
EAST WEST PETROLEUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
JUNE 30, 2014

(Unaudited - Expressed in Canadian Dollars)

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

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

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

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

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

	Note	June 30, 2014 \$	March 31, 2014 \$
ASSETS			
Current assets			
Cash		8,257,758	12,273,810
GST receivable		16,493	515,262
Amounts receivable	4	1,179,707	1,872,614
Prepaid expenses		<u>52,403</u>	<u>62,725</u>
Total current assets		<u>9,506,361</u>	<u>14,724,411</u>
Non-current assets			
Investment	5	431,147	718,445
Deposits	6(b)	150,649	159,653
Exploration and evaluation assets	6	6,060,500	6,106,690
Property, plant and equipment	7	7,244,695	7,956,418
Other		<u>33,066</u>	<u>16,533</u>
Total non-current assets		<u>13,920,057</u>	<u>14,957,739</u>
TOTAL ASSETS		<u>23,426,418</u>	<u>29,682,150</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		760,946	3,278,683
Due to joint venture partner		<u>-</u>	<u>479,513</u>
Total current liabilities		<u>760,946</u>	<u>3,758,196</u>
Non-current liabilities			
Decommissioning liabilities	8	<u>983,377</u>	<u>995,388</u>
TOTAL LIABILITIES		<u>1,744,323</u>	<u>4,753,584</u>
SHAREHOLDERS' EQUITY			
Share capital	9	41,416,815	41,436,619
Share-based compensation reserve		4,371,715	4,352,906
Foreign currency translation reserve		1,216,362	838,213
Available-for-sale investment		(16,226)	194,945
Deficit		<u>(25,306,571)</u>	<u>(21,894,117)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>21,682,095</u>	<u>24,928,566</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>23,426,418</u>	<u>29,682,150</u>

Nature of Operations - see Note 1

Commitments - see Note 13

Event after the Reporting Period - see Note 16

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on August 26, 2014 and are signed on its behalf by:

/s/ David Sidoo

David Sidoo
Director

/s/ Nick DeMare

Nick DeMare
Director

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

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

	Note	Three Months Ended	
		June 30,	
		2014	2013
		\$	\$
Revenues and costs			
Petroleum and natural gas sales		1,812,924	48,057
Production costs		(307,475)	(12,603)
Transportation and storage costs		(251,275)	-
Royalties		(84,092)	(3,394)
		<u>1,170,082</u>	<u>32,060</u>
Expenses			
Depletion and depreciation	7	642,840	30,917
General exploration	6(a)	2,639,088	-
Finance expense of decommissioning liabilities	8	6,611	512
General and administrative		402,563	723,631
Share-based compensation	9(d)	18,809	319,205
		<u>3,709,911</u>	<u>1,074,265</u>
Loss before other items		<u>(2,539,829)</u>	<u>(1,042,205)</u>
Other items			
Gain on sale of investment	5	10,903	-
Interest and other income		38,005	64,693
Foreign exchange		(902,917)	191,624
		<u>(854,009)</u>	<u>256,317</u>
Loss before deferred income tax		<u>(3,393,838)</u>	<u>(785,888)</u>
Deferred income tax		<u>(25,000)</u>	<u>154,000</u>
Net loss for the period		<u>(3,418,838)</u>	<u>(631,888)</u>
Other comprehensive income (loss)			
Change in currency translation of foreign subsidiary	2	378,149	-
Change in fair value of investment	5	(211,171)	1,449,400
Comprehensive (loss) income for the period		<u>(3,251,860)</u>	<u>817,512</u>
Basic and diluted loss per common share		<u>\$(0.04)</u>	<u>\$(0.01)</u>
Weighted average number of common shares outstanding		<u>93,092,930</u>	<u>82,179,998</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, 2014

	Share Capital		Reserves			Deficit	Total Equity
	Number of Shares	Amount \$	Share-Based Compensation Reserve \$	Foreign Currency Translation Reserve \$	Available-for-Sale Investment \$		
Balance at March 31, 2014	93,108,665	41,436,619	4,352,906	838,213	194,945	(21,894,117)	24,928,566
Repurchase of common shares	(44,500)	(19,804)	-	-	-	6,384	(13,420)
Share-based compensation	-	-	18,809	-	-	-	18,809
Currency translation adjustment	-	-	-	378,149	-	-	378,149
Unrealized loss on investment	-	-	-	-	(211,759)	-	(211,759)
Deferred income tax on unrealized loss on investment	-	-	-	-	25,000	-	25,000
Reclassification on sale of investment	-	-	-	-	(24,412)	-	(24,412)
Net loss for the period	-	-	-	-	-	(3,418,838)	(3,418,838)
Balance at June 30, 2014	93,064,165	41,416,815	4,371,715	1,216,362	(16,226)	(25,306,571)	21,682,095

Three Months Ended June 30, 2013

	Share Capital		Reserves		Deficit	Total Equity
	Number of Shares	Amount \$	Share-Based Compensation Reserve \$	Available-for-Sale Investment \$		
Balance at March 31, 2013	82,679,648	37,875,410	4,418,746	2,855,220	(14,596,959)	30,552,417
Repurchase of common shares	(808,000)	(370,144)	-	-	135,554	(234,590)
Share-based compensation	-	-	319,205	-	-	319,205
Unrealized gain on investment	-	-	-	1,603,400	-	1,603,400
Deferred income tax on unrealized gain on investment	-	-	-	(154,000)	-	(154,000)
Net loss for the period	-	-	-	-	(631,888)	(631,888)
Balance at June 30, 2013	81,871,648	37,505,266	4,737,951	4,304,620	(15,093,293)	31,454,544

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,	
	2014	2013
	\$	\$
Operating activities		
Net loss for the period	(3,418,838)	(631,888)
Adjustments for:		
Depletion and depreciation	642,840	30,917
Finance expense of decommissioning liabilities	6,611	512
Share-based compensation	18,809	319,205
Foreign exchange	-	(124,600)
Gain on sale of investment	(10,903)	-
Deferred income tax	25,000	(154,000)
	<u>(2,736,481)</u>	<u>(559,854)</u>
Changes in non-cash working capital items:		
Decrease in amounts receivable	645,977	25,979
Decrease in GST receivable	485,273	23,173
Decrease in prepaid expenses	9,300	45,778
(Decrease) increase in accounts payable and accrued liabilities	(928,650)	39,947
	<u>211,900</u>	<u>134,877</u>
Net cash used in operating activities	<u>(2,524,581)</u>	<u>(424,977)</u>
Investing activities		
Proceeds from sale of investment	62,030	-
Expenditures on exploration and evaluation assets	(885,334)	(383,378)
Increase in other assets	(16,533)	-
Expenditures on property, plant and equipment	(855,674)	-
Advances to NAMG	-	(100,217)
Repayments from NAMG	9,004	-
Repayment to joint venture partner	(466,594)	-
Net cash used in investing activities	<u>(2,153,101)</u>	<u>(483,595)</u>
Financing activity		
Repurchase of common shares	(13,420)	(234,590)
Net cash used in financing activity	<u>(13,420)</u>	<u>(234,590)</u>
Effect of exchange rate changes on cash	675,050	
Net change in cash	(4,016,052)	(1,143,162)
Cash at beginning of period	<u>12,273,810</u>	<u>20,672,730</u>
Cash at end of period	<u>8,257,758</u>	<u>19,529,568</u>

Supplemental cash flow information - See Note 14

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

EAST WEST PETROLEUM CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2014
(Unaudited - Expressed in Canadian Dollars)

1. Nature of Operations

East West Petroleum Corp. (the "Company") was incorporated on October 23, 1987 under the provisions of the Company Act (British Columbia) and its major activity is the development and exploration of international oil and gas properties. The Company is listed and trades on the TSX Venture Exchange ("TSXV") under the symbol "EW". In November 2013 the Company changed its fiscal year-end from December 31 to March 31. The Company's principal office is located at #1210 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6 Canada.

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

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

2. Change in Functional Currency

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

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

3. Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), and in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the fifteen months ended March 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's consolidated financial statements for the fifteen months ended March 31, 2014.

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.

EAST WEST PETROLEUM CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2014
(Unaudited - Expressed in Canadian Dollars)

3. Basis of Preparation

Basis of Presentation

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

4. Amounts Receivable

	June 30, 2014 \$	March 31, 2014 \$
Production receivable	1,173,741	1,563,562
Other	<u>5,966</u>	<u>309,052</u>
	<u>1,179,707</u>	<u>1,872,614</u>

5. Investment

	<u>June 30, 2014</u>			
	Number of Common Shares	Cost \$	Accumulated Unrealized Loss on Investment \$	Carrying Value \$
North American Oil and Gas Corp. ("NAMG")	<u>4,487,191</u>	<u>447,373</u>	<u>(16,226)</u>	<u>431,147</u>
	<u>March 31, 2014</u>			
	Number of Common Shares	Cost \$	Accumulated Unrealized Gain on Investment \$	Carrying Value \$
NAMG	<u>5,000,000</u>	<u>498,500</u>	<u>219,945</u>	<u>718,445</u>

During the three months ended June 30, 2014 the Company sold 512,809 shares of NAMG for proceeds of \$62,030 recognizing a realized gain of \$10,903.

As at June 30, 2014 the quoted market value of the NAMG shares was \$431,147. See also Note 6(b).

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2014
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6. Exploration and Evaluation Assets

	New Zealand			United States			Total \$
	PEP 54876 \$	PEP 54877 \$	PEP 54879 \$	Tejon Ranch Extension \$	Tejon Main Area \$	White Wolf \$	
Balance at December 31, 2012	-	-	-	817,017	-	52,327	869,344
Capital expenditures	2,195,195	8,087,972	5,223,273	613,569	122,154	265,794	16,507,957
Net revenues pre-commercial discovery	-	(1,548,553)	-	-	-	-	(1,548,553)
Provision for decommissioning liabilities	223,243	282,518	223,243	32,525	-	-	761,529
Transfer to property, plant and equipment	-	(6,821,937)	-	-	-	-	(6,821,937)
Foreign exchange movement	80,662	-	219,899	-	-	-	300,561
Impairment	<u>(2,499,100)</u>	<u>-</u>	<u>-</u>	<u>(1,463,111)</u>	<u>-</u>	<u>-</u>	<u>(3,962,211)</u>
Balance at March 31, 2014	-	-	5,666,415	-	122,154	318,121	6,106,690
Capital expenditures	-	-	102,782	-	-	-	102,782
Revision of estimate for decommissioning liabilities	-	-	1,453	-	-	-	1,453
Foreign exchange movement	<u>-</u>	<u>-</u>	<u>(150,425)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,425)</u>
Balance at June 30, 2014	<u>-</u>	<u>-</u>	<u>5,620,225</u>	<u>-</u>	<u>122,154</u>	<u>318,121</u>	<u>6,060,500</u>

- (a) On December 11, 2012 the Government of New Zealand awarded the Company and its partner, TAG Oil Ltd. (“TAG”), interests in three onshore exploration blocks located in the Taranaki Basin, New Zealand. Under the terms of the agreements, the Company will participate in the drilling of a minimum of nine exploration wells on Petroleum Exploration Permits (“PEP”) 54876, 54877 and 54879. The Company could earn a 50% participation interest in PEP 54876 and PEP 54879 and a 30% participation interest in PEP 54877 by funding 100% (\$2,500,000 each - the “Initial Funding”) of the initial well cost on PEP 54876, the first two wells on PEP 54877 and the initial well on PEP 54879. All subsequent costs on the wells will be funded based on each company’s participation interest. The Company is entitled to receive 100% of the oil and gas revenues, on a permit-by-permit basis, to recover its Initial Funding. TAG is the operator of the joint venture.

During the three months ended June 30, 2014 the Company completed drilling on PEP 54876, the results of which confirmed that there were no commercial deposits. The Company recorded an impairment of \$2,499,100 for costs incurred to March 31, 2014 and recorded a further \$2,639,088 for costs incurred subsequent to March 31, 2014 as a charge to general exploration.

See also Note 7(a).

- (b) On August 29, 2012 the Company entered into a letter of intent with Lani, LLC (“Lani”) and subsequently, on November 13, 2012, the Company entered into a farm-in agreement (collectively the “Lani Agreement”) whereby it was assigned certain participation interests in Lani’s petroleum and gas leases covering exploration properties in the San Joaquin Basin of California. Under the terms of the Lani Agreement the Company was assigned:
- (i) 25% working interest in the Tejon Ranch Extension. The Company funded 100% of the working interest costs associated with the drilling and completing of one exploration well on the Tejon Ranch Extension leases, for an amount of US \$1,300,000. During the fifteen months ended March 31, 2014 the Company determined that the well was unlikely to be commercial and recorded an impairment charge of \$1,463,111;

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6. Exploration and Evaluation Assets (continued)

- (ii) an initial 21.25% working interest in the Tejon Main Area. On August 1, 2013 the Company entered into a purchase and sale agreement with Solimar Energy Limited (“Solimar”) a party at arms-length to the Company, whereby the Company paid US \$110,000 to Solimar to acquire an additional 28.75% working interest to increase the Company’s working interest to 50%. The Company is required to fund 71.25% of the working interest costs associated with the drilling and completing one exploration well on the Tejon Main Area leases, up to a maximum of US \$926,250; and
- (iii) 50% working interest in leases in the White Wolf. The Company is required to pay US \$347,500 to Lani to be used for lease delay rental payments and for leasing new acreage in White Wolf of which US \$317,556 was cumulatively paid as of March 31, 2014.

On November 20, 2012 Lani and NAMG entered into an agreement and plan of merger whereby NAMG acquired 100% of Lani. In conjunction with the terms of the Lani Agreement the Company made an investment of US \$500,000 in NAMG as part of Lani’s restructuring. See also Note 5.

The Company advanced US \$1,700,000 to NAMG to fund exploration activities of which \$36,486 (US \$34,176) remains unapplied as at June 30, 2014 (March 31, 2014 - \$41,459 [US \$37,509]) and is included in deposits.

The Lani Agreement also required the Company to advance up to US \$300,000 to NAMG for working capital purposes. These advances are non-interest bearing and are repayable from production revenues or equity financing conducted by NAMG, whichever comes first. During the twelve months ended December 31, 2012 the Company advanced US \$60,000. During the fifteen months ended March 31, 2014 the Company advanced the remaining US \$240,000 and was then subsequently repaid US \$193,066. As at June 30, 2014, US \$106,934 (March 31, 2014 - US \$106,934) remains outstanding and is included in deposits.

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

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

On May 20, 2011 the Company and Naftna Industrija Srbije j.s.c. Novi Sad (“NIS”), an arm’s length corporation, signed a memorandum of understanding to jointly explore the four exploration blocks in Romania. On October 27, 2011 the Company and NIS signed a farm-out agreement (the “Farm-out”). Under the terms of the Farm-out, NIS paid the Company \$250,000 and agreed to pay a further \$275,000 upon final concession approvals by the government of Romania and assignment of an 85% participation interest and operatorship of the Romania Work Programs to NIS. NIS has the obligation to fund the Romania Work Programs, including environmental work, 2D and 3D seismic acquisition and processing, and the drilling of 12 wells. The Company retains a 15% carried interest in each block through the obligatory two year Phase I work program and the optional one year Phase II work program. If a commercial discovery is made, the Company is responsible for its 15% interest in development of the commercial discovery. During the twelve months ended December 31, 2012 the Company received final concession approval by the government of Romania for one exploration block (EX-2, Tria) and the Company transferred the 85% participation interest in EX-2, Tria to NIS Petrol S.R.L (“NSI Petrol”), a wholly-owned subsidiary of NIS. During the twelve months ended December 31, 2012 the Company also received a pro-rated payment of \$68,750 from NIS. On November 22, 2013 the Company received final concession approval by the government of Romania on the three remaining exploration blocks. The Company subsequently transferred the 85% participation interest in the exploration blocks to NIS Petrol and received the final payment of \$206,250.

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6. Exploration and Evaluation Assets (continued)

- (d) Effective November 28, 2011 the Company and the Office National des Hydrocarbures et des Mines (“ONHYM”), an agency of the Moroccan government, entered into agreements whereby the Company was granted an exploration permit (the “Exploration Permit”) for a 75% participation interest in a prospective exploration block (the “Doukkala Block”) situated along the Atlantic coast southwest from Casablanca, Morocco. The Exploration Permit has an overall duration of eight years, comprising :
- (i) Phase 1 program under which the Company is committed to carry out a specified exploration work program, estimated to cost approximately US \$5,500,000, over three years;
 - (ii) on completion of the Phase 1 program, the Company can elect to enter into an extension for a Phase 2 program under which, amongst other things, the Company will be committed to drill two wells, estimated to cost approximately US \$14,000,000 over a two year duration; and
 - (iii) on completion of the Phase 2 program the Company can elect to enter into an extension for a Phase 3 program under which, amongst other things, the Company will be committed to acquire 3D seismic and drilling of one well, estimated to cost approximately US \$14,000,000 over a three year duration.

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

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

The Company has provided a US \$3,500,000 guarantee (the “Guarantee”) in favour of ONHYM as security for performance of the Phase 1 program. The amount is deposited in a savings account with a major Canadian bank. The Company requested an extension from ONHYM for the time required to complete the Phase 1 work program. To date ONHYM has not consented to an extension and as a result it is unlikely that the Company will incur the full amount of the Phase 1 work program by the current deadline. The Company has determined that with no extension to complete Phase 1 work program that its Guarantee in favour of ONHYM is at risk of being called and that the amounts posted as security to complete Phase 1 work will be lost. Accordingly, during the fifteen months ended March 31, 2014 the Company has recorded a provision of \$3,868,550 against the Guarantee. See also Note 16(b).

- (e) Effective March 28, 2012 the Company (10% interest), Oil India Limited (40% interest), Oil and Natural Gas Corporation Limited (30% interest) and Gail (India) Limited (20% interest) (collectively the “Partners”) and the government of India signed a production sharing contract (the “PSC”) for Block AA-ONN-2010/2 (the “AA Block”) located in the Assam-Arakan Basin of northeast India. Under the terms of the PSC work program commitment, the Partners will acquire certain 3D seismic data and drill two wells, at an estimated cost to the Company of US \$2.8 million, over a five year period.

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7. Property, Plant and Equipment

	Petroleum and Natural Gas Properties		Office Equipment and Leasehold Improvements	Total \$
	PEP 54877 \$	Carbon \$	\$	
Cost:				
Balance at December 31, 2012	-	1,202,986	52,128	1,255,114
Transfer from exploration and evaluation assets	6,821,937	-	-	6,821,937
Capital expenditures	912,390	-	-	912,390
Revision of estimate for decommissioning costs	126,456	(7,293)	-	119,163
Foreign exchange movement	802,601	-	-	802,601
Balance at March 31, 2014	8,663,384	1,195,693	52,128	9,911,205
Capital expenditures	139,339	-	-	139,339
Revision of estimate for decommissioning costs	2,673	(858)	-	1,815
Foreign exchange movement	(203,945)	-	-	(203,945)
Balance at June 30, 2014	8,601,451	1,194,835	52,128	9,848,414
Accumulated Depletion, Depreciation and Impairment:				
Balance at December 31, 2012	-	(526,360)	(22,170)	(548,530)
Depletion and depreciation	(1,257,753)	(130,439)	(18,065)	(1,406,257)
Balance at March 31, 2014	(1,257,753)	(656,799)	(40,235)	(1,954,787)
Depletion and depreciation	(618,455)	(23,482)	(903)	(642,840)
Foreign exchange movement	(6,092)	-	-	(6,092)
Balance at June 30, 2014	(1,882,300)	(680,281)	(41,138)	(2,603,719)
Carrying Value:				
Balance at March 31, 2014	7,405,631	538,894	11,893	7,956,418
Balance at June 30, 2014	6,719,151	514,554	10,990	7,244,695

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

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

- (b) Effective September 1, 2010 the Company executed a purchase and sale agreement with Sphere Energy Corp. ("Sphere"), a private company, whereby the Company paid \$1,125,000 to acquire Sphere's working interests, ranging from 4.12% to 20%, in four producing oil wells and fourteen gas wells (the "Carbon Property") located northeast of Calgary, Alberta.

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8. Decommissioning Liabilities

	Three Months Ended June 30, 2014 \$	Fifteen Months Ended March 31, 2014 \$
Balance, beginning of period	995,388	81,404
Liability incurred	-	761,529
Finance cost	6,611	28,426
Revision of estimate	4,721	119,163
Foreign exchange movement	<u>(23,343)</u>	<u>4,866</u>
Balance, end of period	<u>983,377</u>	<u>995,388</u>

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation is \$1,095,000 (March 31, 2014 - \$1,080,000) which has been discounted using a pre-tax risk-free rate of 2.75% and an inflation rate of 1.6%. The present value of the decommissioning liabilities may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

The total future asset decommissioning obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future years. These liabilities will be settled at various dates which are currently expected to extend up to 2048, with the majority of the expenditures expected to occur between 2015 to 2025. Settlement of the liabilities is expected to be funded from general corporate funds at the time of retirement.

9. Share Capital

(a) *Authorized Share Capital*

The Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Reconciliation of Changes in Share Capital*

No equity financings were conducted by the Company during the three months ended June 30, 2014 or the fifteen months ended March 31, 2014.

On February 3, 2014 the Company filed a normal course issuer bid (the "NCIB") which authorizes the Company to repurchase for cancellation up to 8,882,872 common shares until February 2, 2015 or the date by which the Company has acquired the maximum number of common shares under the NCIB.

During the three months ended June 30, 2014 the Company repurchased a total of 44,500 (fifteen months ended March 31, 2014 - 983,000) common shares for \$13,420 (fifteen months ended March 31, 2014 - \$299,443) cash consideration. The average carrying value of the common shares was \$0.45 (fifteen months ended March 31, 2014 - \$0.30) per share. The difference between the purchase price and the carrying value of the common shares was \$6,384 (fifteen months ended March 31, 2014 - \$150,868).

See also Note 16(a).

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9. Share Capital (continued)

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at June 30, 2014 and 2013 and the changes for the three months ended on those dates, is as follows:

	2014		2013	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning and end of period	-	-	11,685,000	0.34

(d) *Share Option Plan*

The Company has established a fixed share option plan (the "Plan"), in which a total of 12,408,697 common shares have been reserved for issuance under the Plan. The minimum exercise price of the share options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSXV. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years from the date of grant.

During the three months ended June 30, 2014 the Company granted nil (2013 - 1,725,000) share options and recorded compensation expense of \$18,809 (2013 - \$235,205) 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:

	2014	2013
Risk-free interest rate	0.97% - 1.48%	1.00% - 1.28%
Estimated volatility	76% - 91%	60% - 111%
Expected life	1 year - 4 years	2 years - 5 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average grant date fair value of all share options granted and vested during the three months ended June 30, 2014 was \$0.04 (2013 - \$0.18) per share option.

During the three months ended June 30, 2013 the Company repriced share options previously granted to purchase 1,400,000 common shares, from original exercise prices ranging from \$0.83 to \$1.16 per share to a revised exercise price of \$0.40 per share. The fair value of share options repriced has been estimated using the Black-Scholes option pricing model. The assumptions used were: risk-free interest rate 1.00% - 1.04%; estimated volatility 61% - 74%; expected life 2.5 years - 2.9 years; expected dividend yield 0%; and estimated forfeiture rate 0%. The value assigned to the re-pricing of the share options was \$84,000.

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9. Share Capital (continued)

A summary of the Company's share options at June 30, 2014 and 2013 and the changes for the three months ended on those dates, is as follows:

	<u>2014</u>		<u>2013</u>	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	7,088,530	0.46	8,233,530	0.40
Granted	<u>-</u>	-	<u>1,725,000</u>	0.37
Balance, end of period	<u>7,088,530</u>	0.46	<u>9,958,530</u>	0.32

The following table summarizes information about the share options outstanding and exercisable at June 30, 2014:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
300,000	300,000	0.26	January 7, 2015
300,000	300,000	0.40	April 11, 2015
650,000	650,000	0.20	July 19, 2015
852,530	852,530	0.25	October 1, 2015
610,000	610,000	0.50	October 1, 2015
1,850,000	1,850,000	0.40	February 2, 2016
80,000	80,000	0.40	March 14, 2016
36,000	36,000	0.40	April 6, 2016
1,160,000	1,160,000	0.40	May 31, 2016
<u>1,250,000</u>	<u>833,332</u>	0.37	April 4, 2018
<u>7,088,530</u>	<u>6,671,862</u>		

(e) *Compensation Options*

During fiscal 2010 the Company granted 731,000 compensation options, with each compensation option entitling the holder to purchase one unit for \$0.25 per unit which expired on September 29, 2013. Each unit was to comprise one common share and one warrant to purchase an additional common share at a price of \$0.34 per share on or before September 29, 2013.

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10. Related Party Disclosures

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) *Transactions with Key Management Personnel*

During the three months ended June 30, 2014 and 2013 the following amounts were incurred with respect to the Company's current President and Chairman, former President, current Chief Financial Officer ("CFO") and former Vice-President of Operations of the Company:

	2014 \$	2013 \$
Salaries	-	117,713
Professional fees	63,000	25,500
Health benefit premiums	-	4,647
Share-based compensation	<u>4,430</u>	<u>189,017</u>
	<u>67,430</u>	<u>336,877</u>

As at June 30, 2014 \$3,500 (2013 - \$3,000) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with Other Related Parties*

(i) During the three months ended June 30, 2014 and 2013 the following amounts were incurred with respect to other current and former non-management officers and directors of the Company:

	2014 \$	2013 \$
Professional fees	102,000	123,500
Legal	-	48,839
Share-based compensation	<u>3,287</u>	<u>68,862</u>
	<u>105,287</u>	<u>241,201</u>

As at June 30, 2014 \$31,000 (2013 - \$43,639) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During the three months ended June 30, 2014 the Company also incurred a total of \$17,400 (2013 - \$14,000) to Chase Management Ltd. ("Chase"), a private corporation owned by the CFO of the Company, for accounting and administration services provided by Chase personnel, excluding the CFO. The Company also paid \$nil (2013 - \$793) to the spouse of the former President of the Company for professional services rendered. As at June 30, 2014 \$10,000 (2013 - \$8,000) remained unpaid and has been included in accounts payable and accrued liabilities.

(c) The Company previously had an agreement with a public company, Ava Resources Corp. ("Ava") which was related through a common director and officer, to share office premises. On March 31, 2014 Ava was dissolved. During the three months ended June 30, 2014 the Company recorded the \$16,533 rent deposit which was forfeited by Ava as a credit to general and administrative expenses.

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11. Financial Instruments and Risk Management

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

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

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

Credit Risk

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

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

The carrying amount of cash, accounts receivable and deposits represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at June 30, 2014 and did not provide for any doubtful accounts. As at June 30, 2014, there were no significant amounts past due or impaired.

Commodity Price Risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and the level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. All of the Company's oil production is sold at spot rates exposing the Company to the risk of price movements.

The Company did not have any commodity price contracts in place as at or during the three months ended June 30, 2014.

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, 2014				Total \$
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	
Cash	8,257,758	-	-	-	8,257,758
Amounts receivable	1,179,707	-	-	-	1,179,707
Investment	-	-	431,147	-	431,147
Accounts payable and accrued liabilities	(760,946)	-	-	-	(760,946)

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11. Financial Instruments and Risk Management (continued)

Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that future cash flows, net income and comprehensive income will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum sales are denominated in United States dollars and operational and capital activities related to the Company's properties are transacted primarily in New Zealand dollars and/or United States dollars with some costs also being incurred in Canadian dollars.

The Company currently does not have significant exposure to other currencies and this is not expected to change in the foreseeable future as the work commitments in New Zealand are expected to be carried out in New Zealand and to a lesser extent, in United States dollars.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash which bears a floating rate of interest. The risk is not considered significant.

The Company did not have any interest rate swaps or financial contracts in place during the three months ended June 30, 2014 and any variations in interest rates would not have materially affected net income.

Fair Value of Financial Instruments

Financial instruments are classified into one of the following four categories: fair value through profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	June 30, 2014 \$	March 31, 2014 \$
Cash	FVTPL	8,257,758	12,273,810
Amounts receivable	Loans and receivables	1,179,707	1,872,614
Investment	Available-for-sale	431,147	718,445
Accounts payable and accrued liabilities	Other liabilities	(760,946)	(3,278,683)
Due to joint venture partner	Other liabilities	-	(479,513)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

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11. Financial Instruments and Risk Management (continued)

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for amounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The fair value of cash and investment under the fair value hierarchy is measured using Level 1 inputs.

12. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain development of the business. The Company defines capital that it manages as share capital. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

13. Commitments

(a) The Company has the following commitments for capital expenditures at June 30, 2014:

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

(i) Effective August 1, 2011 the Company entered into an operating lease, expiring July 31, 2016, for the rental of an office in Vancouver, BC with a gross monthly lease payment of \$5,701 (2013 - \$5,650). See also Note 10(c).

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

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

(b) See also Note 6.

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14. Supplemental Cash Flow Information

During the three months ended June 30, 2014 and 2013 non-cash activities were conducted by the Company as follows:

	2014 \$	2013 \$
Investing activities		
Expenditures on property, plant and equipment	(291,883)	687
Expenditures on exploration and evaluation assets	<u>(10,614)</u>	<u>-</u>
	<u>(302,497)</u>	<u>687</u>
Operating activities		
Provision for decommissioning liabilities	3,268	(687)
Increase in accounts payable and accrued liabilities	<u>299,229</u>	<u>-</u>
	<u>302,497</u>	<u>(687)</u>

15. Segmented Information

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

	<u>As at June 30, 2014</u>			
	Canada \$	United States \$	New Zealand \$	Total \$
Revenues	48,811	-	1,764,113	1,812,924
Exploration and evaluation assets	-	440,275	5,620,225	6,060,500
Property, plant and equipment	525,544	-	6,719,151	7,244,695
	<u>As at March 31, 2014</u>			
	Canada \$	United States \$	New Zealand \$	Total \$
Revenues	234,689	-	4,007,147	4,241,836
Exploration and evaluation assets	-	440,275	5,666,415	6,106,690
Property, plant and equipment	550,787	-	7,405,631	7,956,418

16. Events after the Reporting Period

- (a) Subsequent to June 30, 2014 the Company repurchased 45,000 common shares of the Company under its NCIB for \$10,400.
- (b) On August 15, 2014 a demand was made by ONHYM for the release and payment of the Guarantee. The guarantee amount was released to ONHYM. However, the Company is now evaluating its legal remedies in regards to ONHYM's actions. The joint venture with ONHYM is, effectively, terminated.