a provision of \$3,868,550 against the Guarantee.

On August 15, 2014 a demand was made by ONHYM for the release and payment of the Guarantee. On August 20, 2014 the guarantee amount was released to ONHYM. The joint venture with ONHYM is effectively terminated.

(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.

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7. Property, Plant and Equipment

	Petroleum and Natural Gas Properties		Office Equipment and Leasehold Improvements	Total
	PEP 54877 \$	Carbon \$	\$	\$
Cost:				
Balance at December 31, 2012	-	1,202,986	52,128	1,255,114
Transfer from exploration and evaluation assets	6,821,937	-	-	6,821,937
Capital expenditures	912,390	-	-	912,390
Revision of estimate for decommissioning costs	126,456	(7,293)	-	119,163
Foreign exchange movement	802,601	-	-	802,601
Balance at March 31, 2014	8,663,384	1,195,693	52,128	9,911,205
Capital expenditures	1,207,525	-	1,799	1,209,324
Revision of estimate for decommissioning costs	(51,897)	(858)	-	(52,755)
Foreign exchange movement	(442,492)	-	-	(442,492)
Balance at December 31, 2014	9,376,520	1,194,835	53,927	10,625,282
Accumulated Depletion and Depreciation:				
Balance at December 31, 2012	-	(526,360)	(22,170)	(548,530)
Depletion and depreciation	(1,257,753)	(130,439)	(18,065)	(1,406,257)
Balance at March 31, 2014	(1,257,753)	(656,799)	(40,235)	(1,954,787)
Depletion and depreciation	(2,059,730)	(66,796)	(8,937)	(2,135,463)
Foreign exchange movement	35,690	-	-	35,690
Balance at December 31, 2014	(3,281,793)	(723,595)	(49,172)	(4,054,560)
Carrying Value:				
Balance at March 31, 2014	7,405,631	538,894	11,893	7,956,418
Balance at December 31, 2014	6,094,727	471,240	4,755	6,570,722

(a) On January 7, 2014 commercial discovery was declared on PEP 54877 and the capitalized expenditures were transferred from exploration and evaluation assets to property, plant and equipment. See also Note 6(a).

On February 8, 2014 the Company had recovered the Initial Funding on PEP 54877, after which all additional net revenues are being shared according to each party's interest.

(b) 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.

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8. Decommissioning Liabilities

	Nine Months Ended December 31, 2014 \$	Fifteen Months Ended March 31, 2014 \$
Balance, beginning of period	995,388	81,404
Liability incurred	-	761,529
Finance cost	19,390	28,426
Revision of estimate	34,541	119,163
Foreign exchange movement	<u>(97,211)</u>	<u>4,866</u>
Balance, end of period	<u>952,108</u>	<u>995,388</u>

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation is \$1,146,762 (March 31, 2014 - \$1,080,000) which has been discounted using a pre-tax risk-free rate of 3.5% and an inflation rate of 1.6%. 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 various dates which are currently expected to extend up to 2024. 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*

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 during the nine months ended December 31, 2014 or the fifteen months ended March 31, 2014.

On February 3, 2014 the Company filed a normal course issuer bid (the "NCIB") which authorizes the Company 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 nine months ended December 31, 2014 the Company repurchased a total of 1,681,000 (fiscal 2014 - 983,000) common shares for \$282,731 (fiscal 2014 - \$299,443) cash consideration. The average carrying value of the common shares was \$0.17 (fiscal 2014 - \$0.30) per share. The difference between the purchase price and the carrying value of the common shares was \$465,373 (fiscal 2014 - \$150,868).

See also Note 16.

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9. Share Capital (continued)

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2014 and 2013 and the changes for the nine months ended on those dates, is as follows:

	2014		2013	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of period	-	-	11,685,000	0.34
Issued	-	-	695,000	0.34
Exercised	-	-	(8,776,294)	0.34
Expired	-	-	(3,603,706)	0.34
	-	-	-	-
Balance, end of period	-	-	-	-

(d) *Share Option Plan*

The Company has established a fixed share option plan (the "Plan"), in which a total of 12,408,697 common shares have been reserved for issuance under the Plan. 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 nine months ended December 31, 2014 the Company granted 5,308,000 (2013 - 1,725,000) share options and recorded compensation expense of \$653,525 (2013 - \$325,238) on the granting and vesting of share options.

The fair value of share options granted and vested is estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>2014</u>	<u>2013</u>
Risk-free interest rate	0.97% - 1.58%	1.00% - 1.28%
Estimated volatility	76% - 98%	60% - 111%
Expected life	1 year - 5 years	2 years - 5 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average grant date fair value of all share options granted and vested during the nine months ended December 31, 2014 was \$0.12 (2013 - \$0.19) per share option.

During the nine months ended December 31, 2014 the Company repriced share options previously granted to purchase 1,822,000 common shares, from original exercise prices ranging from \$0.37 to \$0.50 per share to a revised exercise price of \$0.18 per share. The fair value of share options repriced has been estimated using the Black-Scholes option pricing model. The assumptions used were: risk-free interest rate 1.01% - 1.32%; estimated volatility 64% - 72%; expected life 0.5 year - 3.5 years; expected dividend yield 0%; and estimated forfeiture rate 0%. The value assigned to the re-pricing of the share options was \$67,582.

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9. Share Capital (continued)

During the nine months ended December 31, 2013 the Company repriced share options previously granted to purchase 1,400,000 common shares, from original exercise prices ranging from \$0.83 to \$1.16 per share to a revised exercise price of \$0.40 per share. The fair value of share options repriced has been estimated using the Black-Scholes option pricing model. The assumptions used were: risk-free interest rate 1.00% - 1.04%; estimated volatility 61% - 74%; expected life 2.5 years - 2.9 years; expected dividend yield 0%; and estimated forfeiture rate 0%. The value assigned to the re-pricing of the share options was \$84,000.

A summary of the Company's share options at December 31, 2014 and 2013 and the changes for the nine months ended on those dates, is as follows:

	2014		2013	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	7,088,530	0.46	8,233,530	0.40
Granted	5,308,000	0.14	1,725,000	0.37
Exercised	-	-	(1,288,150)	0.16
Expired / Cancelled	(4,804,529)	0.34	(125,000)	0.37
Forfeited	(200,001)	0.37	-	-
Balance, end of period	<u>7,392,000</u>	0.22	<u>8,545,380</u>	0.35

The following table summarizes information about the share options outstanding and exercisable at December 31, 2014:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
150,000	150,000	0.40	April 11, 2015
610,000	610,000	0.50	October 1, 2015
570,000	570,000	0.40	February 2, 2016
80,000	80,000	0.40	March 14, 2016
24,000	24,000	0.40	April 6, 2016
650,000	433,333	0.37	April 4, 2018
300,000	100,000	0.175	October 3, 2019
108,000	36,000	0.18	October 3, 2019
<u>4,900,000</u>	<u>4,900,000</u>	0.14	November 14, 2019
<u>7,392,000</u>	<u>6,903,333</u>		

(e) *Compensation Options*

During fiscal 2010 the Company granted 731,000 compensation options, with each compensation option entitling the holder to purchase one unit for \$0.25 per unit which expired on September 29, 2013. Each unit was to comprise 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.

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9. Share Capital (continued)

A summary of the Company's compensation options at December 31, 2014 and 2013 and the changes for the nine months ended on those dates, is as follows:

	2014		2013	
	Number Outstanding	Weighted Average Exercise Price \$	Number Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	-	-	731,000	0.25
Exercised	-	-	(695,000)	0.25
Expired	-	-	(36,000)	0.25
Balance, end of period	-	-	-	-

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 nine months ended December 31, 2014 and 2013 the following amounts were incurred with respect to the Company's current President and Chairman, former President, current Chief Financial Officer ("CFO") and former Vice-President of Operations of the Company:

	2014 \$	2013 \$
Salaries	-	256,209
Professional fees	192,000	94,500
Health benefit premiums	-	10,669
Share-based compensation	336,842	235,615
	528,842	596,993

As at December 31, 2014 \$28,500 (2013 - \$3,500) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

(i) During the nine months ended December 31, 2014 and 2013 the following amounts were incurred with respect to other current and former non-management officers and directors of the Company:

	2014 \$	2013 \$
Professional fees	323,000	307,500
Legal	-	48,839
Share-based compensation	273,167	67,111
	596,167	423,450

As at December 31, 2014 \$48,000 (2013 - \$31,000) remained unpaid and has been included in accounts payable and accrued liabilities.

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10. Related Party Disclosures (continued)

- (ii) During the nine months ended December 31, 2014 the Company incurred a total of \$50,150 (2013 - \$31,350) 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. As at December 31, 2014 \$11,250 (2013 - \$7,600) remained unpaid and has been included in accounts payable and accrued liabilities.
- (iii) During the nine months ended December 31, 2013 the Company paid \$3,153 to the spouse of the former President of the Company for professional services rendered.
- (c) The Company previously had an agreement with a public company, Ava Resources Corp. ("Ava") which was related through a common director and officer, to share office premises. On March 31, 2014 Ava was dissolved. During the nine months ended December 31, 2014 the Company recorded the \$16,533 rent deposit which was forfeited by Ava as a credit to general and administrative expenses.

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

The carrying amount of cash and accounts receivable represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts on its accounts receivable as at December 31, 2014 and did not provide for any doubtful accounts. The Company has recorded a provision of \$119,852 on its advances, as described in Note 6(b).

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 nine months ended December 31, 2014.

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11. Financial Instruments and Risk Management (continued)

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.

	Contractual Maturity Analysis at December 31, 2014				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	8,094,974	-	-	-	8,094,974
Amounts receivable	979,269	-	-	-	979,269
Investment	-	-	15,538	-	15,538
Accounts payable and accrued liabilities	(618,794)	-	-	-	(618,794)

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 nine months ended December 31, 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 carrying values of the Company's financial instruments are classified into the following categories:

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11. Financial Instruments and Risk Management (continued)

Financial Instrument	Category	December 31, 2014 \$	March 31, 2014 \$
Cash	FVTPL	8,094,974	12,273,810
Amounts receivable	Loans and receivables	979,269	1,872,614
Investment	Available-for-sale	15,538	718,445
Accounts payable and accrued liabilities	Other liabilities	(618,794)	(3,278,683)
Due to joint venture partner	Other liabilities	-	(479,513)

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 and investment under the fair value hierarchy is measured using Level 1 inputs.

12. 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.

The Company's share capital is not subject to any external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any currently contemplated. There have been no changes to the Company's approach to capital management during the period.

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13. Commitments

(a) The Company has the following commitments for capital expenditures at December 31, 2014:

	Total \$	Less than One Year \$	More than One Year \$
Operating leases (i)	108,319	68,412	39,907
Other long-term obligations (ii)	<u>1,500,000</u>	<u>1,500,000</u>	<u>-</u>
Total contractual obligations (iii)	<u>1,608,319</u>	<u>1,568,412</u>	<u>39,907</u>

(i) 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.

(ii) The other long-term obligations that the Company has are in respect to the Company's share of expected exploration and development permit obligations and/or commitments at the date of this report. The Company may choose to alter the program, request extensions, reject development costs, relinquish certain permits or farm-out its interest in permits where practical.

(iii) The Company's total commitments include those that are required to be incurred to maintain its permits in good standing during the current permit term, prior to the Company committing to the next stage of the permit term where additional expenditures would be required. In addition, costs are also included that relate to commitments the Company has made that are in addition to what is required to maintain the permit in good standing.

(b) See also Note 6.

14. Supplemental Cash Flow Information

During the nine months ended December 31, 2014 and 2013 non-cash activities were conducted by the Company as follows:

	2014 \$	2013 \$
Investing activities		
Expenditures on property, plant and equipment	(290,534)	4,973
Expenditures on exploration and evaluation assets	9,915	(1,244,394)
Initial estimated decommissioning liabilities	<u>-</u>	<u>(432,917)</u>
	<u>(280,619)</u>	<u>(1,672,338)</u>
Operating activities		
Provision for decommissioning liabilities	(62,670)	427,944
Increase in accounts payable and accrued liabilities	<u>343,289</u>	<u>1,244,394</u>
	<u>280,619</u>	<u>1,672,338</u>
Financing activities		
Issuance of common shares	-	483,842
Share-based payments received	<u>-</u>	<u>(483,842)</u>
	<u>-</u>	<u>-</u>

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15. Segmented Information

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

	<u>As at December 31, 2014</u>		
	Canada \$	New Zealand \$	Total \$
Revenues	134,843	5,147,870	5,282,713
Exploration and evaluation assets	-	5,965,438	5,965,438
Property, plant and equipment	475,995	6,094,727	6,570,722

	<u>As at March 31, 2014</u>			
	Canada \$	United States \$	New Zealand \$	Total \$
Revenues	234,689	-	4,007,147	4,241,836
Exploration and evaluation assets	-	440,275	5,666,415	6,106,690
Property, plant and equipment	550,787	-	7,405,631	7,956,418

16. Events after the Reporting Period

- (a) Subsequent to December 31, 2014 the Company repurchased 566,500 common shares of the Company under its NCIB for \$60,785.
- (b) On February 3, 2015 the Company filed a renewal normal course issuer bid which authorizes the Company to repurchase for cancellation up to 8,725,822 common shares until February 2, 2016 or the date by which the Company has acquired the maximum number of common shares under the normal course issuer bid.