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**EAST WEST PETROLEUM CORP.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
JUNE 30, 2016

*(Unaudited - Expressed in Canadian Dollars)*

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

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

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

The Company's auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada 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	June 30, 2016 \$	March 31, 2016 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		7,727,696	7,694,932
GST receivable		91,421	11,715
Amounts receivable	3	336,926	289,253
Prepaid expenses		50,457	11,490
Advances receivable	4	<u>325,225</u>	<u>324,275</u>
<b>Total current assets</b>		<u>8,531,725</u>	<u>8,331,665</u>
<b>Non-current assets</b>			
Investment	5	1,313,781	255,542
Exploration and evaluation assets	6	6,567,287	5,780,002
Property, plant and equipment	7	<u>390,331</u>	<u>448,827</u>
<b>Total non-current assets</b>		<u>8,271,399</u>	<u>6,484,371</u>
<b>TOTAL ASSETS</b>		<u>16,803,124</u>	<u>14,816,036</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		1,100,882	486,293
<b>Non-current liabilities</b>			
Decommissioning liabilities	8	<u>1,225,922</u>	<u>1,183,793</u>
<b>TOTAL LIABILITIES</b>		<u>2,326,804</u>	<u>1,670,086</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	39,868,761	39,868,761
Share-based compensation reserve		5,031,348	5,031,161
Foreign currency translation reserve		(260,349)	(487,746)
Available-for-sale investment		1,018,995	-
Deficit		<u>(31,182,435)</u>	<u>(31,266,226)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>14,476,320</u>	<u>13,145,950</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>16,803,124</u>	<u>14,816,036</u>

**Nature of Operations** - see Note 1

**Commitments** - see Note 13

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on August 29, 2016 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 June 30,	
		2016 \$	2015 \$
<b>Revenues and costs</b>			
Petroleum and natural gas sales		533,975	1,189,398
Production costs		(234,027)	(315,306)
Transportation and storage costs		(47,603)	(189,803)
Royalties		<u>(26,307)</u>	<u>(51,156)</u>
		<u>226,038</u>	<u>633,133</u>
<b>Expenses</b>			
Depletion and depreciation	7	130,705	755,905
General exploration		10,072	58,001
Finance expense of decommissioning liabilities	8	6,338	8,053
General and administrative		182,679	397,727
Share-based compensation	9(c)	<u>187</u>	<u>24,336</u>
		<u>329,981</u>	<u>1,244,022</u>
<b>Loss before other items</b>		<u>(103,943)</u>	<u>(610,889)</u>
<b>Other items</b>			
Gain on sale of investment	5	47,180	-
Interest and other income		16,134	18,379
Foreign exchange		(34,694)	55,601
Equity loss in associated company	5	<u>(200)</u>	<u>(33,000)</u>
		<u>28,420</u>	<u>40,980</u>
<b>Loss before income tax</b>		<u>(75,523)</u>	<u>(569,909)</u>
<b>Income tax</b>			
Current income tax recovery		7,050	-
Deferred income tax		<u>152,264</u>	<u>-</u>
		<u>159,314</u>	<u>-</u>
<b>Net income (loss) for the period</b>		83,791	(569,909)
<b>Other comprehensive income (loss)</b>			
Change in currency translation of foreign subsidiary		227,397	(1,032,994)
Change in fair value of investment, net of deferred income tax		<u>1,018,995</u>	<u>-</u>
<b>Comprehensive income (loss) for the period</b>		<u>1,330,183</u>	<u>(1,602,903)</u>
<b>Basic and diluted income (loss) per common share</b>		<u>\$0.00</u>	<u>\$(0.01)</u>
<b>Weighted average number of common shares outstanding</b>		<u>89,585,665</u>	<u>90,548,554</u>

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

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

**Three Months Ended June 30, 2016**

	<b>Share Capital</b>		<b>Reserves</b>			<b>Total Equity</b>
	<b>Number of Shares</b>	<b>Amount \$</b>	<b>Share-Based Compensation \$</b>	<b>Foreign Currency Translation \$</b>	<b>Available-for-Sale Investment \$</b>	
<b>Balance at March 31, 2016</b>	89,585,665	39,868,761	5,031,161	(487,746)	-	13,145,950
Share-based compensation	-	-	187	-	-	187
Currency translation adjustment	-	-	-	227,397	-	227,397
Unrealized gain on investment	-	-	-	-	1,171,259	1,171,259
Deferred income tax on unrealized gain on investment	-	-	-	-	(152,264)	(152,264)
Net income for the period	-	-	-	-	-	83,791
<b>Balance at June 30, 2016</b>	<b>89,585,665</b>	<b>39,868,761</b>	<b>5,031,348</b>	<b>(260,349)</b>	<b>1,018,995</b>	<b>14,476,320</b>

**Three Months Ended June 30, 2015**

	<b>Share Capital</b>		<b>Reserves</b>			<b>Total Equity</b>
	<b>Number of Shares</b>	<b>Amount \$</b>	<b>Share-Based Compensation \$</b>	<b>Foreign Currency Translation \$</b>	<b>Deficit \$</b>	
<b>Balance at March 31, 2015</b>	90,654,165	40,344,281	5,008,538	320,538	(27,758,017)	17,915,340
Repurchase of common shares (139,000)	(139,000)	(61,860)	-	-	40,835	(21,025)
Share-based compensation	-	-	24,336	-	-	24,336
Currency translation adjustment	-	-	-	(1,032,994)	-	(1,032,994)
Net loss for the period	-	-	-	-	(569,909)	(569,909)
<b>Balance at June 30, 2015</b>	<b>90,515,165</b>	<b>40,282,421</b>	<b>5,032,874</b>	<b>(712,456)</b>	<b>(28,287,091)</b>	<b>16,315,748</b>

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

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

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net income (loss) for the period	83,791	(569,909)
Adjustments for:		
Depletion and depreciation	130,705	755,905
Finance expense of decommissioning liabilities	6,338	8,053
Share-based compensation	187	24,336
Foreign exchange	(950)	432
Gain on sale of investment	(47,180)	-
Equity loss in associated company	200	33,000
Deferred income tax	(152,264)	-
Changes in non-cash working capital items:		
Amounts receivable	(38,043)	(170,456)
GST receivable	(145,018)	3,599
Prepaid expenses	(38,379)	22,622
Accounts payable and accrued liabilities	<u>218,316</u>	<u>131,922</u>
<b>Net cash provided by (used in) operating activities</b>	<u>17,703</u>	<u>239,504</u>
<b>Investing activities</b>		
Expenditures on exploration and evaluation assets	(39,231)	(38,880)
Expenditures on property, plant and equipment	(167,627)	(36,239)
Advances receivable	-	(103,012)
Proceeds from sale of investment	160,000	-
Investment	<u>-</u>	<u>(200,240)</u>
<b>Net cash used in investing activities</b>	<u>(46,858)</u>	<u>(378,371)</u>
<b>Financing activity</b>		
Repurchase of common shares	<u>-</u>	<u>(21,025)</u>
<b>Net cash used in financing activity</b>	<u>-</u>	<u>(21,025)</u>
<b>Effect of exchange rate changes on cash</b>	<u>61,919</u>	<u>(139,461)</u>
<b>Net change in cash</b>	32,764	(299,353)
<b>Cash at beginning of period</b>	<u>7,694,932</u>	<u>8,401,122</u>
<b>Cash at end of period</b>	<u>7,727,696</u>	<u>8,101,769</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 THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

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**1. Nature of Operations**

East West Petroleum Corp. (the “Company”) was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia) 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”. The Company’s principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 Canada.

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. Basis of Preparation**

*Statement of Compliance*

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”), and in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company’s consolidated financial statements for the year ended March 31, 2016.

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.

*Details of the Group*

In addition to the Company, the condensed consolidated interim 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.

Non-controlling interest in the net assets of the consolidated subsidiaries are identified separately from the Company’s equity. The non-controlling interest consists of the non-controlling interest’s portion of net assets and income or losses.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for using the equity method (equity accounted

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
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**2. Basis of Preparation** (continued)

investees) and are recognized initially at cost. The condensed consolidated interim financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued, except to the extent that the Company has an obligation, or has made payments on behalf of the investee.

**3. Amounts Receivable**

	June 30, 2016 \$	March 31, 2016 \$
Production receivable	284,034	254,563
Other	<u>52,892</u>	<u>34,690</u>
	<u>336,926</u>	<u>289,253</u>

**4. Advances Receivable**

On March 6, 2015 the Company entered into a letter of intent (the "LOI") with Frontier Natural Resources Inc. ("Frontier") whereby it provided Frontier a credit facility of US \$250,000 (the "Credit Facility"). The advances under the Credit Facility bear interest at 3% per annum. On December 31, 2015 the advances became due and payable. The Company has not demanded repayment and has the option to convert the advances and outstanding interest into Class A Preferred Shares of Frontier at a conversion price of US \$0.20 per share. The conversion feature is considered an embedded derivative. However, the Company is unable to reliably measure its fair value. Therefore, the fair value of the host advances receivable was determined with any residual against the fair value of the combined hybrid instrument allocated to the embedded derivative. The value of the embedded derivative was immaterial.

During the three months ended June 30, 2016 the Company recorded interest income of \$2,410 (2015 - \$2,066). Frontier paid US \$1,875 of accrued interest during the three months ended June 30, 2016 and, as at June 30, 2016, \$1,621 (March 31, 2016 - \$1,623) of interest remained unpaid and is included in amounts receivable.

In fiscal 2016 Frontier issued a bonus of 250,000 Class B Preferred Shares to the Company at a fair value of \$nil.

Frontier is a privately held oil and natural gas company incorporated in Pennsylvania, U.S.A. A director of the Company is also a shareholder and director of Frontier.

**5. Investment**

On April 7, 2015 the Company purchased an initial 3,900,000 common shares of Advantage Lithium Corp. ("Advantage Lithium") for \$195,000 pursuant to a non-brokered private placement conducted by Advantage Lithium, a public company trading on the NEX board of the TSXV. On closing of the initial purchase the Company owned 16.74% of the outstanding common shares of Advantage Lithium. The President and a director of the Company were subsequently appointed as directors of Advantage Lithium.

Since the initial purchase the Company acquired a further 626,500 common shares of Advantage Lithium through open market purchases for a total consideration of \$129,042, and, as at March 31, 2016, the Company owned 4,526,500 common shares, approximately 19.43% of the issued and outstanding common shares of Advantage Lithium. The Company's judgment was that it had significant influence in the operations of Advantage Lithium and, accordingly, the investment in Advantage Lithium was accounted for under the equity method. On June 24, 2016 the Company sold 2,000,000 common shares of Advantage Lithium for \$160,000 cash, recognizing a gain of \$47,180. The Company's ownership in Advantage



**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**5. Investment (continued)**

Lithium was reduced to approximately 10.5% and management has determined that the Company no longer exercises significant influence over Advantage Lithium. Effective June 24, 2016 the Company discontinued the use of the equity method on its investment in Advantage Lithium and commenced measuring the retained investment at its fair value. As at June 30, 2016 the quoted market value of the investment was \$1,313,781.

A reconciliation of the Company's investment in Advantage Lithium is as follows:

	Number of Shares	Amount \$
Balance at March 31, 2015	-	-
Initial private placement investment	3,900,00	195,000
Additional investments	<u>626,500</u>	<u>129,042</u>
	4,526,500	324,042
Equity loss in Advantage Lithium	<u>-</u>	<u>(68,500)</u>
Balance at March 31, 2016	4,526,500	255,542
Equity loss in Advantage Lithium to June 24, 2016	<u>-</u>	<u>(200)</u>
Adjusted cost prior to re-designation to available-for-sale investment	4,526,500	255,342
Sale of common shares	<u>(2,000,000)</u>	<u>(112,820)</u>
	2,526,500	142,522
Comprehensive gain on available-for sale	<u>-</u>	<u>1,171,259</u>
Balance at June 30, 2016	<u>2,526,500</u>	<u>1,313,781</u>

**6. Exploration and Evaluation Assets**

	PEP 54879 \$
Balance at March 31, 2015	5,835,112
Capital expenditures	246,441
Revision of estimate for decommissioning liabilities	(4,965)
Foreign exchange movement	<u>(296,586)</u>
Balance at March 31, 2016	5,780,002
Capital expenditures	577,785
Foreign exchange movement	<u>209,500</u>
Balance at June 30, 2016	<u>6,567,287</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 agreed to 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 well - 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 are to 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.

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
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**6. Exploration and Evaluation Assets (continued)**

*PEP 54876*

In April 2014 the Company completed drilling on PEP 54876, the results of which confirmed that there were no commercial deposits.

*PEP 54877*

On January 7, 2014 commercial discovery was declared on PEP 54877 and the capitalized expenditures were transferred to property, plant and equipment.

*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.

- (b) During fiscal 2010 the Company was informed by the government of Romania that it had been awarded four exploration blocks located in the Pannonian Basin, in western Romania. In May 2011 the Company signed petroleum concession agreements with 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 has paid the Company a total of \$525,000 for the 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.

NAMR has granted an extension until June 2017 to conduct the Phase I work program for the exploration block, EX-2 Tria.

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**7. Property, Plant and Equipment**

	Petroleum and Natural Gas Properties		Office Equipment and Leasehold Improvements	Total \$
	PEP 54877 \$	Carbon \$	\$	
<b>Cost:</b>				
Balance at March 31, 2015	10,481,287	1,208,111	53,924	11,743,322
Capital expenditures	361,367	-	-	361,367
Revision of estimate for decommissioning costs	411,272	13,255	-	424,527
Foreign exchange movement	<u>(565,855)</u>	<u>-</u>	<u>-</u>	<u>(565,855)</u>
Balance at March 31, 2016	10,688,071	1,221,366	53,924	11,963,361
Capital expenditures	59,647	-	-	59,647
Foreign exchange movement	<u>355,143</u>	<u>-</u>	<u>-</u>	<u>355,143</u>
Balance at June 30, 2016	<u>11,102,861</u>	<u>1,221,366</u>	<u>53,924</u>	<u>12,378,151</u>
<b>Accumulated Depletion and Depreciation and Impairment:</b>				
Balance at March 31, 2015	(6,665,304)	(818,111)	(52,150)	(7,535,565)
Depletion and depreciation	(2,646,431)	(196,834)	(1,774)	(2,845,039)
Impairment	(1,216,009)	(206,421)	-	(1,422,430)
Foreign exchange movement	<u>288,500</u>	<u>-</u>	<u>-</u>	<u>288,500</u>
Balance at March 31, 2016	(10,239,244)	(1,221,366)	(53,924)	(11,514,534)
Depletion and depreciation	(130,705)	-	-	(130,705)
Foreign exchange movement	<u>(342,581)</u>	<u>-</u>	<u>-</u>	<u>(342,581)</u>
Balance at June 30, 2016	<u>(10,712,530)</u>	<u>(1,221,366)</u>	<u>(53,924)</u>	<u>(11,987,820)</u>
<b>Carrying Value:</b>				
Balance at March 31, 2016	<u>448,827</u>	<u>-</u>	<u>-</u>	<u>448,827</u>
Balance at June 30, 2016	<u>390,331</u>	<u>-</u>	<u>-</u>	<u>390,331</u>

An impairment test is performed on capitalized property, plant and equipment costs at a CGU level when indicators of impairment exist. Impairment is calculated as the difference in the CGU's carrying value and its recoverable amount.

During fiscal 2016 the Company recognized an impairment of \$206,421 on the Carbon Property to a \$nil carrying value, as the Carbon Property was uneconomical and the Company has no intention of further development, resulting in no expected material future production and cash flow. The Carbon Property consists of working interests, ranging from 4.12% to 20%, in four producing oil wells and fourteen gas wells located northeast of Calgary, Alberta.

During fiscal 2016 the Company recognized an impairment of \$1,216,009 on PEP 54877 based on the estimated fair value less costs to sell and was determined using estimated future cash flows based on estimated proven developed ("1P") reserves, discounted at 10%.

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**8. Decommissioning Liabilities**

	Three Months Ended June 30, 2016 \$	Year Ended March 31, 2016 \$
Balance, beginning of period	1,183,793	1,062,292
Finance cost	6,338	30,354
Expenditures incurred	-	(49,238)
Revision of estimate	-	190,855
Foreign exchange movement	<u>35,791</u>	<u>(50,470)</u>
Balance, end of period	<u>1,225,922</u>	<u>1,183,793</u>

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation is \$1,243,601 (March 31, 2016 - \$1,229,626) which has been discounted using a pre-tax risk-free rate of 2.25% (March 31, 2016 - 2.25%) and an inflation rate of 1.016% (March 31, 2016 - 1.016%). 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 2030. 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 three months ended June 30, 2016 or fiscal 2016.

The Company did not purchase any common shares pursuant to its normal course issuer bid ("NCIB") during the three months ended June 30, 2016

During the three months ended June 30, 2015 the Company repurchased 139,000 common shares for \$21,025 pursuant to its NCIB. The average cost of the common shares repurchased was \$0.15 per share. The difference between the purchase price and the carrying value of the common shares was \$61,860.

(c) *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.

No share options were granted during the three months ended June 30, 2016 and 2015.

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**9. Share Capital (continued)**

During the three months ended June 30, 2016 the Company recorded compensation expense of \$187 (2015 - \$4,196) on the vesting of share options previously granted.

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

	<u>2016</u>	<u>2015</u>
Risk-free interest rate	0.70%	0.43%
Estimated volatility	69%	74%
Expected life	3 years	3 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average grant date fair value of all share options vested during the three months ended June 30, 2016 was \$0.01 (2015 - \$0.02) per share option.

During the three months ended June 30, 2015 the Company repriced share options previously granted to purchase a total of 1,930,000 common shares, from an original exercise price of \$0.18 per share to a revised exercise price of \$0.14 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 0.66% - 0.91%; estimated volatility 71% - 82%; expected life 0.3 year - 4.5 years; expected dividend yield 0%; and estimated forfeiture rate 0%. The value assigned to the re-pricing of the share options was \$20,140.

A summary of the Company's share options at June 30, 2016 and 2015 and the changes for the three months ended on those dates, is as follows:

	<u>2016</u>		<u>2015</u>	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	5,799,000	0.14	7,392,000	0.16
Expired	<u>(241,000)</u>	0.20	<u>(150,000)</u>	0.14
Balance, end of period	<u>5,558,000</u>	0.14	<u>7,242,000</u>	0.15

The following table summarizes information about the share options outstanding and exercisable at June 30, 2016:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
500,000	500,000	0.14	April 4, 2018
108,000	72,000	0.14	October 3, 2019
4,900,000	4,900,000	0.14	November 14, 2019
<u>50,000</u>	<u>50,000</u>	0.09	November 26, 2020
<u>5,558,000</u>	<u>5,522,000</u>		

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

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**10. Related Party Disclosures**

(a) *Transactions with Key Management Personnel*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and executive officers.

	2016 \$	2015 \$
Professional fees	<u>103,500</u>	<u>126,000</u>

As at June 30, 2016, \$16,000 (March 31, 2016 - \$16,000) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

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. Transactions made with related parties are made in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(i) During the three months ended June 30, 2016 the Company incurred a total of \$9,000 (2015 - \$16,900) 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 June 30, 2016, \$3,500 (March 31, 2016 - \$8,750) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) See also Notes 4 and 5.

**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.

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

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

The carrying amount of cash, amounts receivable and advances receivable represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts on its amounts receivable as at June 30, 2016 and 2015 and did not provide for any doubtful accounts.

***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 entered into a gas supply agreement to sell its share of gas production from the Cheal E field at a price of NZD \$4.75 per gigajoule ending December 31, 2016.

***Liquidity Risk***

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

	<b>Contractual Maturity Analysis at June 30, 2016</b>				
	<b>Less than 3 Months \$</b>	<b>3 - 12 Months \$</b>	<b>1 - 5 Years \$</b>	<b>Over 5 Years \$</b>	<b>Total \$</b>
Cash	7,727,696	-	-	-	7,727,696
Amounts receivable	336,926	-	-	-	336,926
Advances receivable	-	325,225	-	-	325,225
Accounts payable and accrued liabilities	(1,100,882)	-	-	-	(1,100,882)

***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 gas sales, 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.

**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

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

The Company did not have any interest rate swaps or financial contracts in place during the three months ended June 30, 2016 and 2015 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 five categories: fair value through profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; available-for-sale and other financial liabilities. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instrument	Category	June 30, 2016 \$	March 31, 2016 \$
Cash	FVTPL	7,727,696	7,694,932
Amounts receivable	Loans and receivables	336,926	289,253
Advances receivable	Loans and receivables	325,225	324,275
Accounts payable and accrued liabilities	Other financial liabilities	(1,100,882)	(486,293)

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, advances receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The fair value of cash 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.



**EAST WEST PETROLEUM CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**13. Commitments**

As at June 30, 2016 the Company has capital expenditures of approximately \$5,200,000, of which \$1,200,000 is to be incurred in fiscal 2017. The capital expenditure amounts may be subject to change upon application.

**14. Supplemental Cash Flow Information**

During the three months ended June 30, 2016 and 2015 non-cash activities were conducted by the Company as follows:

	2016 \$	2015 \$
Investing activities		
Property, plant and equipment	107,979	(2,832)
Exploration and evaluation assets	<u>(538,555)</u>	<u>-</u>
	<u>(430,576)</u>	<u>(2,832)</u>
Operating activities		
Provision for decommissioning liabilities	-	2,832
Accounts payable and accrued liabilities	<u>430,576</u>	<u>-</u>
	<u>430,576</u>	<u>2,832</u>

**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 June 30, 2016</u>		
	Canada \$	New Zealand \$	Total \$
Revenues	16,368	517,607	533,975
Exploration and evaluation assets	-	6,567,287	6,567,287
Property, plant and equipment	-	390,331	390,331
	<u>As at March 31, 2016</u>		
	Canada \$	New Zealand \$	Total \$
Revenues	100,907	3,241,646	3,342,553
Exploration and evaluation assets	-	5,780,002	5,780,002
Property, plant and equipment	-	448,827	448,827