
EAST WEST PETROLEUM CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MARCH 31, 2018 AND 2017

(Expressed in Canadian Dollars)

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, 2018 and 2017 and the consolidated statements of comprehensive loss, changes in equity, and cash flows for the years then ended, 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, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

July 30, 2018



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

	Note	March 31, 2018 \$	March 31, 2017 \$
ASSETS			
Current assets			
Cash		4,030,573	5,912,735
GST receivable		4,078	4,900
Amounts receivable	4	337,319	502,296
Prepaid expenses		<u>58,785</u>	<u>77,372</u>
Total current assets		<u>4,430,755</u>	<u>6,497,303</u>
Non-current assets			
Investments	6	2,120,236	1,949,833
Exploration and evaluation assets	7	1,681,691	-
Property, plant and equipment	8	<u>680,000</u>	<u>448,686</u>
Total non-current assets		<u>4,481,927</u>	<u>2,398,519</u>
TOTAL ASSETS		<u>8,912,682</u>	<u>8,895,822</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		312,301	401,363
Non-current liabilities			
Decommissioning liabilities	9	<u>1,364,784</u>	<u>1,268,216</u>
TOTAL LIABILITIES		<u>1,677,085</u>	<u>1,669,579</u>
SHAREHOLDERS' EQUITY			
Share capital	10	39,868,761	39,868,761
Share-based compensation reserve		5,251,003	5,211,003
Foreign currency translation reserve		(118,403)	(329,518)
Accumulated other comprehensive income		591,975	47,193
Deficit		<u>(38,357,739)</u>	<u>(37,571,196)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>7,235,597</u>	<u>7,226,243</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>8,912,682</u>	<u>8,895,822</u>

Nature of Operations - see Note 1

Commitments - see Note 14

Events after the Reporting Period - Note 17

These consolidated financial statements were approved for issue by the Board of Directors on July 30, 2018 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 consolidated financial statements.

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

	Notes	Year Ended March 31,	
		2018 \$	2017 \$
Revenues and costs			
Petroleum and natural gas sales		1,923,942	2,155,785
Production costs		(971,699)	(996,280)
Transportation and storage costs		(201,426)	(209,584)
Royalties		(93,484)	(97,866)
		<u>657,333</u>	<u>852,055</u>
Expenses			
General and administrative		601,353	700,426
General exploration		2,791	35,588
Depletion and depreciation	8	947,261	727,379
Impairment of exploration and evaluation assets	7(a)	-	6,657,646
Impairment of property, plant and equipment	8	472,790	-
Finance expense of decommissioning liabilities	9	21,002	26,377
Share-based compensation	10(c)	40,000	179,842
		<u>2,085,197</u>	<u>8,327,258</u>
Loss before other income (expenses)		<u>(1,427,864)</u>	<u>(7,475,203)</u>
Other income (expenses)			
Interest income		49,811	75,392
Foreign exchange		(203,432)	120,374
Write-off of advances receivable	5	-	(342,425)
Equity loss in associated company	6(a)	-	(200)
Gain on sale of investments	6(a)	657,272	159,279
Gain on loss of significant influence	6(a)	-	1,171,147
Unrealized gain (loss) on investments	6(a)	56,670	(13,334)
		<u>560,321</u>	<u>1,170,233</u>
Loss before deferred income tax		<u>(867,543)</u>	<u>(6,304,970)</u>
Deferred income tax		<u>81,000</u>	<u>-</u>
Net loss for the year		<u>(786,543)</u>	<u>(6,304,970)</u>
Other comprehensive income			
Change in currency translation of foreign subsidiary		211,115	158,228
Change in fair value of investments		544,782	47,193
		<u>755,897</u>	<u>205,421</u>
Comprehensive loss for the year		<u>(30,646)</u>	<u>(6,099,549)</u>
Basic and diluted loss per common share		<u>\$(0.01)</u>	<u>\$(0.07)</u>
Weighted average number of common shares outstanding		<u>89,585,665</u>	<u>89,585,665</u>

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)

Year Ended March 31, 2018

	Share Capital		Reserves			Deficit	Total Equity
	Number of Shares	Amount \$	Share-Based Compensation \$	Foreign Currency Translation \$	Investments Revaluation \$		
Balance at March 31, 2017	89,585,665	39,868,761	5,211,003	(329,518)	47,193	(37,571,196)	7,226,243
Share-based compensation	-	-	40,000	-	-	-	40,000
Currency translation adjustment	-	-	-	211,115	-	-	211,115
Unrealized gain on available-for-sale investments	-	-	-	-	711,082	-	711,082
Deferred income tax on unrealized gain on available-for-sale investments	-	-	-	-	(81,000)	-	(81,000)
Reclassification on sale of investments	-	-	-	-	(85,300)	-	(85,300)
Net loss for the year	-	-	-	-	-	(786,543)	(786,543)
Balance at March 31, 2018	89,585,665	39,868,761	5,251,003	(118,403)	591,975	(38,357,739)	7,235,597

Year Ended March 31, 2017

	Share Capital		Reserves			Deficit	Total Equity
	Number of Shares	Amount \$	Share-Based Compensation \$	Foreign Currency Translation \$	Investments Revaluation \$		
Balance at March 31, 2016	89,585,665	39,868,761	5,031,161	(487,746)	-	(31,266,226)	13,145,950
Share-based compensation	-	-	179,842	-	-	-	179,842
Currency translation adjustment	-	-	-	158,228	-	-	158,228
Unrealized gain on available-for-sale investments	-	-	-	-	61,668	-	61,668
Reclassification on sale of investments	-	-	-	-	(14,475)	-	(14,475)
Net loss for the year	-	-	-	-	-	(6,304,970)	(6,304,970)
Balance at March 31, 2017	89,585,665	39,868,761	5,211,003	(329,518)	47,193	(37,571,196)	7,226,243

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)

	Year Ended March 31,	
	2018	2017
	\$	\$
Operating activities		
Net loss for the year	(786,543)	(6,304,970)
Adjustments for:		
Depletion and depreciation	947,261	727,379
Impairment of exploration and evaluation assets	-	6,657,646
Impairment of property, plant and equipment	472,790	-
Finance expense of decommissioning liabilities	21,002	26,377
Share-based compensation	40,000	179,842
Foreign exchange	-	(18,150)
General exploration	(69,846)	12,068
Gain on sale of investment	(657,272)	(159,279)
Unrealized (gain) loss on investment	(56,670)	13,334
Equity loss in associated company	-	200
Write-off of advances receivable	-	342,425
Gain on loss of significant influence	-	(1,171,147)
Deferred income tax	(81,000)	-
Changes in non-cash working capital items:		
Amounts receivable	159,359	(201,313)
GST receivable	(42,615)	(19,546)
Prepaid expenses	17,814	(65,740)
Accounts payable and accrued liabilities	7,424	(1,561)
Net cash provided (used in) provided by operating activities	(28,296)	17,565
Investing activities		
Expenditures on exploration and evaluation assets	(1,531,756)	(640,849)
Expenditures on property, plant and equipment	(1,670,723)	(770,076)
Proceeds from sale of investment	1,924,851	428,183
Investment purchases	(755,531)	(758,387)
Net cash used in investing activities	(2,033,159)	(1,741,129)
Effect of exchange rate changes on cash	179,293	(58,633)
Net change in cash	(1,882,162)	(1,782,197)
Cash at beginning of year	5,912,735	7,694,932
Cash at end of year	4,030,573	5,912,735

Supplemental cash flow information - See Note 15

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

EAST WEST PETROLEUM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017
(Expressed in Canadian Dollars)

1. Nature of Operations

East West Petroleum Corp. (the “Company”) was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia). The Company is listed and trades on the TSX Venture Exchange (“TSXV”) under the symbol “EW”. The Company’s principal office is located at Suite 117 - 595 Burrard Street, Vancouver, British Columbia V7X 1L4 Canada.

The Company is in the process of exploring, developing and producing from its oil and gas properties. As at March 31, 2018 the Company has one producing oil and gas property in New Zealand. 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 and sales of investments.

On July 16, 2018 the Company entered into a non-binding agreement to conduct an acquisition and conduct a corporate restructuring. See Note 17(b).

2. 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 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.

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.

EAST WEST PETROLEUM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017
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2. Basis of Preparation (continued)

- (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) Classification of investments requires judgment on whether the Company controls, has joint control or significant influence over the strategic financial and operating decisions relating to the activity of the investee. In assessing the level of control or influence that the Company has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements. If an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

During fiscal 2017 the Company re-classified its investment in Advantage Lithium Corp. ("Advantage Lithium"), from an associated company to an available-for-sale financial instrument, as described in Note 6.
- (x) 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, these consolidated financial statements include all subsidiaries. The Company's significant subsidiary, East West Petroleum (NZ) Limited, is engaged in the exploring and producing oil and gas operations. 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.

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 a Company typically 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 investees) and are recognized initially at cost. These consolidated 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.

EAST WEST PETROLEUM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. 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, 2018 and 2017.

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.

EAST WEST PETROLEUM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017
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3. 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 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 comprehensive loss.

EAST WEST PETROLEUM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

3. 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 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 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 investments in warrants are classified as FVTPL.

EAST WEST PETROLEUM CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Summary of Significant Accounting Policies (continued)

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts and advances 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. During fiscal 2017 the Company classified its investment in common shares of Advantage Lithium 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 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, 2018 and 2017 the Company has not classified any financial liabilities as FVTPL.

Investments in Associated Companies

The Company accounts for its long-term investments in affiliated companies over which it has significant influence on the equity basis of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received.

The Company assesses its equity investments for impairment if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events has an impact on the estimated future cash flow of the investment that can be reliably estimated. Objective evidence of impairment of equity investments includes:

- (i) significant financial difficulty of the associated companies;
- (ii) becoming probable that the associated companies will enter bankruptcy or other financial reorganization; or
- (iii) national or local economic conditions that correlate with defaults of the associated companies.

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.

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3. Summary of Significant Accounting Policies (continued)

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.

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.

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3. Summary of Significant Accounting Policies (continued)

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.

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) East West Petroleum (NZ) Limited (“EWNZ”)

EWNZ has the New Zealand dollar as the functional currency. Assets and liabilities 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.

(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 periods comparative figures have been reclassified to conform with the current period’s presentation.

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3. Summary of Significant Accounting Policies (continued)

Accounting Standards and Interpretations Issued but Not Yet Effective

As at the date of these consolidated financial statements, the following standards have not been applied in these financial statements:

- (i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect that the adoption of this standard will have a significant effect on the Company's consolidated financial statements.
- (ii) IFRS 15, *Revenue from Contracts with Customers*, outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Company does not expect that the adoption of this standard will have a significant effect on the Company's consolidated financial statements.
- (iii) IFRS 16, *Leases*, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. Management is currently assessing the impact of this new standard on the Company's accounting policies and consolidated financial statement presentation.

4. Amounts Receivable

	March 31, 2018 \$	March 31, 2017 \$
Production receivable	301,982	433,686
Other	<u>35,337</u>	<u>68,610</u>
	<u>337,319</u>	<u>502,296</u>

5. 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 bore interest at 3% per annum. On December 31, 2015 the advances became due and payable. During fiscal 2017 the Company recorded interest income of \$7,399, of which Frontier paid US \$1,875. Due to the uncertainty of Frontier's financial situation, effective December 31, 2016, the Company determined to record a write-off of \$342,425 for the balance of the advances and accrued interest outstanding.

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6. Investments

As at March 31, 2018					
	Number	Cost \$	Accumulated Comprehensive Gain (Loss) \$	Accumulated Gain \$	Carrying Value \$
Available-for-sale investments:					
Common shares:					
Advantage Lithium Corp. ("Advantage Lithium")	1,533,000	888,592	751,718	-	1,640,310
Seaway Energy Services Inc. ("Seaway")	462,400	448,662	(78,742)	-	369,920
FVTPL investment:					
Warrants: Advantage Lithium	333,350	<u>66,670</u>	<u>-</u>	<u>43,336</u>	<u>110,006</u>
		<u>1,403,924</u>	<u>672,976</u>	<u>43,336</u>	<u>2,120,236</u>
As at March 31, 2017					
	Number	Cost \$	Accumulated Comprehensive Gain \$	Accumulated Loss \$	Carrying Value \$
Available-for-sale investments:					
Common shares: Advantage Lithium					
	3,214,400	1,849,304	47,193	-	1,896,497
FVTPL investment:					
Warrants: Advantage Lithium	333,350	<u>66,670</u>	<u>-</u>	<u>(13,334)</u>	<u>53,336</u>
		<u>1,915,974</u>	<u>47,193</u>	<u>(13,334)</u>	<u>1,949,833</u>

Management has designated its investment in common shares as available-for-sale investments and warrants of publicly traded companies as FVTPL with the change in fair value recognized in other comprehensive income or loss and profit or loss, respectively.

- (a) During fiscal 2017 the Company was deemed to have significant influence in the operations of Advantage Lithium and, accordingly, the investment in Advantage Lithium was accounted for under the equity method. On June 30, 2016, as part of Advantage Lithium's process of re-capitalizing its business, the Company sold 2,000,000 shares of Advantage Lithium for \$160,000 reducing the Company's ownership to approximately 10.48% and management determined that the Company no longer exercised significant influence over Advantage Lithium. Accordingly, the Company ceased the application of the equity method for its retained investment with a value of \$142,633 and commenced measuring the investment as an available-for-sale financial instrument at its fair value. The reclassification to available-for-sale investment adjusted the value of the Advantage Lithium common shares to fair value based on the quoted market price. On June 30, 2016, the fair value of the investment was \$1,313,780, resulting in an unrealized gain of \$1,171,147. In addition, during fiscal 2017 the Company recognized an equity loss of \$200 for its share of the loss of Advantage Lithium incurred prior to June 30, 2016.

In February 2017 the Company purchased 666,700 units of Advantage Lithium at a cost of \$500,025. Each unit comprised one common share and one-half share purchase warrant, with each whole warrant entitling the Company to purchase an additional common share at an exercise price of \$1.00 per share, expiring February 17, 2019. At the time of purchase the Company assigned a \$433,335 fair value to the common shares and \$66,670 fair value to the warrants.

In addition, during fiscal 2018 the Company made open market purchases and sales of common shares of Advantage Lithium under which the Company purchased 550,000 (2017 - 313,500) common shares for \$306,869 (2017 - \$258,361) and sold 2,231,400 (2017 - 292,300) common shares for \$1,267,580 (2017 - \$268,183), resulting in a gain on sale of investments of \$657,272 (2017 - \$159,279).

The carrying values of the Advantage Lithium common shares have been directly referenced to published price quotations in an active market. The carrying values of the Advantage Lithium warrants have been valued at fair value using the Black-Scholes option pricing model, with the following assumptions:

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6. Investments (continued)

	<u>2018</u>	<u>2017</u>
Risk-free interest rate	1.54%	0.76%
Estimated volatility	75%	76%
Expected life	10 months	22 months
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

- (b) During fiscal 2018 the Company made open market purchases of Seaway under which the Company purchased 462,400 Seaway common shares for \$448,662. On January 22, 2018 Seaway halted trading of its common shares pending a corporate reorganization. As at March 31, 2018 trading of the Seaway common shares remained halted and management has determined to value the Seaway common shares at \$0.80 per share being the proposed price at which Seaway announced its intention to conduct an equity financing.
- (c) Certain directors and officers of the Company are also directors and/or officers of Advantage Lithium and Seaway.

7. Exploration and Evaluation Assets

	PEP 54879 \$	PEP 54877 \$
Balance at March 31, 2016	5,780,002	-
Capital expenditures	627,867	-
Revision of estimate for decommissioning liabilities	(248)	-
Foreign exchange movement	250,025	-
Impairment	<u>(6,657,646)</u>	<u>-</u>
Balance at March 31, 2017	-	-
Capital expenditures	-	1,532,179
Revision of estimate for decommissioning costs	-	122,977
Foreign exchange movement	<u>-</u>	<u>26,535</u>
Balance at March 31, 2018	<u>-</u>	<u>1,681,691</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 participated in the drilling of exploration wells on Petroleum Exploration Permits ("PEP") 54876, 54877 and 54879, as follows:

(i) *PEP 54876*

In April 2014 the Company completed drilling on PEP 54876, the results of which confirmed that there were no commercial deposits and an impairment charge was taken in fiscal 2014.

(ii) *PEP 54877*

On January 7, 2014 commercial discovery was declared on PEP 54877 and the capitalized expenditures were transferred to property, plant and equipment. The Company has earned a 30% participation in PEP 54877.

On September 17, 2017 New Zealand Petroleum and Minerals ("NZP&M") approved the petroleum mining permit for the Company's 30% working interest of PMP 60291, which has been carved out of PEP 54877 and part of the remaining acreage has been included in an application to extend the duration of PEP 54877. During fiscal 2018 the Company drilled an exploration well (the "Cheal D-1 Well") under PEP 54877. Drilling and testing of the Cheal D-1 Well was completed and tests

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7. Exploration and Evaluation Assets (continued)

concluded that gas was present but not in sufficient quantities to produce as an economic discovery. The well has been suspended with a plan to potentially re-enter in the future.

(iii) *PEP 54879*

In fiscal 2014 and 2015 three wells were drilled on PEP 54879 and testing of the G1 well was conducted, with no decision made on the commerciality of PEP 54879. In March 2017 the Company and TAG notified the New Zealand Petroleum and Minerals of their intention to relinquish the permit. During fiscal 2017 the Company recorded an impairment of \$6,657,646 for costs incurred to March 31, 2017. Accordingly, all subsequent costs incurred on PEP 54879 are expensed as general exploration 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.

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 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.

The four concessions have specific mandatory Phase 1 work programs (the “Romania Work Programs”), which are estimated at US \$62,335,000 for all four programs. 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.

8. Property, Plant and Equipment

	Petroleum and Natural Gas Properties (PMP 60291) \$
Cost:	
Balance at March 31, 2016	10,688,071
Capital expenditures	709,247
Revision of estimate for decommissioning costs	(2,110)
Foreign exchange movement	<u>480,505</u>
Balance at March 31, 2017	11,875,713
Capital expenditures	1,621,218
Revision of estimate for decommissioning costs	29,881
Foreign exchange movement	<u>(64,518)</u>
Balance at March 31, 2018	<u>13,462,294</u>

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8. Property, Plant and Equipment (continued)

	Petroleum and Natural Gas Properties (PMP 60291) \$
Accumulated Depletion and Depreciation and Impairment:	
Balance at March 31, 2016	(10,239,244)
Depletion and depreciation	(727,379)
Foreign exchange movement	<u>(460,404)</u>
Balance at March 31, 2017	(11,427,027)
Depletion and depreciation	(947,261)
Impairment	(472,790)
Foreign exchange movement	<u>64,784</u>
Balance at March 31, 2018	<u>(12,782,294)</u>
Carrying Value:	
Balance at March 31, 2017	<u>448,686</u>
Balance at March 31, 2018	<u>680,000</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 2018, the Company recorded an impairment charge of \$472,790 (2017 - \$nil). The recoverable amount of the impaired assets was estimated based on the fair value less cost to sell methodology using estimated discounted cash flows based on proved reserves of the oil and gas properties and a pre-tax discount rate of 10%.

9. Decommissioning Liabilities

	<u>Year Ended March 31</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Balance, beginning of year	1,268,216	1,183,793
Finance cost	21,002	26,377
Expenditures incurred	(303)	(8,384)
Revision of estimate	96,151	18,097
Foreign exchange movement	<u>(20,282)</u>	<u>48,333</u>
Balance, end of year	<u>1,364,784</u>	<u>1,268,216</u>

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation is \$1,396,270 (2017 - \$1,311,531) which has been discounted using a pre-tax risk-free rate of 1.94% (2017 - 1.75%) and an inflation rate of 1.60% (2017 - 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 2021. Settlement of the liabilities is expected to be funded from general corporate funds at the time of retirement.

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10. 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 fiscal 2018 or fiscal 2017.

(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.

During fiscal 2018 the Company granted 500,000 (2017 - 2,630,000) share options and recorded compensation expense of \$40,000 (2017 - \$179,842) on the granting and vesting of share options.

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

	<u>2018</u>	<u>2017</u>
Risk-free interest rate	1.63%	0.72% - 1.23%
Estimated volatility	74%	67% - 76%
Expected life	5 years	5 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average grant date fair value of all share options granted and vested during fiscal 2018 was \$0.08 (2017 - \$0.07) per share option.

A summary of the Company's share options at March 31, 2018 and 2017 and the changes for the years ended on those dates, is as follows:

	<u>2018</u>		<u>2017</u>	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	8,188,000	0.13	5,799,000	0.14
Granted	500,000	0.135	2,630,000	0.11
Expired/cancelled	<u>(2,373,000)</u>	0.14	<u>(241,000)</u>	0.14
Balance, end of year	<u>6,315,000</u>	0.13	<u>8,188,000</u>	0.13

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10. Share Capital (continued)

The following table summarizes information about the share options outstanding and exercisable at March 31, 2018:

Number of Shares	Exercise Price \$	Expiry Date
500,000	0.14	April 4, 2018
2,700,000	0.14	November 14, 2019
50,000	0.09	November 26, 2020
1,265,000	0.10	November 21, 2021
500,000	0.13	December 30, 2021
800,000	0.125	January 19, 2022
<u>500,000</u>	0.135	October 3, 2022
<u>6,315,000</u>		

See also Note 17 (a).

11. 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. Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. During fiscal 2017 the Company determined that key management personnel consists of members of the Company's Board of Directors and all executive officers.

- (a) During fiscal 2018 and 2017 the Company incurred the following compensation amounts to its current and former key management personnel:

	2018 \$	2017 \$
Professional fees	123,900	295,500
Share-based compensation	<u>40,000</u>	<u>88,300</u>
	<u>163,900</u>	<u>383,800</u>

As at March 31, 2018, \$24,200 (2017 - \$24,000) remained unpaid and has been included in accounts payable and accrued liabilities.

- (b) During fiscal 2018 the Company incurred a total of \$41,400 (2017 - \$38,230) 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 March 31, 2018, \$5,850 (2017 - \$5,350) remained unpaid and has been included in accounts payable and accrued liabilities.

During fiscal 2017 the Company also recorded \$3,600 for share-based compensation for share options granted to Chase.

- (c) See also Note 6(c).

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12. Income Tax

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Fiscal 2018 \$	Fiscal 2017 \$
Loss for the year before income tax	<u>(867,543)</u>	<u>(6,304,970)</u>
Expected income tax (recovery)	(228,000)	(1,639,000)
Change in statutory, foreign tax, foreign exchange rates and other	(138,000)	72,000
Permanent differences	(84,000)	(126,000)
Change in tax rates	201,000	-
Adjustment to prior years provision versus statutory tax returns	427,000	407,000
Change in unrecognized deductible temporary differences	<u>(259,000)</u>	<u>1,286,000</u>
Deferred tax recovery	<u>(81,000)</u>	<u>-</u>

In September 2017, the British Columbia Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been re-measured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	March 31, 2018		March 31, 2017	
	\$	Expiry Date Range	\$	Expiry Date Range
Exploration and evaluation assets	2,593,000	No expiry date	1,764,000	No expiry date
Property and equipment	249,000	No expiry date	279,000	No expiry date
Share issue costs	-	n/a	7,000	2017 to 2020
Asset retirement obligation	1,365,000	No expiry date	1,268,000	No expiry date
Non-capital losses available for future periods	27,429,000	2026 to 2038	30,359,000	2026 to 2037

Non-capital losses available for future periods by country are as follows:

	March 31, 2018		March 31, 2017	
	\$	Expiry Date Range	\$	Expiry Date Range
Canada	14,546,000	2026 to 2038	15,226,000	2027 to 2037
United States	3,239,000	2020 to 2033	3,325,000	2020 to 2033
New Zealand	9,644,000	No expiry date	11,808,000	No expiry date

Tax attributes are subject to review and potential adjustment by tax authorities.

13. 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.

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13. Financial Instruments and Risk Management (continued)

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies.

Credit Risk

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production. All of the Company's production is sold directly to an oil super major. The Company is paid for its oil sales within 30 days of shipment. The Company has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition.

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

The carrying amount of cash and amounts receivable represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts on its amounts receivable as at March 31, 2018 and 2017 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 has an agreement to sell its gas production from the Cheal E field at a base price of NZD \$4.65 per gigajoule, subject to an adjustment formula based on the market price, with a minimum price of NZD \$4.00 per gigajoule. The gas agreement is set to end December 31, 2019.

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, 2018				Total
	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	
	\$	\$	\$	\$	\$
Cash	4,030,573	-	-	-	4,030,573
Amounts receivable	337,319	-	-	-	337,319
Investments	-	-	2,120,236	-	2,120,236
Accounts payable and accrued liabilities	(312,301)	-	-	-	(312,301)

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.

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13. Financial Instruments and Risk Management (continued)

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.

The Company did not have any interest rate swaps or financial contracts in place during fiscal 2018 and 2017 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	March 31, 2018 \$	March 31, 2017 \$
Cash	FVTPL	4,030,573	5,912,735
Amounts receivable	Loans and receivables	337,319	502,296
Investments- common shares	Available-for-sale	2,010,230	1,896,497
Investments - warrants	FVTPL	110,006	53,336
Accounts payable and accrued liabilities	Other financial liabilities	(312,301)	(401,600)

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 recorded amounts for cash and investments approximate their fair value. The fair value of cash and investment in common shares under the fair value hierarchy is measured using Level 1 and Level 2 inputs. The fair value of the investment in warrants is measured using Level 2 inputs.

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13. Financial Instruments and Risk Management (continued)

The following is an analysis of the Company's financial assets measured at fair value as at March 31, 2018 and 2017:

	2018		
	Level 1 \$	Level 2 \$	Level 3 \$
Cash	4,030,573	-	-
Investments - common shares	1,640,310	369,920	-
Investments - warrants	-	110,006	-
	<u>5,670,883</u>	<u>479,926</u>	<u>-</u>
	2017		
	Level 1 \$	Level 2 \$	Level 3 \$
Cash	5,912,735	-	-
Investments - common shares	1,896,497	-	-
Investments - warrants	-	53,336	-
	<u>7,809,232</u>	<u>53,336</u>	<u>-</u>

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.

14. Commitments

The Company's share of expected exploration and development permit obligations and/or commitments as at March 31, 2018 are approximately \$235,000 to be incurred in fiscal 2019 and \$1,300,000 over the next five years. 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.

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15. Supplemental Cash Flow Information

During fiscal 2018 and 2017 non-cash activities were conducted by the Company as follows:

	2018 \$	2017 \$
Investing activities		
Property, plant and equipment	19,939	62,939
Exploration and evaluation assets	(125,687)	13,245
Revision of estimate of decommissioning liabilities	155,308	-
	<u>49,560</u>	<u>76,184</u>
Operating activity		
Accounts payable and accrued liabilities	<u>(49,560)</u>	<u>(76,184)</u>

16. Segmented Information

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

	<u>As at March 31, 2018</u>		
	Canada \$	New Zealand \$	Total \$
Revenues	-	1,923,942	1,923,942
Exploration and evaluation assets	-	1,681,691	1,681,691
Property, plant and equipment	-	680,000	680,000
	<u>As at March 31, 2017</u>		
	Canada \$	New Zealand \$	Total \$
Revenues	64,935	2,090,850	2,155,785
Property, plant and equipment	-	448,686	448,686

17. Events after the Reporting Period

- (a) Subsequent to March 31, 2018, 500,000 share options, which were exercisable at \$0.14 per share, expired without exercise.
- (b) On July 16, 2018 the Company entered into a non-binding letter of intent (the "Juva LOI") to acquire all of the issued and outstanding common shares in the capital of Juva Life Inc. ("Juva"), a cannabis company based in California. The transaction contemplates the completion of the restructuring of the Company's capital structure and a re-organization of the Company's assets through a plan of arrangement. Under the terms of the proposed transaction, the Company will acquire from the shareholders of Juva all of the common shares of Juva which are issued and outstanding as of the closing and the Company will apply to voluntarily delist from the TSXV and apply for a listing on the Canadian Securities Exchange ("CSE"). Trading in the shares of the Company has been halted and will remain halted until the close, and its filing statement accepted. In addition to other customary conditions the proposed transaction will be subject to the completion of a definitive purchase agreement, and all legal, business and technical due diligence to the satisfaction of both parties.