EAST WEST PETROLEUM CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIFTEEN MONTHS ENDED
MARCH 31, 2014
AND THE TWELVE MONTHS ENDED
DECEMBER 31, 2012

(Expressed in Canadian Dollars)

DAVIDSON & COMPANY LLP —— Chartered Accountants —— A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
East West Petroleum Corp.

We have audited the accompanying consolidated financial statements of East West Petroleum Corp., which comprise the consolidated statements of financial position as at March 31, 2014 and December 31, 2012, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the fifteen month period ended March 31, 2014 and twelve month period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of East West Petroleum Corp. as at March 31, 2014 and its financial performance and its cash flows for the fifteen month period ended March 31, 2014 and twelve month period ended December 31, 2012 in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

July 16, 2014

NEXIA INTERNATIONAL

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

	Note	March 31, 2014 $	December 31, 2012 $
ASSETS			
Current assets			
Cash	5	12,273,810	21,208,781
GST receivable		515,262	20,488
Amounts receivable	6	1,872,614	127,812
Prepaid expenses		62,725	18,828
Total current assets		14,724,411	21,375,909
Non-current assets			
Investment	7	718,445	4,128,835
Deposits	8(b)	159,653	876,626
Restricted cash	8(d)	-	3,482,150
Exploration and evaluation assets	8	6,106,690	869,344
Property, plant and equipment	9	7,956,418	706,584
Other		16,533	16,533
Total non-current assets		14,957,739	10,080,072
TOTAL ASSETS		29,682,150	31,455,981
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		3,278,683	137,815
Due to joint venture partner		479,513	-
Total current liabilities		3,758,196	137,815
Non-current liabilities			
Decommissioning liabilities	10	995,388	81,404
TOTAL LIABILITIES		4,753,584	219,219
SHAREHOLDERS' EQUITY			
Share capital	11	41,436,619	37,907,477
Share-based compensation reserve		4,352,906	4,335,556
Foreign currency translation reserve		838,213	-
Available-for-sale investment		194,945	3,180,335
Deficit		(21,894,117)	(14,186,606)
TOTAL SHAREHOLDERS' EQUITY		24,928,566	31,236,762
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		29,682,150	31,455,981

Nature of Operations - see Note 1

Commitments - see Note 16

Events after the Reporting Period - see Note 19

These consolidated financial statements were approved for issue by the Board of Directors on July 16, 2014 and are signed on its behalf by:

/s/ David Sidoo	*/s/ Nick DeMare*
David Sidoo	Nick DeMare
Director	Director

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

EAST WEST PETROLEUM CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian Dollars)

	Note	Fifteen Months Ended March 31, 2014 $	Twelve Months Ended December 31, 2012 $
Revenues and costs			
Petroleum and natural gas sales		4,241,836	160,870
Production costs		(418,577)	(71,020)
Transportation and storage costs		(391,009)	-
Royalties		(180,858)	(7,331)
		3,251,392	82,519
Expenses			
Depletion and depreciation	9	1,406,257	144,928
Impairment of property, plant and equipment	9	-	168,000
Impairment of exploration and evaluation assets	8	3,962,211	-
Finance expense of decommissioning liabilities	10	28,426	1,627
General and administrative		2,466,449	2,050,554
Share-based compensation	11(d)	519,288	715,017
		8,382,631	3,080,126
Loss before other items		(5,131,239)	(2,997,607)
Other items			
Interest and other income		312,143	322,200
Gain on disposal of exploration and evaluation assets	8(c)	206,250	68,750
Provision of guarantee amount	8(d)	(3,868,550)	-
Foreign exchange		1,048,017	(79,089)
		(2,302,140)	311,861
Loss before deferred income tax		(7,433,379)	(2,685,746)
Deferred income tax	13	(425,000)	450,000
Net loss for the period		(7,858,379)	(2,235,746)
Other comprehensive income (loss)			
Change in currency translation of foreign subsidiary	2	838,213	-
Change in fair value of investment	7	(2,985,390)	3,180,335
Comprehensive (loss) income for the period		(10,005,556)	944,589
Basic and diluted loss per common share		$(0.09)	$(0.03)
Weighted average number of common shares outstanding		85,886,386	83,031,000

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

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

	Fifteen Months Ended March 31, 2014						
	Share Capital		Reserves				
	Number of Shares	Amount $	Share-Based Compensation Reserve $	Foreign Currency Translation Reserve $	Available-for-Sale Investment $	Deficit $	Total Equity $
Balance at December 31, 2012	82,749,648	37,907,477	4,335,556	-	3,180,335	(14,186,606)	31,236,762
Repurchase of common shares	(983,000)	(450,311)	-	-	-	150,868	(299,443)
Common shares issued for cash:							
- exercise of share options	1,870,723	319,825	-	-	-	-	319,825
- 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	-	-	519,288	-	-	-	519,288
Transfer on exercise of share options	-	303,763	(303,763)	-	-	-	-
Transfer on exercise of compensation options	-	198,175	(198,175)	-	-	-	-
Currency translation adjustment	-	-	-	838,213	-	-	838,213
Unrealized loss on investment	-	-	-	-	(3,410,390)	-	(3,410,390)
Deferred income tax on unrealized loss on investment	-	-	-	-	425,000	-	425,000
Net loss for the period	-	-	-	-	-	(7,858,379)	(7,858,379)
Balance at March 31, 2014	93,108,665	41,436,619	4,352,906	838,213	194,945	(21,894,117)	24,928,566

	Twelve Months Ended December 31, 2012					
	Share Capital		Reserves			
	Number of Shares	Amount $	Share-Based Compensation Reserve $	Available-for-Sale Investment $	Deficit $	Total Equity $
Balance at December 31, 2011	83,700,648	38,382,398	3,620,539	-	(12,029,379)	29,973,558
Repurchase of common shares	(951,000)	(474,921)	-		78,519	(396,402)
Share-based compensation	-	-	715,017	-	-	715,017
Unrealized gain on investment	-	-	-	3,630,335	-	3,630,335
Deferred income tax on unrealized gain on investment	-	-	-	(450,000)	-	(450,000)
Net loss for the period	-	-	-	-	(2,235,746)	(2,235,746)
Balance at December 31, 2012	82,749,648	37,907,477	4,335,556	3,180,335	(14,186,606)	31,236,762

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

EAST WEST PETROLEUM CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Fifteen Months Ended March 31, 2014 $	Twelve Months Ended December 31, 2012 $
Operating activities		
Net loss for the period	(7,858,379)	(2,235,746)
Adjustments for:		
Depletion and depreciation	1,406,257	144,928
Impairment of property, plant and equipment	-	168,000
Finance expense of decommissioning liabilities	28,426	1,627
Share-based compensation	519,288	715,017
Foreign exchange	(446,864)	79,292
Impairment of exploration and evaluation assets	3,962,211	-
Provision of guarantee amount	3,868,550	-
Deferred income tax	425,000	(450,000)
	1,904,489	(1,576,882)
Changes in non-cash working capital items:		
Increase in amounts receivable	(1,680,362)	(107,696)
(Increase) decrease in GST receivable	(475,697)	22,190
Increase in prepaid expenses	(42,441)	(4,136)
Increase (decrease) in accounts payable and accrued liabilities	1,660,738	(84,963)
	(537,762)	(174,605)
Net cash provided by (used in) operating activities	1,366,727	(1,751,487)
Investing activities		
Purchase of investment	-	(498,500)
Expenditures on exploration and evaluation assets	(13,973,165)	(869,344)
Net revenues capitalized during pre-commercial production	1,564,575	-
Expenditures on property, plant and equipment	(1,087,942)	-
Advances to NAMG	(245,511)	(876,626)
Repayments from NAMG	204,154	-
Advance from joint venture partner	479,513	-
Net cash used in investing activities	(13,058,376)	(2,244,470)
Financing activities		
Issuance of common shares	3,477,515	-
Repurchase of common shares	(299,443)	(396,402)
Net cash provided by (used in) financing activities	3,178,072	(396,402)
Effect of exchange rate changes on cash	(421,394)	-
Net change in cash	(8,934,971)	(4,392,359)
Cash at beginning of period	21,208,781	25,601,140
Cash at end of period	12,273,810	21,208,781

Supplemental cash flow information - See Note 17

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. The Company's principal office is located at #1210 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6 Canada.

During the fifteen months ended March 31, 2014 the Company 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

Basis of Presentation

These consolidated financial statements are presented for a period of fifteen months ended March 31, 2014 and twelve months ended December 31, 2012. The Company has changed its fiscal year end from December 31 to March 31 effective March 31, 2014. The change in the fiscal year is made for the purpose of streamlining the Company's financial reporting.

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

3. Basis of Preparation (continued)

Significant Accounting Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are described below:

(i) Fair values of petroleum and natural gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By their nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

(ii) Petroleum and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units ("CGUs") based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.

(iii) The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based partially on proved and probable reserves.

(iv) The calculation of decommissioning liabilities includes estimates of the future costs to settle the liability, the timing of the cash flows to settle the liability, the risk-free rate and the future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the consolidated financial statements of future periods may be material.

(v) The estimated fair value of the Company's financial assets and liabilities, are by their nature, subject to measurement uncertainty.

(vi) The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the realizability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).

(vii) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of share options. These estimates impact share-based compensation expense and share-based compensation reserve.

(viii) The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.

(ix) Contingencies are resolved only when one or more events transpire. As a result, the assessment of contingencies inherently involves estimating the outcome of future events.

Details of the Group

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. The Company did not have any cash equivalents as at March 31, 2014 and December 31, 2012.

Amounts Receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective interest method.

Exploration and Evaluation Expenditures

Pre-license costs are recognized in the statement of comprehensive loss as incurred. Exploration and evaluation expenditures directly attributable to the exploration for petroleum and natural gas reserves are capitalized as exploration and evaluation assets on a field-by-field basis. These costs include, but are not limited to: lease acquisition either directly or by business combination, lease rentals on undeveloped properties, acquisition of rights to explore, geological, and geophysical costs, exploratory drilling of both productive and unproductive wells and overhead charges. No depletion or amortization is charged during the exploration and evaluation phase.

Exploration and evaluation expenditures are capitalized until reserves are evaluated and determined to be commercially viable and technically feasible. If reserves are not identified, these costs are expensed. The balance of exploration and evaluation expenditures is carried forward as an exploration and evaluation asset in the statement of financial position where the resource rights are current and it is considered probable that costs will be recovered through the future development or sale of the property.

If it is determined that a commercial discovery of reserves will not be achieved, the capitalized exploration and evaluation assets are written down to their recoverable amounts. Where commercial discovery of reserves has been made, the exploration and evaluation assets are tested for impairment and transferred to property, plant and equipment as petroleum and natural gas properties.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

4. Summary of Significant Accounting Policies (continued)

Where commercial production in an area has commenced, petroleum and natural gas properties are depreciated on a unit-of-production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, plus future development expenditures to develop the proved and probable reserves. Changes in factors such as estimates of proved reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are accounted for on a prospective basis.

Office equipment and leasehold improvements are depreciated annually on a straight-line basis over the estimated useful life of the assets, at a rate of between 20% and 30% commencing when the related asset is available for use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

Joint Operations

A portion of the Company's operations are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Impairment of Assets

Non-Financial Assets

The Company reviews the carrying amounts of its non-financial assets, other than exploration and evaluation assets and deferred tax assets, at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed annually. Exploration and evaluation assets are tested for impairment when reclassified to property, plant and equipment as petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying value exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the lowest level at which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets, known as a cash-generating unit ("CGU"). Exploration and evaluation assets are grouped on an area basis for impairment assessment purposes. The goodwill acquired in a business combination, for the purposes of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the asset or CGU's carrying amount exceeds its recoverable amount determined as the higher of: its fair value less costs to sell, and its value in use. In assessing value in use, the estimated future after-tax cash flows are adjusted for the risks specific to the asset group and are discounted to present value using a discount rate that reflects current market assessments of the time value of money. Fair value less costs to sell is based on discounted cash flow forecasts using market assumptions, including market assessment of reserves, future prices and a risk-adjusted discount rate appropriate to the asset by reference to general market conditions, market expectations of current and future development, and the costs of future development. Impairment losses are recognized in the statement of operations and comprehensive loss.

4. Summary of Significant Accounting Policies (continued)

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.

Financial Assets

Financial assets are assessed for impairment at each reporting date to determine whether there is any objective evidence that they are impaired. Objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset and will not be realized. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

If there is impairment, the carrying amount of the financial asset is reduced by the impairment loss, except for trade receivables where the carrying amount is reduced through the use of an allowance account, and the loss is recognized in the statement of operations and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the statement of operations and comprehensive loss

Decommissioning Liabilities

Liabilities for decommissioning costs are recognized when the Company has an obligation to dismantle or remove a facility and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Cost is estimated upon current regulation and technology. Normally an obligation arises for a new facility or well during the construction or installation phase. Obligations may also be created through a change in legislation. The amount recognized is the fair value of the estimated future cost determined in accordance with local conditions and requirements.

Fair value is determined using the present value of the estimated future cash outflows to abandon the asset and restore the site, discounted using a pre-tax risk-free rate. Costs and the discount rate are updated at each reporting date to reflect current market assessments of the time value of money. The provision is reviewed regularly by the Company's management based on current regulations, costs, technologies and industry standards.

The corresponding amount is capitalized to petroleum and natural gas assets and is amortized on a unit-of-production basis as part of depletion and depreciation. Any adjustments arising from the reassessment of estimated costs or the current estimate of the discount rate used are reflected as an adjustment to the cost of petroleum and natural gas assets. The unwinding of the discount is recognized as a finance cost in income. Actual restoration expenditures are charged as reductions to the accumulated provision when incurred.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect of time is material.

Financial Instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash and restricted cash are classified as FVTPL.

4. Summary of Significant Accounting Policies (continued)

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. Investments in common shares are classified as available-for-sale.

Transaction costs associated with FVTPL are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and due to joint venture partner are classified as other financial liabilities.

Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At March 31, 2014 and December 31, 2012 the Company has not classified any financial liabilities as FVTPL.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Share-Based Compensation Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based compensation transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based compensation transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

4. Summary of Significant Accounting Policies (continued)

Current and Deferred Income Tax

Income tax expense comprises current and deferred tax. Income tax is recognized separately in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case the income tax is also recognized in other comprehensive loss or directly in equity, respectively.

Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax relating to items recognized directly in equity or other comprehensive income ("OCI") is recognized in equity or OCI and not in the statement of comprehensive loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings (loss) per share, when diluted earnings (loss) per share is presented.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sale price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured based on the sales contract.

4. Summary of Significant Accounting Policies (continued)

Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's entities' functional currencies are the Canadian dollar and the New Zealand dollar. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.

(i) EWNZ

EWNZ has the New Zealand dollar as the functional currency. 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. See also Note 2.

(ii) Other Subsidiaries

The financial statements of each of the Company's other subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Each subsidiary's functional currency and the functional currency of the parent, being the currency of the primary economic environment in which the subsidiary and the parent operates, is the Canadian dollar.

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

Comparative Figures

Certain of the prior fiscal year's comparative figures have been reclassified to conform with the current fiscal year's presentation.

Adoption of Accounting Standards and Interpretations

The Company has adopted the following new accounting standards and interpretations effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions and had no impact on the financial statements.

(i) IFRS 10 *Consolidated Financial Statements*. IFRS 10 defines a single concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of a parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

(ii) IFRS 11 *Joint Arrangements*. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form, as is currently the case. The standard distinguishes between joint operations, where the joint operator accounts for the assets, liabilities, revenues, and expenses relating to its involvement, and joint ventures, which must be accounted for using the equity method.

(Expressed in Canadian Dollars)

4. Summary of Significant Accounting Policies (continued)

(iii) IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities.

(iv) IFRS 13 *Fair Value Measurement*. IFRS 13 is a new standard that applies to both financial and non-financial items measured at fair value. It defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. Previously, a variety of fair value techniques and disclosures were possible under the requirements of separate applicable IFRSs.

Accounting Standards and Interpretations Issued but Not Yet Adopted

As at the date of these financial statements, the following standard has not been applied in these financial statements:

(i) IFRS 9 *Financial Instruments*; tentatively effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes. The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortized cost or fair value.

Management is currently assessing the impact of this new standard on the Company's accounting policies and financial statement presentation.

5. Cash

	March 31, 2014 $	December 31, 2012 $
Cash	12,273,810	2,286,414
Demand deposits	-	18,922,367
	12,273,810	21,208,781

6. Amounts Receivable

	March 31, 2014 $	December 31, 2012 $
Production receivable	1,563,562	20,924
Other	309,052	106,888
	1,872,614	127,812

7. Investment

	March 31, 2014			
	Number of Common Shares	Cost $	Accumulated Unrealized Gain on Investment $	Carrying Value $
North American Oil and Gas Corp. ("NAMG")	5,000,000	498,500	219,945	718,445

(Expressed in Canadian Dollars)

7. Investment (continued)

	December 31, 2012			
	Number of Common Shares	Cost $	Accumulated Unrealized Gain on Investment $	Carrying Value $
NAMG	5,000,000	498,500	3,630,335	4,128,835

During the fifteen months ended March 31, 2014 the Company recorded a net unrealized comprehensive loss of $2,985,390 (twelve months ended December 31, 2012 - gain of $3,180,335), net of deferred income tax recovery of $425,000 (twelve months ended December 31, 2012 - deferred income tax expense of $450,000).

During the twelve months ended December 31, 2012 the Company purchased 5,000,000 common shares of NAMG at a cost of $498,500. As at March 31, 2014 the quoted market value of the NAMG shares was $718,445. See also Notes 8(b) and 19(ii).

8. Exploration and Evaluation Assets

	New Zealand			United States			
	PEP 54876 $	PEP 54877 $	PEP 54879 $	Tejon Ranch Extension $	Tejon Main Area $	White Wolf $	Total $
Balance at December 31, 2011	-	-	-	-	-	-	-
Capital expenditures	-	-	-	817,017	-	52,327	869,344
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

(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 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 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.

Subsequent to March 31, 2014 the Company completed drilling on PEP 54876, the results of which confirmed that there were no commercial deposits. Accordingly, the Company has recorded an impairment of $2,499,100 for costs incurred to March 31, 2014.

8. 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. 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) 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 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 March 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 7.

During the twelve months ended December 31, 2012 the Company advanced US $1,700,000 to NAMG to fund exploration activities of which $41,459 (US $37,509) remains unapplied as at March 31, 2014 (December 31, 2012 - $816,932 [US $821,119]) and is included in deposits.

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. During the twelve months ended December 31, 2012 the Company advanced US $60,000. During the fifteen months ended March 31, 2014 the Company advanced the remaining US $240,000. NAMG has subsequently repaid US $193,066 and, as at March 31, 2014, $118,194 (US $106,934) remains outstanding and is included in deposits.

(c) During fiscal 2010 the Company was informed by the government of Romania that it had been awarded four exploration blocks located in the Pannonian Basin, in western Romania. In May 2011 the Company signed petroleum concession agreements with the National Agency for Minerals and Hydrocarbons ("NAMR") the government agency in Romania which regulates the oil and gas industry.

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

On May 20, 2011 the Company and Naftna Industrija Srbije j.s.c. Novi Sad ("NIS"), an arm's length corporation, signed a memorandum of understanding to jointly explore the four exploration blocks in Romania. On October 27, 2011 the Company and NIS signed a farm-out agreement (the "Farm-out"). Under the terms of the Farm-out, NIS paid the Company $250,000 and agreed to pay a further $275,000 upon final concession approvals by the government of Romania and assignment of an 85% participation interest and operatorship of the Romania Work Programs to NIS. NIS has the obligation to fund the Romania Work Programs, including environmental work, 2D and 3D seismic acquisition and processing, and the drilling of 12 wells. The Company retains a 15%

8. Exploration and Evaluation Assets (continued)

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. During the twelve months ended December 31, 2012 the Company also received a pro-rated payment of $68,750 from NIS. On November 22, 2013 the Company received final concession approval by the government of Romania 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.

(d) Effective November 28, 2011 the Company and the Office National des Hydrocarbures et des Mines ("ONHYM"), an agency of the Moroccan government, entered into agreements whereby the Company was granted an exploration permit (the "Exploration Permit") for a 75% participation interest in a prospective exploration block (the "Doukkala Block") situated along the Atlantic coast southwest from Casablanca, Morocco. The Exploration Permit has an overall duration of eight years, comprising :

(i) Phase 1 program under which the Company is committed to carry out a specified exploration work program, estimated to cost approximately US $5,500,000, over three years;

(ii) on completion of the Phase 1 program, the Company can elect to enter into an extension for a Phase 2 program under which, amongst other things, the Company will be committed to drill two wells, estimated to cost approximately US $14,000,000 over a two year duration; and

(iii) on completion of the Phase 2 program the Company can elect to enter into an extension for a Phase 3 program under which, amongst other things, the Company will be committed to acquire 3D seismic and drilling of one well, estimated to cost approximately US $14,000,000 over a three year duration.

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

The Company has provided a US $3,500,000 (Cdn $3,868,550) guarantee (the "Guarantee") in favour of ONHYM as security for performance of the Phase 1 program. The amount is deposited in a savings account with a major Canadian bank.

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

The Company requested an extension from ONHYM for the time required to complete the Phase 1 work program. To date ONHYM has not consented to an extension and as a result it is unlikely that the Company will incur the full amount of the Phase 1 work program by the current deadline. The Company has determined that with no extension to complete Phase 1 work program that its Guarantee in favour of ONHYM is at risk of being called and that the amounts posted as security to complete Phase 1 work will be lost. Accordingly the Company has recorded a provision of $ 3,868,550 against the Guarantee. The Company does not intend to fund any further amounts or fulfill any commitments required of its 100% wholly owned subsidiary EW Petroleum North Africa Inc.

(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.

(Expressed in Canadian Dollars)

9. Property, Plant and Equipment

	Petroleum and Natural Gas Properties		Office Equipment and Leasehold Improvements	Total
	PEP 54877 $	Carbon $	$	$
Cost:				
Balance at December 31, 2011	-	1,180,046	52,128	1,232,174
Revision of estimate for decommissioning costs	-	22,940	-	22,940
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
Accumulated Depletion, Depreciation and Impairment:				
Balance at December 31, 2011	-	(227,887)	(7,715)	(235,602)
Depletion and depreciation	-	(130,473)	(14,455)	(144,928)
Impairment	-	(168,000)	-	(168,000)
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)
Carrying Value:				
Balance at December 31, 2012	-	676,626	29,958	706,584
Balance at March 31, 2014	7,405,631	538,894	11,893	7,956,418

(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 8(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.

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

(Expressed in Canadian Dollars)

10. Decommissioning Liabilities

	Fifteen Months Ended March 31, 2014 $	Twelve Months Ended December 31, 2012 $
Balance, beginning of period	81,404	56,837
Liability incurred	761,529	-
Finance cost	28,426	1,627
Revision of estimate	119,163	22,940
Foreign exchange movement	4,866	-
Balance, end of period	995,388	81,404

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation is $1,080,000 (Dec 31, 2012 - $122,628) which has been discounted using a pre-tax risk-free rate of 2.75%. 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 2048, with the majority of the expenditures expected to occur between 2015 to 2025. Settlement of the liabilities is expected to be funded from general corporate funds at the time of retirement.

11. 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 fifteen months ended March 31, 2014 or the twelve months ended December 31, 2012.

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

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 fifteen months ended March 31, 2014 the Company repurchased a total of 983,000 (twelve months ended December 31, 2012 - 951,000) common shares for $299,443 (twelve months ended December 31, 2012 - $396,402) cash consideration. The average carrying value of the common shares was $0.30 (twelve months ended December 31, 2012 - $0.50) per share. The difference between the purchase price and the carrying value of the common shares was $150,868 (twelve months ended December 31, 2012 - $78,519).

See also Note 19(i).

(Expressed in Canadian Dollars)

11. Share Capital (continued)

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at March 31, 2014 and December 31, 2012 and the changes for the periods ended on those dates, is as follows:

	Fifteen Months Ended March 31, 2014		Twelve Months Ended December 31, 2012	
	Number	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
Balance, beginning of period	11,685,000	0.34	26,105,595	1.12
Issued on exercise of compensation options	695,000	0.34	-	-
Exercised	(8,776,294)	0.34	-	-
Expired	(3,603,706)	0.34	(14,420,595)	1.75
Balance, end of period	-	-	11,685,000	0.34

(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 fifteen months ended March 31, 2014 the Company granted 1,725,000 share options and recorded compensation expense of $435,288 on the granting and vesting of share options.

During the twelve months ended December 31, 2012 the Company granted 300,000 share options and recorded compensation expense of $546,048 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:

	Fifteen Months Ended March 31, 2014	Twelve Months Ended December 31, 2012
Risk-free interest rate	1.00% - 1.28%	0.96% - 1.34%
Estimated volatility	60% - 111%	109% - 131%
Expected life	2 years - 5 years	2 years - 4 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 fifteen months ended March 31, 2014 was $0.25 and during the twelve months ended December 31, 2012 was $0.32 per share option.

During the fifteen months ended March 31, 2014 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.

(Expressed in Canadian Dollars)

11. Share Capital (continued)

During the twelve months ended December 31, 2012 the Company repriced share options previously granted to purchase 1,726,000 common shares, from original exercise prices ranging from $0.87 to $1.16 per share to a revised exercise price of $0.40 per share.

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

	Fifteen Months Ended March 31, 2014	Twelve Months Ended December 31, 2012
Risk-free interest rate	1.00% - 1.04%	1.16% - 1.44%
Estimated volatility	61% - 74%	106% - 124%
Expected life	2.5 years - 2.9 years	2 years - 4 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The value assigned to the re-pricing of the share options was $84,000 for the fifteen months ended March 31, 2014 and $86,220 for the twelve months ended December 31, 2012 of which $79,721 was expensed during the twelve months ended December 31, 2012.

During the twelve months ended December 31, 2012 the Company extended the expiry dates:

(i) on 36,000 share options with an exercise price of $0.40 per share expiring on April 6, 2014 to a revised expiry date of April 6, 2016;
(ii) on 1,160,000 share options with an exercise price of $0.83 per share expiring on May 31, 2014 to a revised expiry date of May 31, 2016; and
(iii) on 225,000 share options with an exercise price of $0.45 per share expiring on September 14, 2014 to a revised expiry date of September 14, 2016.

All other terms of the options remained the same.

The fair values of the extension of the expiry dates on the share options have been estimated using the Black-Scholes option pricing model. The assumptions used were: risk-free interest rate 1.09% - 1.24%; estimated volatility 102% - 120%; expected life 3.5 years - 4 years; expected dividend yield 0%; and estimated forfeiture rate 0%. The value assigned to the extension of the expiry date on the share options was $99,955 of which $89,248 was expensed during the twelve months ended December 31, 2012.

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

(Expressed in Canadian Dollars)

11. Share Capital (continued)

A summary of the Company's share options at March 31, 2014 and December 31, 2012 and the changes for the periods ended on those dates, is as follows:

	Fifteen Months Ended March 31, 2014		Twelve Months Ended December 31, 2012	
	Number of Options Outstanding	Weighted Average Exercise Price $	Number of Options Outstanding	Weighted Average Exercise Price $
Balance, beginning of period	8,233,530	0.40	8,033,530	0.56
Granted	1,725,000	0.37	300,000	0.40
Exercised	(1,870,723)	0.17	-	-
Forfeited	(999,277)	0.34	(33,334)	0.50
Expired	-	-	(66,666)	0.50
Balance, end of period	7,088,530	0.46	8,233,530	0.40

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

Number Outstanding	Number Exercisable	Exercise Price $	Expiry Date
300,000	300,000	0.26	January 7, 2015
300,000	200,000	0.40	April 11, 2015
650,000	650,000	0.20	July 19, 2015
852,530	852,530	0.25	October 1, 2015
610,000	610,000	0.50	October 1, 2015
1,850,000	1,850,000	0.40	February 2, 2016
80,000	80,000	0.40	March 14, 2016
36,000	36,000	0.40	April 6, 2016
1,160,000	1,160,000	0.40	May 31, 2016
1,250,000	416,666	0.37	April 4, 2018
7,088,530	6,155,196		

(e) *Compensation Options*

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

(Expressed in Canadian Dollars)

11. Share Capital (continued)

A summary of the Company's compensation options as at March 31, 2014 and December 31, 2012 and the changes for the periods ended on those dates, is as follows:

	Fifteen Months Ended March 31, 2014		Twelve Months Ended December 31, 2012	
	Number Outstanding	Weighted Average Exercise Price $	Number Outstanding	Weighted Average Exercise Price $
Balance, beginning of period	731,000	0.25	731,000	0.25
Exercised	(695,000)	0.25	-	-
Expired	(36,000)	0.25	-	-
Balance, end of period	-	-	731,000	0.25

12. 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 fifteen months ended March 31, 2014 and the twelve months ended December 31, 2012 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:

	Fifteen Months Ended March 31, 2014 $	Twelve Months Ended December 31, 2012 $
Salaries	372,243	447,142
Professional fees	163,500	102,000
Health benefit premiums	13,656	13,898
Share-based compensation	276,767	457,613
	826,166	1,020,653

As at March 31, 2014 $3,500 (December 31, 2012 - $41,138) remained unpaid and has been included in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

12. Related Party Disclosures (continued)

(b) *Transactions with Other Related Parties*

(i) During the fifteen months ended March 31, 2014 and the twelve months ended December 31, 2012 the following amounts were incurred with respect to other current and former non-management officers and directors of the Company:

	Fifteen Months Ended March 31, 2014 $	Twelve Months Ended December 31, 2012 $
Professional fees	526,000	444,000
Legal	51,061	14,456
Share-based compensation	107,325	327,954
	684,386	786,410

As at March 31, 2014 $31,000 (December 31, 2012 - $31,600) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During the fifteen months ended March 31, 2014 the Company also incurred a total of $52,850 (twelve months ended December 31, 2012 - $41,000) to Chase Management Ltd. ("Chase"), a private corporation owned by the CFO of the Company, for accounting and administration services provided by Chase personnel, excluding the CFO. The Company also paid $3,153 (twelve months ended December 31, 2012 - $3,802) to the spouse of the former President of the Company for professional services rendered. As at March 31, 2014 $6,500 (December 31, 2012 - $6,000) remained unpaid and has been included in accounts payable and accrued liabilities.

(c) See Note 16(a)(i)

13. Income Tax

A reconciliation of taxes at statutory rates to the Company's effective tax expense is as follows:

	Fifteen Months Ended March 31, 2014 $	Twelve Months Ended December 31, 2012 $
Loss before income taxes	(7,433,379)	(2,685,746)
Statutory tax rate	26%	25%
Expected income tax recovery	(1,933,000)	(671,000)
Permanent differences	202,000	190,000
Effect of change in tax rates in foreign exchange and other	(102,000)	(55,000)
Unrealized loss (gain) on investments	887,000	(450,000)
Change in deductible temporary differences	1,371,000	536,000
Deferred income tax	425,000	(450,000)

(Expressed in Canadian Dollars)

13. Income Tax (continued)

Unrecognized temporary differences:

	March 31, 2014 $	Expiry Thru (Year)	December 31, 2012 $
Share issuance costs	799,000	2034	884,000
Investments	(220,000)	N/A	(3,630,000)
Tax losses	10,785,000	*	8,171,000
Other	719,000	N/A	644,000

* Tax losses of $4,200,000 in New Zealand carry forward indefinitely provided shareholder continuity is maintained. All other losses expire through 2034.

Deferred income tax assets have not been recognized in respect of these items because it is not probable that the Company will be able to generate sufficient taxable income upon which these deferred tax assets can be realized. Tax attributes are subject to review and potential adjustment by tax authorities.

14. 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 March 31, 2014 and did not provide for any doubtful accounts. As at March 31, 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 fifteen months ended March 31, 2014.

14. 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 March 31, 2014				
	Less than 3 Months $	3 - 12 Months $	1 - 5 Years $	Over 5 Years $	Total $
Cash	12,273,810	-	-	-	12,273,810
Amounts receivable	1,872,614	-	-	-	1,872,614
Investment	-	-	718,445	-	718,445
Accounts payable and accrued liabilities	(3,278,683)	-	-	-	(3,278,683)
Due to joint venture partner	(479,513)	-	-	-	(479,513)

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 fifteen months ended March 31, 2014 and any variations in interest rates would not have materially affected net income.

(Expressed in Canadian Dollars)

14. Financial Instruments and Risk Management (continued)

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:

Financial Instrument	Category	March 31, 2014 $	December 31, 2012 $
Cash	FVTPL	12,273,810	21,208,781
Amounts receivable	Loans and receivables	1,872,614	127,812
Investment	Available-for-sale	718,445	4,128,835
Restricted cash	FVTPL	-	3,482,150
Accounts payable and accrued liabilities	Other liabilities	(3,278,683)	(137,815)
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, investment and restricted cash under the fair value hierarchy is measured using Level 1 inputs.

15. 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.

(Expressed in Canadian Dollars)

16. Commitments

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

	Total $	Less than One Year $	More than One Year $
Operating leases (i)	159,628	68,412	91,216
Other long-term obligations (ii)	2,184,659	2,184,659	-
Total contractual obligations (iii)	2,344,287	2,253,071	91,216

(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 (twelve months ended December 31, 2012 - $5,510). During the fifteen months ended March 31, 2014 the Company received $42,452 (twelve months ended December 31, 2012 - $33,060) from a public company, which is related through a common director and officer, for shared premises.

(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 7.

17. Supplemental Cash Flow Information

Non-cash activities were conducted by the Company as follows:

	Fifteen Months Ended March 31, 2014 $	Twelve Months Ended December 31, 2012 $
Investing activities		
Deposits applied against expenditures	818,794	-
Expenditures on property, plant and equipment	(6,401,100)	(22,940)
Expenditures on exploration and evaluation assets	3,306,165	-
Initial estimated decommissioning liabilities	761,529	-
	(1,514,612)	(22,940)
Operating activities		
Provision for decommissioning liabilities	119,163	22,940
Increase in accounts payable and accrued liabilities	1,395,449	-
	1,514,612	22,940

(Expressed in Canadian Dollars)

17. Supplemental Cash Flow Information (continued)

	Fifteen Months Ended March 31, 2014 $	Twelve Months Ended December 31, 2012 $
Financing activities		
Issuance of common shares	501,938	-
Share-based payments reserve	(501,938)	-
	-	-

18. Segmented Information

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

	As at March 31, 2014			
	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

	As at December 31, 2012		
	Canada $	United States $	Total $
Revenues	160,870	-	160,870
Exploration and evaluation assets	-	869,344	869,344
Property, plant and equipment	706,584	-	706,584

19. Events after the Reporting Period

Subsequent to March 31, 2014 the Company:

(i) repurchased 44,500 common shares of the Company under its NCIB for $13,420; and

(ii) sold 512,809 NAMG shares for proceeds of $67,631.