
EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
JUNE 30, 2018

(Unaudited - Expressed in Canadian Dollars)

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

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

The accompanying unaudited condensed consolidated 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, 2018 \$	March 31, 2018 \$
ASSETS			
Current assets			
Cash		4,204,938	4,030,573
GST receivable		18,726	4,078
Amounts receivable	3	192,934	337,319
Prepaid expenses		<u>27,079</u>	<u>58,785</u>
Total current assets		<u>4,443,677</u>	<u>4,430,755</u>
Non-current assets			
Investments	4	1,810,586	2,120,236
Exploration and evaluation assets	5	1,628,962	1,681,691
Property, plant and equipment	6	<u>538,879</u>	<u>680,000</u>
Total non-current assets		<u>3,978,427</u>	<u>4,481,927</u>
TOTAL ASSETS		<u>8,422,104</u>	<u>8,912,682</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		395,400	312,301
Non-current liabilities			
Decommissioning liabilities	7	<u>1,317,180</u>	<u>1,364,784</u>
TOTAL LIABILITIES		<u>1,712,580</u>	<u>1,677,085</u>
SHAREHOLDERS' EQUITY			
Share capital	8	39,868,761	39,868,761
Share-based compensation reserve		5,251,003	5,251,003
Foreign currency translation reserve		(187,064)	(118,403)
Accumulated other comprehensive income		201,714	591,975
Deficit		<u>(38,424,890)</u>	<u>(38,357,739)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>6,709,524</u>	<u>7,235,597</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>8,422,104</u>	<u>8,912,682</u>

Nature of Operations - see Note 1

Commitments - see Note 11

Event after the Reporting Period - Note 14

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on August 24, 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 condensed consolidated interim financial statements.

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

	Note	Three Months Ended	
		June 30,	
		2018	2017
		\$	\$
Revenues and costs			
Petroleum and natural gas sales		825,332	447,266
Production costs		(360,290)	(231,371)
Transportation and storage costs		(64,559)	(48,284)
Royalties		<u>(39,831)</u>	<u>(20,481)</u>
		<u>360,652</u>	<u>147,130</u>
Expenses			
General and administrative		316,354	159,702
General exploration		28,510	41,544
Depletion and depreciation	6	143,329	163,433
Finance expense of decommissioning liabilities	7	<u>5,838</u>	<u>4,079</u>
		<u>494,031</u>	<u>368,758</u>
Loss before other items		<u>(133,379)</u>	<u>(221,628)</u>
Other items			
Interest income		15,567	15,201
Foreign exchange		72,093	112,496
Unrealized gain (loss) on investment		700	(30,001)
(Loss) gain on sale of investment	4	<u>38,868</u>	<u>(8,778)</u>
		<u>127,228</u>	<u>88,918</u>
Loss before deferred income tax		(6,151)	(132,710)
Deferred income tax		<u>(61,000)</u>	<u>-</u>
Net loss for the period		<u>(67,151)</u>	<u>(132,710)</u>
Other comprehensive loss			
Change in currency translation of foreign subsidiary		(68,661)	(92,955)
Change in fair value of investment		<u>(390,261)</u>	<u>(671,385)</u>
		<u>(458,922)</u>	<u>(764,340)</u>
Comprehensive loss for the period		<u>(526,073)</u>	<u>(897,050)</u>
Basic and diluted loss per common share		<u>\$(0.00)</u>	<u>\$(0.00)</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 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, 2018

	Share Capital		Reserves			Deficit	Total Equity
	Number of Shares	Amount \$	Share-Based Compensation \$	Foreign Currency Translation \$	Investments Revaluation \$		
Balance at March 31, 2018	89,585,665	39,868,761	5,251,003	(118,403)	591,975	(38,357,739)	7,235,597
Currency translation adjustment	-	-	-	(68,661)	-	-	(68,661)
Unrealized loss on available-for-sale investments	-	-	-	-	(417,470)	-	(417,470)
Deferred income tax on unrealized loss on available-for-sale investments	-	-	-	-	61,000	-	61,000
Reclassification on sale of investments	-	-	-	-	(33,791)	-	(33,791)
Net loss for the period	-	-	-	-	-	(67,151)	(67,151)
Balance at June 30, 2018	89,585,665	39,868,761	5,251,003	(187,064)	201,714	(38,424,890)	6,709,524

Three Months Ended June 30, 2017

	Share Capital		Reserves			Deficit	Total Equity
	Number of Shares	Amount \$	Share-Based Compensation \$	Foreign Currency Translation \$	Investment 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
Currency translation adjustment	-	-	-	(92,955)	-	-	(92,955)
Unrealized loss on available-for-sale investment	-	-	-	-	(670,952)	-	(670,952)
Reclassification on sale of investment	-	-	-	-	(433)	-	(433)
Net loss for the period	-	-	-	-	-	(132,710)	(132,710)
Balance at June 30, 2017	89,585,665	39,868,761	5,211,003	(422,473)	(624,192)	(37,703,906)	6,329,193

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)

	Three Months Ended	
	June 30,	
	2018	2017
	\$	\$
Operating activities		
Net loss for the period	(67,151)	(132,710)
Adjustments for:		
Depletion and depreciation	143,329	163,433
Finance expense of decommissioning liabilities	5,838	4,079
General exploration	-	1,347
(Gain) loss on sale of investment	(38,868)	8,778
Unrealized (gain) loss on investment	(700)	30,001
Deferred income tax	61,000	-
Changes in non-cash working capital items:		
Amounts receivable	131,315	128,565
GST receivable	(26,912)	(66,471)
Prepaid expenses	30,380	33,063
Accounts payable and accrued liabilities	83,993	12,063
Net cash provided by operating activities	<u>322,224</u>	<u>182,148</u>
Investing activities		
Expenditures on exploration and evaluation assets	(19,611)	-
Expenditures on property, plant and equipment	(7,106)	(1,469,738)
Proceeds from sale of investment	99,608	84,554
Purchase of investment	(201,651)	(119,143)
Net cash used in investing activities	<u>(128,760)</u>	<u>(1,504,327)</u>
Effect of exchange rate changes on cash	<u>(19,099)</u>	<u>(88,747)</u>
Net change in cash for the period	174,365	(1,410,926)
Cash at beginning of period	<u>4,030,573</u>	<u>5,912,735</u>
Cash at end of period	<u>4,204,938</u>	<u>4,501,809</u>

Supplemental cash flow information - See Note 12

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, 2018
(Unaudited - Expressed in Canadian Dollars)

1. Nature of Operations

East West Petroleum Corp. (the “Company”) was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia). 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 June 30, 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 14.

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, 2018, 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, 2018.

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.

Financial Instruments

Effective April 1, 2018, the Company adopted IFRS 9 - *Financial Instruments* (“IFRS 9”) using the modified retrospective approach. IFRS 9 did not impact the Company’s classification and measurement of financial assets and liabilities. The standard did not have an impact on the carrying amounts of the Company’s financial instruments at the transition date. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company’s business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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2. Basis of Preparation (continued)

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.

3. Amounts Receivable

	June 30, 2018 \$	March 31, 2018 \$
Production receivable	141,666	301,982
Other	<u>51,268</u>	<u>35,337</u>
	<u>192,934</u>	<u>337,319</u>

4. Investments

<u>As at June 30, 2018</u>				
Number	Cost \$	Accumulated Comprehensive Gain (Loss) \$	Accumulated Gain \$	Carrying Value \$
Available-for-sale investments:				
Common shares:				
(a) Advantage Lithium Corp. ("Advantage Lithium")	1,630,000	1,008,637	311,663	-
(b) Seaway Energy Services Inc. ("Seaway")	462,400	448,662	(78,742)	-
(c) American Helium Inc. ("American Helium")	28,000	20,867	(11,207)	9,660
FVTPL investment:				
(a) Warrants: Advantage Lithium	333,350	<u>66,670</u>	-	<u>44,036</u>
		<u>1,544,836</u>	<u>221,714</u>	<u>44,036</u>
		<u>1,810,586</u>		
<u>As at March 31, 2018</u>				
Number	Cost \$	Accumulated Comprehensive Gain (Loss) \$	Accumulated Gain \$	Carrying Value \$
Available-for-sale investments:				
Common shares:				
Advantage Lithium	1,533,000	888,592	751,718	-
Seaway	462,400	448,662	(78,742)	-
FVTPL investment:				
Warrants: Advantage Lithium	333,350	<u>66,670</u>	-	<u>43,336</u>
		<u>1,403,924</u>	<u>672,976</u>	<u>43,336</u>
		<u>2,120,236</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 the three months ended June 30, 2018 the Company made open market purchases and sales of common shares of Advantage Lithium under which the Company purchased 179,000 (2017 - 240,000) common shares for \$169,606 (2017 - \$119,143) and sold 82,000 (2017 - 162,500) common shares for \$49,561 (\$93,332), resulting in a gain on sale of investments of \$39,156 (2017 - loss of \$8,778).

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4. Investments (continued)

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

	<u>June 30, 2018</u>	<u>March 31, 2018</u>
Risk-free interest rate	1.50%	1.54%
Estimated volatility	75%	75%
Expected life	7 months	10 months
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

- (b) On January 22, 2018 Seaway halted trading of its common shares pending a corporate reorganization. As at June 30, 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) During the three months ended June 30, 2018 the Company made open market purchases and sales of common shares of American Helium under which the Company purchased 43,000 common shares for \$32,045 and sold 15,000 common shares for \$10,890, resulting in a loss on sale of investments of \$288.
- (d) Certain directors and officers of the Company are also directors and/or officers of Advantage Lithium, Seaway and American Helium.

5. Exploration and Evaluation Assets

	PEP 54877 \$
Balance at March 31, 2017	-
Capital expenditures	1,532,179
Revision of estimate for decommissioning liabilities	122,977
Foreign exchange movement	<u>26,535</u>
Balance at March 31, 20178	1,681,691
Capital expenditures	19,611
Foreign exchange movement	<u>(72,340)</u>
Balance at June 30, 2018	<u>1,628,962</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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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5. Exploration and Evaluation Assets (continued)

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 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.

6. Property, Plant and Equipment

	Petroleum and Natural Gas Properties (PMP 60291) \$
Cost:	
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	13,462,294
Capital expenditures	30,187
Foreign exchange movement	<u>(577,772)</u>
Balance at June 30, 2018	<u>12,914,709</u>

EAST WEST PETROLEUM CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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6. Property, Plant and Equipment

	Petroleum and Natural Gas Properties (PMP 60291) \$
Accumulated Depletion and Depreciation and Impairment:	
Balance at March 31, 2017	(11,427,027)
Impairment	(947,261)
Depletion and depreciation	(472,790)
Foreign exchange movement	<u>64,784</u>
Balance at March 31, 2018	(12,782,294)
Depletion and depreciation	(143,329)
Foreign exchange movement	<u>549,793</u>
Balance at June 30, 2018	<u>(12,375,830)</u>
Carrying Value:	
Balance at March 31, 2018	<u>680,000</u>
Balance at June 30, 2018	<u>538,879</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. 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%.

7. Decommissioning Liabilities

	Three Months Ended June 30,	
	2018	2017
	\$	\$
Balance, beginning of period	1,364,784	1,268,216
Finance cost	5,838	4,259
Foreign exchange movement	<u>(53,442)</u>	<u>15,644</u>
Balance, end of period	<u>1,317,180</u>	<u>1,288,199</u>

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation is \$1,396,270 (March 31, 2018 - \$1,396,270) which has been discounted using a pre-tax risk-free rate of 2.01% (March 31, 2018 - 1.94%) and an inflation rate of 1.50% (March 31, 2018 - 1.60%). 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.

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

8. 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, 2018 or fiscal 2018.

(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, 2018 and 2017.

A summary of the Company's share options at June 30, 2018 and 2017 and the changes for the three months 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 period	6,315,000	0.13	8,188,000	0.13
Expired/cancelled	<u>(500,000)</u>	0.14	<u>-</u>	-
Balance, end of period	<u>5,815,000</u>	0.13	<u>8,188,000</u>	0.13

The following table summarizes information about the share options outstanding and exercisable at June 30, 2018:

Number of Shares	Exercise Price \$	Expiry Date
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>5,815,000</u>		

9. 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. The Company has determined that key management personnel consists of members of the Company's Board of Directors and all executive officers.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2018
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9. Related Party Disclosures (continued)

- (a) During the three months ended June 30, 2018 the Company incurred professional fees of \$27,900 (2017 - \$27,000) as compensation to its current and former key management personnel. As at June 30, 2018, \$24,000 (March 31, 2018 - \$24,200) remained unpaid and has been included in accounts payable and accrued liabilities.
- (b) During the three months ended June 30, 2018 the Company incurred a total of \$5,800 (2017 - \$9,500) 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, 2018, \$5,400 (March 31, 2018 - \$5,850) remained unpaid and has been included in accounts payable and accrued liabilities.
- (c) See also Note 4.

10. Financial Instruments and Risk Management

The nature of the Company's operations expose the Company to credit risk, liquidity risk and market risk, and changes in commodity prices, foreign exchange rates and interest rates may have a material effect on cash flows, net income and comprehensive income.

This note provides information about the Company's exposure to each of the above risks as well as the Company's objectives, policies and processes for measuring and managing these risks.

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

Credit Risk

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

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

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

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10. Financial Instruments and Risk Management (continued)

Liquidity Risk

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

	Contractual Maturity Analysis at June 30, 2018				Total
	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	
	\$	\$	\$	\$	\$
Cash	4,204,938	-	-	-	4,204,938
Amounts receivable	192,934	-	-	-	192,934
Investments	-	-	1,810,586	-	1,810,586
Accounts payable and accrued liabilities	(395,400)	-	-	-	(395,400)

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.

The Company did not have any interest rate swaps or financial contracts in place during the three months ended June 30, 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:

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10. Financial Instruments and Risk Management (continued)

Financial Instrument	Category	June 30, 2018 \$	March 31, 2018 \$
Cash	FVTPL	4,204,938	4,030,573
Amounts receivable	Loans and receivables	192,934	337,319
Investments- common shares	Available-for-sale	1,699,880	2,010,230
Investments - warrants	FVTPL	110,706	110,006
Accounts payable and accrued liabilities	Other financial liabilities	(395,400)	(312,301)

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.

The following is an analysis of the Company's financial assets measured at fair value as at June 30, 2018 and March 31, 2018:

	June 30, 2018		
	Level 1 \$	Level 2 \$	Level 3 \$
Cash	4,204,938	-	-
Investments - common shares	1,329,960	369,920	-
Investments - warrants	-	110,706	-
	<u>5,534,898</u>	<u>480,626</u>	<u>-</u>
	March 31, 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>

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10. Financial Instruments and Risk Management (continued)

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.

11. Commitments

The Company's share of expected exploration and development permit obligations and/or commitments as at June 30, 2018 are approximately \$229,000 to be incurred in fiscal 2019 and \$1,270,000 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.

12. Supplemental Cash Flow Information

During the three months ended June 30, 2018 and 2017 non-cash activities were conducted by the Company as follows:

	2018 \$	2017 \$
Investing activity		
Property, plant and equipment	<u>(23,081)</u>	<u>(205,378)</u>
Operating activity		
Accounts payable and accrued liabilities	<u>23,081</u>	<u>205,378</u>

13. 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, 2018</u>		
	Canada \$	New Zealand \$	Total \$
Revenues	-	825,332	825,332
Exploration and evaluation assets	-	1,628,962	1,628,962
Property, plant and equipment	-	538,879	538,879

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13. Segmented Information (continued)

	As at March 31, 2018		
	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

14. Event after the Reporting Period

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.