EAGLEWOOD ENERGY

EAGLEWOOD ENERGY INC.

ANNUAL REPORT

DECEMBER 31, 2012

CHIEF EXECUTIVE'S MESSAGE

The 2012 year was very active from a regulatory process and commercial perspective. With the two upward revisions by Gaffney Cline to the Ubuntu resource in place, it is large enough to be a stand-alone condensate project and a potential source of gas for the domestic power market with much effort spent over the year working on alternative monetization plans for PRL 28. We have lodged applications with the PNG regulator for a gas and condensate processing facility (APPFL3) and a condensate pipeline (APL9)

In connection with the applications, we have also agreed to a memorandum of understanding with Trafigura PTE LTD, the third largest oil and oil products trader in the world, to assist with the financing of the pipeline and facilities and be the off-taker for the condensate. These licenses are strategically very important to Eaglewood. They ensure the company has an effective route to market for the liquids in the Ubuntu discovery and any other discoveries in the PPL-259 license. Assuming the applications are granted, the condensate pipeline and facilities, the proposed processing facilities will be constructed within PRL28 adjacent to the Ubuntu discovery but also close to the nearby Elevala and Ketu discoveries in PRL21. The pipeline and facilities will be sized to handle all the condensate in the eastern part of PPL 259, including the volumes in PRL 21 and any other discoveries that may be made. The proposed pipeline will have the capacity to transport up to 15,000 bpd of condensate about 70 km from the processing facility to Drimdenasuk on the Fly River, from here the condensate will be shipped to a consolidation point at the mouth of the Fly River.

Also on the regulatory front, during the year we received the instrument executed by the Minister for the PPL 258 license extension dated August 31, 2012. The license is extended for five more years, with minimal work commitments for the first two years, after which a "drill or drop" decision must be made.

The seismic program we completed in Q2 2012 over two large leads in the western part of PPL 259 was very encouraging and as a result we are conducting a follow-up program to try to convert the Herea and Nama prospects into possible drilling locations with a view to building a location and initiating drilling operations for a well in 2013, as required under the PPL 259 work commitment program. It took some time to get agreement among our partners, but we kicked off that program in the fourth quarter of 2012 with acquisition and processing completed in the first quarter of 2013. In addition, in the first quarter of 2013 we were able to acquire data over the Ekelesia lead where we had cut lines and set charges in Q2, 2012 but were unable to obtain data at the time due to rising river levels.

The Q2 seismic program also acquired data over Stanley West to provide more information to assist in the negotiation with the PRL 4 joint venture for unitization with the Stanley discovery on PRL 4. Stanley appears to be primarily contained in one of the PRL 4 blocks, but also encroaches into one of our PPL 259 blocks. Having reviewed the seismic data and publicly available information, the Company released an estimate of prospective resources in the Stanley West block of PPL 259 in a press release dated October 11, 2012.

As the operator of PPL 259 , we have engaged the PRL 4 joint venture to try to resolve the unitization issue, which is required prior to a Petroleum Development License ("PDL") being granted for the Stanley field. In August, the PRL 4 joint venture submitted a PDL application for the Stanley field and the regulator has instructed the PPL 259 and PRL 4 joint ventures to conclude a unitization agreement before any PDL license will be granted. I am pleased to report that the unitization discussions are underway and we look forward to concluding the negotiation and finalizing our equity position in this project in the coming months.

Also during the year we have been working to find appropriate partners to farm-in to our two frontier licenses PPL's 257 & 258. We established an online data room through EZ data and we saw a lot of interest from a wide range of companies. We are working towards securing a partner willing to fund an exploration well in at least one of these licenses.

Things are developing much more actively around our licenses in the forelands and the success of the recent wells and on-going operations all around us increase our strategic and resource value. PNG has always been a very prospective place to operate and increased levels of activity around the country, onshore and offshore have increased our ability to create value. As always, we thank our shareholders for their patience and support.

Brad Hurtubise
Chief Executive Officer
April 17, 2013

Management's discussion and analysis ("MD&A") of Eaglewood Energy Inc.'s (the "Company" or "Eaglewood") financial condition and results of operations should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012 and 2011 and related notes therein prepared in accordance with International Financial Reporting Standards ("IFRS"). The effective date of this MD&A is April 17, 2013.

Additional information relating to the Company is available on SEDAR at www.sedar.com and the Company's website at www.eaglewoodenergy.ca .

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements, pertaining to the following:

- capital expenditure programs;
- development of resources;
- treatment under governmental regulatory and taxation regimes;
- expectations regarding the Company's ability to raise capital;
- expenditures to be made by the Company to meet certain work commitments; and
- work plans to be conducted by the Company.

With respect to forward-looking statements listed above and contained in this MD&A, the Company has made assumptions regarding, among other things:

- the Papua New Guinea legislative and regulatory environment;
- the impact of increasing competition;
- unpredictable changes to the market prices for oil and natural gas;
- that costs related to development of the oil and gas properties in Papua New Guinea will remain consistent with historical experiences;
- anticipated results of exploration activities;
- availability of additional financing and farm-in or joint venture partners; and
- the Company's ability to obtain additional financing in a timely manner and on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in the market prices for oil and natural gas;
- uncertainties associated with estimating resources;
- geological, technical, drilling and processing problems;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- fluctuations in currency and interest rates;

- incorrect assessments of the value of acquisitions;
- unanticipated results of exploration activities;
- competition for, among other things, capital, acquisitions of reserves, equipment, undeveloped lands and skilled personnel;
- lack of availability of additional financing and farm-in or joint venture partners;
- unpredictable weather conditions; and
- other factors referred to under "Risk Factors" in the Company's annual information form for the year ended December 31, 2012, dated April 17, 2013 and filed on SEDAR.

Undue reliance should not be placed on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

COMPANY OVERVIEW

Eaglewood is an international junior oil and gas company which trades on the TSX Venture Exchange (trading symbol "EWD"). The Company's primary activity is exploration and development of its petroleum prospecting and retention licenses located in Papua New Guinea (the "PNG Licenses") which were acquired in October 2007 and December 2011. The Company has no oil and gas properties other than the PNG Licenses. Currently there is no production or reserves associated with the PNG Licenses, however, the Company has made a discovery of a gas condensate field on the PRL 28 license for which resource estimates have been disclosed.

2012 SIGNIFICANT EVENTS

- On January 24, 2012, the Company announced two farmout agreements. Each farmout is for 25% of Eaglewood's 90% participating interest in PPL 259 subject to receipt of regulatory approvals and other customary conditions. After completion of both transactions, Eaglewood would own a 40% participating interest in PPL 259 and maintain operatorship.

  To earn their respective 25% participating interests, each farmee was required to pay approximately $15.0 million, comprised of approximately USD $2.5 million on completion of the agreement for Eaglewood's sunk costs, and in addition to funding their 25% participating interests, each will pay USD $1.375 million to cover Eaglewood expenses in the upcoming PPL 259 seismic program and USD $5.0 million to cover Eaglewood expenses in the next well to be drilled in PPL-259.

- On March 14, 2012, the agreement to sell 20% of the Company's 30% participating interest in PPL 260 was completed for $7.0 million.

- On March 14, 2012 the Company released an update to the estimated contingent resources on its Ubuntu Discovery.

- On March 15, 2012, the Company purchased the back in right owned by Transeuro Energy Corp. for US $0.8 million to acquire a 10% interest in all of the Company's licenses.

- On April 11, 2012, the Company announced that for one of the two farmout agreements on PPL 259, all regulatory approvals and conditions precedent had been met, and the deal had been completed.

- On May 4, 2012, the Company announced that the farmee of 20% of the Company's 30% participating interest in PPL 260 exercised the option to purchase the remaining 10% for $3.5 million, subject to regulatory approvals.

- On June 26, 2012 the Company released an update increasing the estimated contingent resources on its Ubuntu Discovery.

- In August 2012 the Company was granted a five year extension to the PPL 258 license.

- In August 2012 the Company announced that the second of two farmout arrangements on PPL 259 for 25% participating interest failed to complete. Eaglewood will continue to hold a 65% participating interest in this license.

- In August 2012 the Company completed the sale of its final 10% participating interest in PPL 260 for US $3.5 million.

- In October 2012, Eaglewood announced that it had acquired two 2D dip seismic lines over the Stanley West feature in April 2012. Following the interpretation of these lines and a review of publicly available data released by the PRL 4 operator in respect of wells drilled in PRL 4, Gaffney Cline & Associates, an independent qualified reserves evaluator, prepared an update for the Corporation dated effective July 31, 2012 estimating resources of natural gas liquids initially in place representing approximately 10% of the publicly disclosed Stanley volumes.

- In October 2012 the Company signed a memorandum of understanding ("MOU") with Trafigura PTE LTD. Under the terms of the MOU, the two companies will work together with a view to jointly finance, construct and operate a condensate processing facility and pipeline in the Western Province of Papua New Guinea, subject to regulatory approval.

- In November 2012 the Company announced the start of a new 63 km line 2D seismic survey over Petroleum Prospecting License 259 in Papua New Guinea, in support of selecting a drilling location in 2013. The program size was subsequently increased to 67.5 km line 2D seismic which exceeds the seismic work commitment required under the terms of the license.

SUBSEQUENT EVENTS

- In March 2013, the Company completed the 2D seismic survey over Petroleum Prospecting License 259 in Papua New Guinea.

  Interpreted results will be available in April 2013. The PPL 259 joint venture is scheduled to begin work commitment drilling operations in the licence this year.

- In April, 2013 the Minister for Petroleum and Energy for Papua New Guinea ('PNG") has offered Eaglewood and Ketu Petroleum Limited ("Ketu"), a wholly owned subsidiary of Horizon Oil (Papua) Limited, Petroleum Prospecting License ("PPL") 430. The license comprises eight graticular blocks and is located immediately south of PPL 259 in the Western Province of PNG. It covers a total area of 649 square km and is 30 km south of gas and condensate discoveries Ubuntu in PRL 28 and Elevala and Ketu in PRL 21. When the license is awarded by the Minister, expected in the next month or two, Eaglewood and Ketu wil have an equal 50/50 interests in PPL 430, with Ketu nominated as the Operator.

The term of PPL 430 is six years, effective from the date of the grant. The work commitments associated with the grant in the first two years are to conduct technical studies on the license and acquire approximately 20km of seismic at a cost to the parties of no less than $1,000,000. In years three and four, contingent on the results of those studies, the parties will drill an exploration well and in years five and six, contingent on a discovery, drill a further well.

Description of PNG licenses and commitments

Each of the PNG Licenses gives the Company the right to explore for oil and natural gas on specified blocks in PNG. If exploration is successful, the Company can apply to the PNG government for either a retention license or a development license. A retention license is generally applied for if hydrocarbon reserves have been identified but additional time is required to either prepare a development plan or, if the amount of hydrocarbon reserves is not of a sufficient commercial quantity, to explore for further hydrocarbon reserves. A development license is generally applied for if hydrocarbon reserves have been discovered and production is commercially viable. Upon discovering a hydrocarbon pool, the PNG government has historically granted retention or development licenses, however, there is a risk that a retention or development license may not be granted to the Company when, or on the terms, applied for.

PPL 259

In September 2011, a five-year extension to PPL 259 was granted effective the date of the grant. Within the first two years from the date of extension of this license, the Company must, at a cost of not less than US$26,000,000 acquire 100km of 2D seismic, drill one exploration well, and conduct geological and geophysical studies. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the extension which must include drilling an appraisal well or another exploration well. Eaglewood has a 65% participating interest in this license and is the operator.

PRL 28

In December 2011, a Petroleum Retention License (PRL) was granted for the Ubuntu gas condensate discovery on PPL 259. The license was granted for five years effective the date of the grant, and during this period, the Company must undertake marketing studies with analysis of future hydrocarbon commercialization scenarios for the Ubuntu gas and gas condensate resource; undertake technical studies to (i) re-map and assess the reserves of the Ubuntu feature, focusing on an integration of the Ubuntu seismic; (ii) determine the potential for an integrated development with other nearby fields to deliver gas and/or condensate to local markets; (iii) identify landowners and required social mapping; and (iv) address other commercialization opportunities for gas/condensate. The cost of the above work is to be not less than US$350,000. Contingent on the conclusions reached on the above items and if the market warrants, the Company must then undertake engineering studies aimed at appraisal and development of gas and/or condensate delivery; perform a conventional or extended well test on Ubuntu-1; consider drilling an appraisal or development well; and undertake commercial negotiation of gas and/or condensate contracts. Eaglewood has a 40% participating interest in this license and is the operator.

PPL 257

On December 6, 2011, a five year extension to PPL 257 was granted effective the date of the grant. During the first two years of the extension, the Company must, at a cost of not less than US$500,000 integrate recently completed studies; conduct further field studies as deemed necessary; integrate seismic interpretation and structural studies; and continue farm-out talks. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the license which must include drilling one exploration well at a cost of not less than $US40,000,000, conduct post well studies and a comprehensive license review at a cost of not less than $US500,000; and provide particulars of the financial resources available to the

Company to carry out the foregoing work program. Eaglewood has a 100% participating interest in this license and is the operator.

PPL 258

In August 2012, the Company was granted a five year extension to this license effective the date of the grant. During the first two years, the Company must carry out and integrate a number of studies at a cost of not less than US$500,000; in the third and fourth year, the Company must drill one exploration well with a second well required in year five at a cost of not less than US$15,000,000 per well. Eaglewood has a 100% participating interest in this license and is the operator.

The PNG government retains the right to back-in for up to a 22.5 % interest at cost which can be exercised at the time a development license is granted. The PNG government also has a 2 % royalty over any oil or natural gas production that may occur with respect to the PNG Licenses.

The Company has issued bank guarantees totaling approximately $225,000 (100,000 Papua New Guinea kina for each license) as security against the capital requirements associated with the PNG Licenses. If the Company does not fulfill its commitments under a PNG License and has not applied for and been granted an extension, it could potentially lose its guarantee and the applicable PNG License could be revoked by the PNG government.

As the Company does not currently generate sufficient cash flow from operating activities to fund its activities, it will need to raise equity financing and/or enter into joint venture or farm-out arrangements to finance its exploration commitments for the PNG Licenses.

SELECTED ANNUAL INFORMATION

The following is a summary of selected financial information for the Company for the periods indicated:

($000's except per share data)	**Year ended December 31,**	
	2012	**2011**
Net finance (loss) income	**(115)**	**(158)**
Gain (loss) before discontinued operations	**806**	**(4,937)**
Net gain (loss)	**806**	**(4,937)**
Gain (loss) per share before discontinued operations	**0.01**	**(0.06)**
Total loss per share	**0.01**	**(0.06)**
Total assets	**61,187**	**64,305**

RESULTS OF OPERATIONS

The Company had net income of $806,236 and loss of $4,937,387 for the years ended December 31, 2012 and 2011, respectively.

In 2012, the Company recorded camp rental revenues of $106,313 (2011 – nil)

Total expenses for the year ended December 31, 2012 were $2,104,763 compared to $4,779,327 recorded in 2011.

In 2012 the Company recorded a gain on sale of exploration and evaluation assets of $2,919,963 related to the sale of the Company's 30% participating interest in PPL 260.

Also in 2012, the Company reversed the impairment of $1,402,317 on exploration and evaluation assets taken in 2011. The reversal of the impairment is a result of receiving a five year extension on PPL 258, which had previously been written off.

The Company's most significant expenses were as follows:

	Year ended December 31,	
	2012	**2011**
Impairment (reversal) of exploration and evaluation assets	**($1,402,317)**	**$1,402,317**
General and administrative expenses	**3,184,270**	**3,218,118**
Operating expenses	**140,278**	**-**
Depletion, depreciation and amortization	**182,532**	**158,892**
Total expenses	**$2,104,763**	**$4,779,327**

The following table provides a breakdown of the Company's general and administrative ("G&A") expenses by material component:

	Year ended December 31,	
	2012	2011
Salaries & wages	**$1,371,389**	$1,447,606
Stock based compensation	**503,669**	763,039
Professional fees	**245,747**	304,365
Office costs	**315,098**	293,721
Travel & accommodation	**264,346**	252,523
Public company	**105,680**	129,346
Bad debt expense	**9,820**	101,188
Office rent	**104,265**	80,315
Other general and administrative	**178,702**	73,744
Consulting	**279,811**	72,150
Overhead recoveries	**(194,257)**	(299,879)
	$3,184,270	$3,218,118

The G&A expenses for the year ended December 31, 2012 are slightly lower than the previous year. Salaries and wages decreased $76,217 over the prior year. In April 2012, the Company completed a 25% farm-out of PPL 259. The farmee must pay its proportionate share of all costs incurred during 2012, including the salaries and wages incurred in Australia and PNG. In addition, the staff complement was decreased by two administrative staff members in early 2012, resulting in additional savings over the previous year.

Stock based compensation decreased $259,000 over the prior year, The cost of stock based compensation in 2012 is substantially lower than 2011 due to the lower volume of options granted in 2012 and the lower value at which the options were granted.

Professional fees decreased $59,000 in 2012 when compared to 2011 caused by higher legal fees incurred primarily in conjunction with the failure to complete the additional PPL 259 farm-in; various joint venture issues and in the collection of funds owed to the Company offset by lower accounting/audit fees in 2012 compared to 2011 resulting from the 2011 conversion to IFRS.

Public company expenses decreased by $24,000 over the prior year due to lower fees paid to SEDAR and the TSXV in 2012.

A bad debt expense of $101,000 was recognized in 2011 for credit notes due from a vendor in PNG, from which collection is doubtful.

Office rent was higher by $24,000 in 2012 over 2011 due to an adjustment made in the fourth quarter of 2011 that reduced the office rent in PNG by $25,000 to adjust for 2009 & 2010 over accruals.

Other general and administrative costs increased by $105,000 in 2012 compared to 2011. This increase is primarily related to operating insurance as a result of a general tightening of market conditions plus additional suspended well insurance for Ubuntu-1.

Consulting fees were $208,000 higher in the year ended December 31, 2012 than for the comparative periods in December 31, 2011. For the year, the Company spent $92,000 on consulting fees related to preparing further engineering work on PPL 259 area development options, compared to nil for the previous year. The Company also incurred $50,000 in financial advisory service fees; and $43,000 in geological consulting fees, which were not incurred in 2011.

For the year ended December 31, 2012, overhead recoveries were approximately $106,000 lower than in 2011. Overhead recoveries are a function of joint operations and capital expenditures. Pursuant to the Joint Operating Agreement for PPL 259 and PRL 28, the Company recovers a percentage of the capital expenditures as compensation for the indirect services provided to the Joint Venture. In 2011 the capital expenditures were $11.3M. Most of these expenditures were in PRL 28, in which the joint venture partners hold a 60% participating interest. In 2012 the capital expenditures were $2.2M.

SELECTED QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company for the periods indicated:

($000's except per share data)	Dec 31 2012	Sep 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011
Revenue	28	60	18	-	-	-	-	-
Income (loss) before discontinued operations	(1,892)	3,987	(673)	(616)	(745)	(983)	(2,577)	(632)
Net income (loss)	(1,892)	3,987	(673)	(616)	(745)	(983)	(2,577)	(632)
Income (loss) per share before discontinued operations	(0.02)	0.05	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.01)
Total income (loss) per share	(0.02)	0.05	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.01)
Total assets	61,186	62,008	61,594	58,848	64,305	62,828	62,202	66,585

- The Company currently has no oil or gas production to offset its expenses. The Company's expenses are described more fully in RESULTS OF OPERATIONS.
- The Company's main assets are petroleum and natural gas properties and cash.

FINANCIAL CONDITION

At December 31, 2012, the Company had total assets of $61.2 million compared to $64.3 million at December 31, 2011. The decrease in assets was mainly due to the sale of the Company's 30% interest in PPL 260 and the farmout of a 25% interest in PPL 259 which reduced exploration assets by $9.1 million.

Further net investment in exploration assets of $2.7 million, a $1.4 million reversal of exploration asset impairment and an increase in cash of $4.1 million resulting from the asset disposals, partially offset the disposal of exploration assets.

The Company does not currently generate sufficient cash flow from its operating activities to fund its activities and has relied upon contributions from farm-outs and the issuance of equity to provide additional funding. The Company's financial statements are presented on a going-concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to continue as a going concern is dependent upon its ability to raise equity financing and/or enter into and complete joint venture or farm-out arrangements in the PNG Licenses to meet its exploration commitments and working capital requirements.

Management believes there is the opportunity for the Company to enter into further farm-out or joint venture arrangements, complete existing farm-out arrangements and/or raise further equity in 2013 if required to continue as a going concern. However, there are no assurances that the Company will be successful in achieving these objectives. If the Company is unable to raise equity financing and/or secure farm-out or joint venture partners, the Company may be unable to continue as a going concern. The Company's financial statements do not reflect the adjustments to the carrying values of assets and liabilities, including any impairment in its petroleum and natural gas properties, and the reported expenses and balance sheet classifications that would be necessary if the Company is unable to continue as a going concern, and such adjustments could be material.

LIQUIDITY

At December 31, 2012, the Company had net working capital of $10.0 million compared to net working capital of $2.7 million at December 31, 2011. The increase in working capital is mainly due to the proceeds of the farm-out agreements on PPL 260 and PPL 259, and a lower accounts payable balance.

Funds used in operations for 2012 were $2.8 million.

Funds provided by investing activities for 2012 were $7.0 million. Funds used for the addition of exploration and evaluation assets totaled $2.7 million, which were offset by the proceeds of the PPL 260 disposition and PPL 259 farm-out of $12.8 million. The change in working capital is related to an increase in accounts receivable of $0.04 million and a decrease in accounts payable of $3.2 million.

CAPITAL EXPENDITURES

A summary of capital expenditures for the year is provided below.

PPL 259 – Seismic program and technical studies	$ 1,603,219
Purchase of Transeuro back-in right	798,403
Overhead	208,617
Other	55,312
Total exploration and evaluation assets	2,665,551
Office equipment, furniture, computer equipment	2,945
Total capital expenditures	$ 2,668,496

2013 WORK PROGRAM AND OUTLOOK

2013 Work Program
The Company's 2013 work program is primarily based on meeting its PNG License commitments. In order to fund this work program, the Company is in discussions with industry partners to enter into further joint venture or farm-out arrangements in the PNG Licenses.

PPL 259
The 2013 work program for PPL 259 comprises a 2D seismic survey in support of selecting a drilling location in 2013. The seismic survey will include a 67.5 line km shoot over the western portion of the license area, primarily focused on high-grading the Herea and Nama Leads delineated by seismic acquired in April 2012, as well as two exploration lines over the Ekelesia Lead. A second phase of seismic data acquisition will be considered following the analysis of results from this first phase. Eaglewood's 65% share of these costs are estimated to be US $3.3 million. In the event a drilling location is located, Eaglewood expects to begin the preparation of a rig location this year. Eaglewood's 65% share of the site preparation costs are expected to be $1.3 million. Finally, dependent on the results of the Stanley pool unitization process of the Stanley pool Eaglewood will be required to pay its share of the development sunk costs to date, as well as development costs going forward. Eaglewood's share of these costs is not known at this time.

PRL 28
The 2013 work program for PRL 28 will include technical and commercial studies that support the development of the Ubuntu Discovery. In addition, the Company will continue to maintain and secure the inventory remaining from the Ubuntu-1 well, as well as the Ubuntu-1 location and wellhead. Eaglewood's share of these costs are expected to be approximately US $127,200.

PPL 257
The 2013 work program for PRL 257 will include field studies and study integration work, at a cost expected to be approximately US $250,000.

PPL 258:
The 2013 work program for PPL 258 will include integration of a number of studies at a cost of approximately US $100,000.

As a result of the nature of the petroleum and natural gas exploration, development and exploitation industry, budgets are regularly reviewed with respect to both the success of expenditures and other opportunities that become available. Accordingly, while it is currently intended by management of the Company that the general expenditures set out in the work program above will be made by the Company, actual expenditures may in fact differ from these plans, amounts and allocations.

Additionally, completion of activities are subject to potential barriers such as, but not limited to, lack of capital, lack of available equipment and poor weather which may impact the timing and duration of operations. Additional risk factors are disclosed in the Company's Annual Information Form dated April 17, 2013 which is available on SEDAR at www.sedar.com.

OUTSTANDING SHARE DATA

As at April 17, 2013, the Company had 87,368,942 common shares outstanding and 8,526,000 stock options outstanding under its stock option plan. The Company also had 6,200,000 performance warrants outstanding.

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2012, the Company paid $85,553 (2011 - $103,505) for legal services to a firm of which an officer of the Company is a partner.

For the year ended December 31, 2012, the Company paid $12,000 (2011 - $12,000) in management fees to a company controlled by a director. These fees were paid for administrative services which were provided by the director.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company is a venture issuer that has not had significant revenue from operations in either of its last two financial years. In accordance with National Instrument 51-102, additional disclosure on material costs is presented below.

	Year ended December 31,	
	2012	**2011**
General and administrative:		
Salaries & wages	**$1,371,389**	**$1,447,606**
Stock based compensation	**503,669**	**763,039**
Professional fees	**245,747**	**304,365**
Office costs	**315,098**	**293,721**
Travel & accommodation	**264,346**	**252,523**
Public company	**105,680**	**129,346**
Bad debt expense	**9,820**	**101,188**
Office rent	**104,265**	**80,315**
Consulting	**178,702**	**72,150**
Other general and administrative	**279,811**	**73,744**
Overhead recoveries	**(194,257)**	**(299,879)**
Total general and administrative	**3,184,270**	**$3,218,118**
Capitalized exploration and development costs	**($2,159,500)**	**$11,274,945**

Eaglewood Energy Inc.
Consolidated financial statements and notes
As at December 31, 2012 and for the year ended December 31, 2012 and 2011

Independent Auditor's Report

To the Shareholders of
Eaglewood Energy Inc.

We have audited the accompanying consolidated financial statements of Eaglewood Energy Inc, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statement of loss and comprehensive loss, changes in equity, cash flow for the years then ended, and the related notes, which comprise 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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eaglewood Energy Inc. as at December 31, 2012 and December 31, 2011 its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
April 17, 2013

Eaglewood Energy Inc.
Consolidated Balance Sheets
Canadian Dollars

As at		**December 31, 2012**		December 31, 2011
ASSETS				
Current Assets				
Cash and cash equivalents (note 6)	**$**	**10,703,552**	$	6,586,499
Accounts receivable (note 7)		**127,811**		169,951
Prepaid expenses		**13,161**		13,560
		10,844,524		6,770,010
Property, plant and equipment (note 8)		**192,629**		260,674
Exploration and evaluation assets (note 9)		**50,149,124**		57,274,782
TOTAL ASSETS	**$**	**61,186,277**	$	64,305,466
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities (note 10)	**$**	**817,905**	$	4,026,553
Asset retirement obligation (note 11)		**1,913,367**		1,799,739
TOTAL LIABILITIES		**2,731,272**		5,826,292
Shareholders' Equity				
Share capital		**70,505,987**		72,117,067
Contributed surplus		**4,900,301**		4,327,461
Accumulated other comprehensive income		**539,950**		332,115
Deficit		**(17,491,233)**		(18,297,469)
TOTAL SHAREHOLDERS' EQUITY		**58,455,005**		58,479,174
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**61,186,277**	$	64,305,466

Contingencies and commitments (note 21)

Approved by the Board of Directors

"signed"
Ray Antony, Director and Chairman

"signed"
Stan Grad, Director

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

Eaglewood Energy Inc.
Consolidated Statements of Loss and Comprehensive Loss
Canadian Dollars

	For the year ended,	
	December 31, 2012	December 31, 2011
Revenue		
Operating revenue	**$ 106,313**	$ -
Expenses		
General and administrative expenses (note 13)	**$ (3,184,270)**	$ (3,218,118)
Operating expenses	**(140,278)**	-
Depletion, depreciation and amortization	**(182,532)**	(158,892)
Reversal (impairment) of exploration and evaluation assets (note 9)	**1,402,317**	(1,402,317)
Total expenses	**(2,104,763)**	(4,779,327)
Gain on sale of exploration and evaluation assets (note 9)	**2,919,964**	-
Results from operating activities	**921,514**	(4,779,327)
Finance income	**12,753**	26,571
Finance expense	**(128,031)**	(184,631)
Net finance (expense) income (note 15)	**(115,278)**	(158,060)
Net income (loss) for the year	**806,236**	(4,937,387)
Other comprehensive income		
Foreign currency translation adjustment	**207,835**	(261,401)
Total comprehensive income (loss) for the year	**$ 1,014,071**	$ (5,198,788)
Income (loss) per share – basic and diluted (note 16)	**$ 0.01**	$ (0.06)
Weighted average common shares – basic and diluted	**87,344,681**	87,090,339

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

Eaglewood Energy Inc.
Consolidated Statements of Changes in Equity
Canadian Dollars

	Number of common shares	Share capital	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total equity
Balance at December 31, 2011	87,248,942	$ 72,117,067	$ 4,327,461	$ 332,115	$ (18,297,469)	$ 58,479,174
Total comprehensive loss for the year:						
Income for the year					806,236	806,236
Other comprehensive income:						
Foreign currency translation				207,835		207,835
Total comprehensive income for the year				207,835	806,236	1,014,071
Share based payments			683,753			683,753
Options exercised	120,000	22,349	(10,349)			12,000
Total transactions	120,000	22,349	673,404			695,753
Translation differences		(1,633,429)	(100,564)			(1,733,993)
Balance at December 31, 2012	87,368,942	$ 70,505,987	$ 4,900,301	$ 539,950	$ (17,491,233)	$ 58,455,005

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

Eaglewood Energy Inc.
Consolidated Statements of Changes in Equity

Canadian Dollars

	Number of common shares	Share capital	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total equity
Balance at January 1, 2011	86,238,942	$ 70,174,886	$ 3,175,660	$ 593,516	$ (13,360,082)	$ 60,583,980
Total comprehensive loss for the year:						
Loss for the year					(4,937,387)	(4,937,387)
Other comprehensive income:						
Foreign currency translation				(261,401)		(261,401)
Total comprehensive income (loss) for the year				(261,401)	(4,937,387)	(5,198,788)
Issue of common shares	710,000	532,500				532,500
Share issue costs		(54,364)				(54,364)
Share based payments			1,076,787			1,076,787
Options exercised	300,000	49,322	(19,322)			30,000
Total transactions	1,010,000	527,458	1,057,465			1,584,923
Translation differences		1,414,723	94,336			1,509,059
Balance at December 31, 2011	87,248,942	$ 72,117,067	$ 4,327,461	$ 332,115	$ (18,297,469)	$ 58,479,174

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

Eaglewood Energy Inc.
Consolidated Statements of Cash Flow
Canadian Dollars

				For the year ended,
		December 31, 2012		December 31, 2011
Cash flows related to the following activities:				
Operating activities				
Net Income (loss)	**$**	**806,236**	$	(4,937,387)
Adjustments for:				
Gain on sale of exploration and evaluation assets		**(2,919,964)**		-
(Reversal of) impairment of exploration and evaluation assets		**(1,402,317)**		1,402,317
Stock-based payments		**503,669**		763,039
Depletion, depreciation and amortization		**182,532**		158,892
Accretion of asset retirement obligation		**42,796**		49,531
Finance income		**(12,753)**		(26,571)
		(2,799,801)		(2,590,179)
Investing activities				
Additions to exploration and evaluation assets		**(2,665,551)**		(10,634,610)
Additions to property, plant and equipment		**(2,945)**		(34,121)
Proceeds from farm-out		**12,843,865**		-
Release of letter of credit		**-**		2,749,725
Finance income		**12,753**		26,571
Changes in non-cash working capital (note 17)		**(3,166,109)**		3,777,535
		7,022,013		(4,114,900)
Financing activities				
Issue of common shares		**12,000**		562,500
Share issue costs		**-**		(54,364)
		12,000		508,136
Net (decrease) increase in cash		**4,234,212**		(6,196,943)
Cash and cash equivalents, beginning of year		**6,586,499**		12,858,739
Effect of exchange rate change on cash and cash equivalents		**(117,159)**		(75,297)
Cash and cash equivalents, end of year	**$**	**10,703,552**	$	6,586,499

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

1. Nature of operations

Eaglewood Energy Inc. (collectively with its subsidiary, the "Company" or "Eaglewood") is a development stage enterprise whose primary activity is exploration of its Papua New Guinea ("PNG") licenses. Eaglewood is incorporated and domiciled in Canada. The address of its registered office is Suite 602, 304 – 8 Ave. SW, Calgary, Alberta. The Company has commenced exploration drilling activities but does not have any production revenue at this time.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Eaglewood Energy (BVI) Ltd., which was incorporated on July 4, 2007.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements were authorized for issue by the Board of Directors on April 17, 2013.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company and its subsidiary to all periods presented in these consolidated financial statements.

(a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(b) Revenue

The recorded revenue is for rental services of a field camp in PNG. Revenue is recognized at the fair value of the consideration received or receivable. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity. Rental income is recognized on an accruals basis in accordance with the substance of the relevant agreements.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Jointly controlled operations and jointly controlled assets

Some of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the Eaglewood group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. The functional currency of the Company is the US dollar.

The financial statements of entities are translated into Canadian dollars as follows: assets, liabilities, and equity (with the exception of deficit) – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in profit or loss.

(e) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the profit or loss. Gains and losses arising from changes in fair value are presented in the profit or loss within other gains and losses in the period in which they arise. The Company currently has no financial assets and liabilities at fair value through profit or loss.

(ii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. The Company currently has no available-for-sale investments.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(v) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term deposits that are redeemable at any time without penalty.

(g) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in profit or loss as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by licenses pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a mineral resource is considered determinable when proven reserves are determined to exist and a production development license is applied for. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property, plant and equipment, referred to as petroleum and natural gas properties.

Development and production costs

Items of property, plant and equipment, which include petroleum and natural gas properties, will be measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets will be grouped into CGU's for impairment testing. When significant parts of an item of property, plant and equipment, including petroleum and natural gas properties, having different useful lives, they will be accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas properties, will be determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and will be recognized net within "other income" or "other expenses" in profit or loss.

(ii) Farm-outs

Exploration and evaluation assets are reduced for the amount of cash received from the farm-outs. No gain or loss is recognized on this transaction.

(iii) Depletion and depreciation

The net carrying value of development or production assets will be depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates will be reviewed by independent reserve engineers at least annually.

For other assets, depreciation is recognized in profit or loss on a declining balance basis as follows:

Office furniture and equipment	20%
Computer equipment	30%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(h) Asset retirement obligation

The Company recognizes the fair value of a liability for an asset retirement obligation ("ARO") in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The liability is subsequently adjusted for the passage of time and is recognized as an accretion expense in the consolidated statement of operations. The fair value of the obligation is periodically adjusted for revisions in either the risk-free rate, timing or the amount of the original estimated cash flows associated with the liability. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimates on a site by site basis. The asset is amortized on a straight-line basis, over the life of the asset.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment, as petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Exploration and evaluation assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (petroleum and natural gas properties in property, plant and equipment).

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(j) Share based payment

The grant date fair value of options granted to employees is expensed to general and administrative expenses or capitalized in the same manner in which the salaries for the related employees are treated, with a corresponding increase in contributed surplus over the vesting period based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black Scholes option pricing model.

(k) Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

(l) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. The unwinding of the discount is recognized as a finance cost.

(m) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

(n) Earnings per share

Basic loss per share figures are calculated using the weighted average number of shares outstanding during the period. The dilutive effect of options are computed using the treasury stock method and the effect of convertible bonds by the “if converted” method. Dilutive amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

4. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements:

(a) Valuation of exploration and evaluation assets

The recoverability of exploration and evaluation asset costs is proven when sufficient data exists to determine technical feasibility and commercial viability of extracting a mineral resource.

(b) Valuation of asset retirement obligations

Amounts recorded for asset retirement costs and obligations requires the use of estimates with respect to the amounts and timing of asset retirements, site remediation and the related cash flows.

(c) Measurement of share based payments

The fair value of share based payments is based on significant estimates such as volatility, dividend yield and expected term.

5. New and amended accounting standards

Standards issued but not yet effective up to the date of issuance of the Company’s financial statements are listed below. The listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company has yet to assess the full impact of these standards.

As of January 1, 2015, the following standard issued by the IASB becomes effective:

- IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The impairment and hedge accounting principles to be included in IFRS 9 have not yet been issued by the IASB.

- IFRS 10 "Consolidated Financial Statements" outlines a new methodology to determine whether to consolidate an investee. This new standard becomes effective for annual periods beginning on or after January 1, 2013. Eaglewood believes the adoption of this standard will have no material impact on its financial statements.

- IFRS 11 "Joint Arrangements" outlines the accounting treatment for joint arrangements, notably joint operations which will follow the proportionate consolidation method and joint ventures which will follow the equity accounting method. This new standard becomes effective for annual periods beginning on or after January 1, 2013. Eaglewood is currently assessing the impact of this standard.

- IFRS 12 "Disclosure of Interests in Other Entities" outlines disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. These disclosure requirements are required for annual periods beginning on or after January 1, 2013. Eaglewood is currently assessing the impact of this standard.

- IFRS 13 "Fair Value Measurement" defines fair value, provides guidance on measuring fair value and outlines disclosure requirements for fair value measurement. This standard applies when another IFRS standard requires fair value measurements or disclosures, with some exceptions including IFRS 2 "Share based payments" and IAS 17 "Leases". This new standard is applicable for annual periods beginning on or after January 1, 2013. Eaglewood is currently assessing the impact of this standard.

6. Cash and cash equivalents

	December 31, 2012	**December 31, 2011**
Bank balances	**$ 10,703,552**	**$ 6,586,499**
Term deposits	**-**	**-**
Cash and cash equivalents	**$10,703,552**	**$ 6,586,499**

7. Accounts receivable

	December 31, 2012	**December 31, 2011**
Accounts receivable	**$ 379,552**	**$ 472,473**
Less: allowance for doubtful accounts	**(251,741)**	**(302,522)**
Accounts receivable – net	**$ 127,811**	**$ 169,951**

At December 31, 2012, the accounts receivable balance of $127,811 was mainly made up from joint venture receivables

8. Property and equipment

Cost:		Office Equipment & Vehicles
Balance at December 31, 2010	$	390,377
Additions		34,121
Foreign currency translation		5,285
Balance at December 31, 2011		429,783
Additions		2,945
Foreign currency translation		(5,754)
Balance at December 31, 2012	**$**	**426,974**

Depreciation and impairment losses:		Office Equipment & Vehicles
Balance at December 31, 2010	$	92,272
Depreciation		76,837
Balance at December 31, 2011		169,109
Depreciation		65,236
Balance at December 31, 2012	**$**	**234,345**

Carrying amounts:		Office Equipment & Vehicles
At December 31, 2011	$	260,674
At December 31, 2012	**$**	**192,629**

9. Exploration and evaluation assets

Cost:		
Balance at December 31, 2010	$	46,136,943
Additions		11,274,945
Foreign currency translation		1,347,266
Balance at December 31, 2011		58,759,154
Cash Additions		2,781,343
Farm in proceeds		(9,923,901)
Foreign currency translation		(1,268,120)
Balance at December 31, 2012	**$**	**50,348,475**

Amortization and impairment losses:		
Balance at December 31, 2010	$	-
Impairment		1,402,317
Amortization		82,055
Balance at December 31, 2011	$	1,484,372
Reversal of impairment		(1,402,317)
Amortization		117,296
Balance at December 31, 2012	**$**	**199,351**

Carrying amounts:		
At December 31, 2011	$	57,274,782
At December 31, 2012	**$**	**50,149,124**

During the year ended December 31, 2011, the Company recorded impairment of $1.4M related to PPL 258. On March 18, 2010, the Company submitted a request for a five year extension of the license upon its expiry in October 2010. The Petroleum Advisory Board ("PAB") deliberated on the extension application but had not made a recommendation on an extension of the license. Based on the lack of a recommendation from the PAB, the Company decided to impair the asset.

On August 31, 2012, the Company received a five year extension to its PPL 258 license. The costs incurred on this license had been previously impaired due to delays receiving the extension. With the granting of the extension the previous impairment was reversed.

Included in exploration and evaluation assets is $1,746,619 (as at December 31, 2011 - $1,624,179) of capitalized general and administrative expenses related to exploration activities.

In March 2012, the Company completed the farm-out agreement of 20% of its 30% participating interest in PPL 260. In August 2012, the Company completed the sale of its final 10% participating interest in this license. The proceeds of these sales were $10.6 million, which resulted in a gain on the sale of these exploration and evaluation assets of $2.9 million.

On April 11, 2012, the Company announced the completion of the farm-out agreement for 25% of its 90% participating interest in PPL 259, which included reimbursement of $2.3 million in sunk costs.

10. Accounts payable

	December 31, 2012	December 31, 2011
Accounts payable	**$ 387,435**	$ 556,118
PPL 260 farm-in deposit	**-**	2,112,361
Payables to related parties (note 20)	**2,235**	15,059
Accrued expenses	**428,235**	1,343,015
Accounts payable and accrued liabilities	**$ 817,905**	$ 4,026,553

11. Asset retirement obligation

Balance at December 31, 2010	$	1,394,059
Change in risk-free rate		326,640
Accretion		49,531
Total before translation difference		1,770,230
Translation difference		29,509
Balance at December 31, 2011		1,799,739
Change in risk-free rate		111,961
Accretion		42,496
Total before translation difference		1,954,196
Translation difference		(40,829)
Balance at December 31, 2012	**$**	**1,913,367**

The Company's asset retirement obligations result from its ownership interest in petroleum and natural gas properties. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the asset retirement obligations to be $1,913,367 as at December 31, 2012 (December 31, 2011 - $1,799,739) based on an undiscounted total future liability of $2,696,865 (December 31, 2011 - $2,696,865). These payments are expected to occur in 2027 or 2028. The discount factor, being the risk-free rate, is 2.30% at December 31, 2012 (2011 – 2.70%).

12. Share capital

(a) Authorized
The Company is authorized to issue an unlimited number of common shares and preferred shares.

(b) Stock options
The Company has a stock option plan for directors, officers, employees and consultants. Under the Company's stock option plan, the Company may grant options of up to 10% of the issued and outstanding common shares. The plan is administered by the Board of Directors. In accordance with the policies of the TSX Venture Exchange, the option exercise price, when granted, is based on the last closing price of the Company's shares on the TSX-V prior to the grant, subject to a permitted discount. Options granted under the plan have an exercise period not exceeding ten years. The vesting period is determined at the time of grant at the discretion of the Board of Directors.

The Company had stock options outstanding to acquire common shares as follows:

	Weighted average remaining life (years)	Number of options		Weighted average exercise price
Balance, December 31, 2010	**3.26**	**5,946,000**	**$**	**0.77**
Granted		950,000		0.26
Exercised		(300,000)		0.10
Cancelled		(150,000)		1.36
Forfeited		(650,000)		1.24
Balance, December 31, 2011	**2.73**	**5,796,000**	**$**	**0.66**
Granted		2,850,000		0.30
Exercised		(120,000)		0.10
Balance, December 31, 2012	**2.60**	**8,526,000**	**$**	**0.55**

The following table summarizes the stock options outstanding at December 31, 2012:

Range of exercise prices	Options outstanding	Weighted average exercise price	Options exercisable	Weighted average remaining life (years)
$0.10 - $0.50	5,186,000	0.24	1,436,000	3.31
$0.51 - $1.00	1,865,000	0.78	1,370,000	1.54
$1.01 - $1.50	1,100,000	1.21	1,100,000	1.14
$1.50 - $1.64	375,000	1.64	375,000	2.33
	8,526,000	**0.55**	**4,281,000**	**2.60**

The fair value of the stock options granted during the year ended December 31, 2012 for which the exercise price was equal to the share's market price was estimated at $687,508 (2011 - $202,514). These amounts will be recognized as stock based compensation expense over the vesting period of the options.

(c) Performance warrants

In 2008, the Company granted performance warrants to certain employees. The performance warrants entitle the employees to purchase an equivalent number of common shares of the Company if the common shares close at or above pre-determined prices for specified periods of time. The performance warrants vest in four equal tranches over a two year period and expire three years from the date of grant. Certain of these warrants have been extended for a further two years and will expire in November 2013. The exercise price of the performance warrants escalates with each tranche and ranges from $0.75 to $1.75.

	Number of warrants		**Weighted average exercise price**
Balance, December 31, 2010	**7,800,000**	**$**	**1.19**
Expired	(1,600,000)		1.19
Balance, December 31, 2011 and December 31, 2012	**6,200,000**	**$**	**1.19**

Exercise price	**Warrants outstanding**	**Warrants exercisable**
$0.75	1,550,000	1,550,000
$1.00	1,550,000	1,550,000
$1.25	1,550,000	1,550,000
$1.75	1,550,000	-
	6,200,000	**4,650,000**

(d) Share-based payments

The fair value of common share options and performance warrants granted is estimated on the date of grant and is recognized over the vesting period, using the Black Scholes Model.

		Year ended,
	December 31, 2012	December 31, 2011
Weighted average fair value of stock options granted (per option)	**$0.24**	$0.21
Weighted average fair value of performance warrants granted	**n/a**	n/a
Expected life of stock options	**4 years**	4 years
Expected life of performance warrants	**n/a**	n/a
Expected volatility	**128%**	132% to 141%
Risk-free rate of return	**1.34%**	1.59% to 2.52%
Dividend yield	**Nil**	Nil

A forfeiture rate of 4.5% (December 31, 2011 – 6%) is used when recording share-based payments. This estimate is adjusted to the actual forfeiture rate. The stock based compensation expense related to the stock options for the year ended December 31, 2012 was $683,753 (2011 - $1,076,787), of which $180,084 (2011 – $313,748) has been capitalized.

13. General and administrative expenses by nature

				Year ended,
		December 31, 2012		December 31, 2011
Salaries & wages	**$**	**1,371,389**	$	1,447,606
Stock based compensation		**503,669**		763,039
Professional fees		**245,747**		304,365
Office costs		**315,098**		293,721
Travel & accommodation		**264,346**		252,523
Public company		**105,680**		129,346
Bad debt expense		**9,820**		101,188
Office rent		**104,265**		80,315
Other general and administrative		**178,702**		73,744
Consulting		**279,811**		72,150
Overhead recoveries		**(194,257)**		(299,879)
Total general & administrative expenses	**$**	**3,184,270**	$	3,218,118

14. Personnel expenses

The aggregate payroll expense of employees and executive management was as follows:

				Year ended,
		December 31, 2012		December 31, 2011
Salaries & wages	**$**	**1,583,096**	$	2,081,543
Benefits and other personnel costs		**86,095**		88,984
Share based payments		**683,753**		1,076,787
Total employee remuneration		**2,352,944**		3,247,314
Capitalized portion of remuneration		**(477,886)**		(1,036,669)
Total personnel expenses	**$**	**1,875,058**	$	2,210,645

15. Finance income and expenses

				Year ended,
		December 31, 2012		December 31, 2011
Finance income:				
Interest income	**$**	**12,753**	$	26,571
		12,753		26,571
Finance expenses:				
Net foreign exchange loss		**(73,986)**		(121,720)
Asset retirement obligation accretion		**(42,796)**		(49,331)
Bank fees		**(11,249)**		(13,580)
		(128,031)		(184,631)
Net finance (expense) income	**$**	**(115,278)**	$	(158,060)

16. Earnings per share

Basic loss per share figures is calculated using the weighted average number of shares outstanding during the period. The dilutive effect of options is computed using the treasury stock method and the effect of convertible bonds by the “if converted” method. Dilutive amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share for 2012 and 2011.

The earnings and weighted average number of common shares used in the calculation of basic earnings per share are as follows:

	2012	2011
Gain (loss) for the year attributable to owners of the Company	$ 806,236	$ (4,937,387)
Weighted average number of common shares for the purposes of basic earnings per share (all measures)	87,344,681	87,090,339

17. Supplementary cash flow information

The following table details the components of change in non-cash working capital:

		Year ended,
	December 31, 2012	December 31, 2011
Provided by (used in):		
Accounts receivable	$ 42,140	$ 9,967,413
Prepaid expenses	399	8,167
Accounts payable and accrued liabilities	(3,208,648)	(6,198,045)
	$ (3,166,109)	$ 3,777,535

18. Financial instruments and risk management

Measurement categories

Financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income (see note 3). The following table shows the carrying values of assets and liabilities for each of the categories at December 31, 2012 and 2011.

	December 31, 2012	December 31, 2011
ASSETS		
Loans and receivables		
Cash and cash equivalents	$ 10,703,552	$ 6,586,499
Accounts receivable	127,811	169,951
	$ 10,831,363	$ 6,756,450
LIABILITIES		
Amortized costs		
Accounts payable	$ 817,905	$ 4,026,553

Fair values, including valuation methods and assumptions

The carrying amounts of financial instruments comprising cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short term nature of these financial instruments.

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

- Level 1 – quoted market prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted market prices included in Level 1 that are observable or the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value of the financial instruments classified as held for trading (cash and cash equivalents) corresponds to a Level 1 classification.

Financial risk factors

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees managements establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit Risk
Credit risk is the risk that a third party fails to meet its contractual obligations that could result in the Company incurring a loss. The Company's accounts receivable are primarily with joint venture partners. Receivables from joint venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs.
The maximum exposure to credit risk is as follows:

	Carrying amount	
	December 31, 2012	December 31, 2011
Cash and cash equivalents	**$ 10,703,552**	$6,586,499
Restricted cash	**-**	-
Accounts receivable	**127,811**	169,951
	$ 10,831,363	$6,756,450

Cash and cash equivalents
The Company limits its exposure to credit risk by only investing in liquid securities and only with major national banks. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Accounts receivables
The majority of the Company's operations are conducted in Canada and Papua New Guinea. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

(b) Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual operating and capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure.

(c) Market risk
Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks.

(d) Foreign currency exchange risk:
The Company is exposed to risk arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to: (i) certain expenditure commitments, deposits and accounts payable which are denominated in foreign currencies including Canadian dollars, Australian dollars or Papua New Guinea kina; and (ii) its operations in Papua New Guinea.

The Company's foreign currency exchange risk arises from cash and cash equivalents and current liabilities. With a 10% strengthening or weakening of the Canadian dollar against all exchange rates, the net gain for the year ended December 31, 2012 would reduce by $0.8 million (December 31, 2011 -$0.5 million) or increase by $1.0 million (December 31, 2011 - $0.6 million).

19. Capital management

The Company's objective when managing its capital structure is to maintain adequate levels of available working capital, including cash and cash equivalents, to meet its license commitments in PNG.

The Company funds its share of expenditures of all commitments from existing cash and cash equivalent balances received primarily from fees from farming out its Licenses and issuances of shareholders' equity.

In order to maintain positive working capital, the Company may issue new shares. The Company does not currently utilize debt and is not subject to any financial covenants.

The Board of Directors regularly reviews the Company's cash and cash equivalents against the expenditure commitments and assesses the timing and need for additional equity financing. The Company's results will impact its access to the capital necessary to meet these expenditure commitments. There can be no assurance that equity financing will be available or sufficient to meet those requirements, or for other corporate purposes, or if equity financing is available, that it will be on terms acceptable to the Company.

20. Related party transactions

The Company has entered into transactions with related parties in the normal course of business, which were recorded at the exchange amount established and agreed to by the related parties. During the year ended December 31, 2012 and 2011, the related party transactions were as follows:

(a) the Company paid $12,000 (December 31, 2011 - $12,000) to a company controlled by a director. These fees were paid for administration services which were provided by the director who previously acted as an officer of the Company. At December 31, 2012, $nil (December 31, 2011 - $nil) was included in accounts payable and accrued liabilities.

(b) the Company paid $85,553 (December 31, 2011 - $103,505) for legal services to a law firm of which an officer of the Company is a partner. At December 31, 2012, $2,235 (December 31, 2011- $15,059) was included in accounts payable and accrued liabilities.

Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to executive officers and directors. The executive officers include the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer. Executive officers and directors also participate in the Company's stock option program. Key management personnel compensation for the year ended December 31, 2012 is comprised as follows:

		Year ended,
	December 31, 2012	December 31, 2011
Salaries and wages	**$ 780,744**	$ 933,376
Directors fees	**65,000**	76,865
Short-term employee benefits	**14,614**	15,728
Share-based payments	**433,306**	572,512
	$ 1,293,664	$ 1,598,481

21. Contingencies and commitments

(a) Lease payments

Non-cancellable operating lease rentals are payable as follows:

	2012	2011	2010
Less than one year	**$ 34,822**	$ 126,223	$ 2,950,103
Between one and five years	**-**	35,113	148,845
More than five years	**-**	-	-
	$ 34,822	$ 161,336	$ 3,098,948

(b) License commitments

Pursuant to the terms of the Licenses, the Company has assumed certain financial and work commitments relating to the three remaining licenses as described below:

License	Commitment
PPL 257	On December 6, 2011, a five year extension to PPL 257 was granted effective the date of the grant. During the first two years of the extension, the Company must, at a cost of not less than US$500,000 integrate recently completed studies; conduct further field studies as deemed necessary; integrate seismic interpretation and structural studies; and continue farm-out talks. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the license which must include drilling one exploration well at a cost of not less than $US40,000,000, conduct post well studies and a comprehensive license review at a cost of not less than $US500,000; and provide particulars of the financial resources available to the Company to carry out the foregoing work program. Eaglewood has a 100% participating interest in this license and is the Operator.
PPL 258	In August 2012, the Company was granted a five year extension to this license effective the date of the grant. During the first two years, the Company must carry out and integrate a number of studies at a cost of not less than US$500,000; in the third and fourth year, the Company must drill one exploration well with a second well required in year five at a cost of not less than US$15,000,000 per well. Eaglewood has a 100% participating interest in this license and is the Operator.
PPL 259	In September 2011, a five-year extension to PPL 259 was granted effective the date of the grant. Within the first two years from the date of extension of this license, the Company must, at a cost of not less than US$26,000,000 acquire 100km of 2D seismic, drill one exploration well, and conduct geological and geophysical studies. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the extension which must include drilling an appraisal well or another exploration well. Eaglewood has a 65% participating interest in this license and is the Operator.
PRL 28	In December 2011, a Petroleum Retention License (PRL) was granted for the Ubuntu gas condensate discovery on PPL 259. The license was granted for five years effective the date of the grant, and during this period, the Company must undertake marketing studies with analysis of future hydrocarbon commercialization scenarios for the Ubuntu gas and gas condensate resource; undertake technical studies to (i) re-map and assess the reserves of the Ubuntu feature, focusing on an integration of the Ubuntu seismic; (ii) determine the potential for an integrated development with other nearby fields; (iii) deliver gas and/or condensate to local markets; (iv) identify landowners and required social mapping; and (v) address other commercialization opportunities for gas/condensate. The cost of the above work is to be not less than US$350,000. Contingent on the conclusions reached on the above items and if the market warrants, the Company must then undertake engineering studies aimed at appraisal and development of gas and/or condensate delivery; perform a conventional or extended well test on Ubuntu-1; consider drilling an appraisal or development well; and undertake commercial negotiation of gas and/or condensate contracts. Eaglewood has a 40% participating interest in this license and is the Operator.

The Company has issued bank guarantees totaling approximately $225,000 (100,000 Papua New Guinea kina for each license) as security against the capital requirements associated with the Licenses. If the Company does not fulfill its commitments under a License and has not applied for and been granted an extension, it could potentially lose its guarantee and the applicable License could be revoked by the PNG government.

(c) PNG government back in right

The PNG government retains a 22.5 % back-in right which can be exercised at the time a development license is granted. If the PNG government exercises its back-in right, it would be required to pay the Company 22.5 % of all costs incurred in respect of the Licenses up to the election date and to pay 22.5 % of the ongoing production and development costs of the Licenses.

(d) Reclamation

The Company has a commitment to obtain a reclamation certificate relating to an abandoned well site in Alberta which relates to a predecessor company. The cost of any reclamation work relating to the site is not determinable at this time.

22. Interests in joint arrangements

The Company is involved in two joint operations as follows:

PPL 259: Eaglewood has a 65% participating interest in PPL 259. Two venturers hold the remaining 35% of the license. The assets, expenditures and liabilities of this operation are proportionally consolidated in the financial results of the Company.

PRL 28: Eaglewood has a 40% participating interest in PRL 28. Two venturers hold the remaining 60% of the license. The assets, expenditures and liabilities of this operation are proportionally consolidated in the financial results of the Company.

23. Segmented information

The Company has one reportable business segment, that being oil and gas exploration and development, in Papua New Guinea.

	For the year ended December 31, 2012			
	Corporate	Papua New Guinea	Intercompany Eliminations	Consolidated
Operating Revenue	$ -	$ 138,756	$ (32,443)	$ $ 106,313
Impairment of exploration and evaluation assets	$ -	$ 1,402,317	$	$ 1,402,317
General and administrative expenses	(1,857,103)	(1,327,167)		(3,184,270)
Operating expense	-	(140,278)		(140,278)
Gain on sale of E&E assets	-	2,919,963		2,919,963
Depletion, depreciation and amortization	(12,381)	(170,151)		(182,532)
Results from operating activities	(1,869,484)	2,823,440		921,513
Net finance income	43,679	(158,956)		(115,277)
Loss for the period	$ (1,825,805)	$ 2,664,484	$ (32,443)	$ 806,236
Segment assets	$ 10,580,730	$ 50,637,843	$ (32,296)	$ 61,186,277
Segment liabilities	$ 399,272	$ 2,332,000	$ -	$ 2,731,272
Exploration and evaluation assets	$ -	$ 50,149,124	$ -	$ 50,149,124
Capital additions (excluding foreign currency adjustment)	$ -	$ 2,159,501	$ -	$ 2,159,501

	For the year ended December 31, 2011		
	Corporate	Papua New Guinea	Consolidated
Impairment of exploration and evaluation assets	$ -	$ (1,402,317)	$ (1,402,317)
General and administrative expenses	(1,960,237)	(1,257,881)	(3,218,118)
Depletion, depreciation and amortization	(16,719)	(142,173)	(158,892)
Results from operating activities	(1,976,956)	(2,802,371)	(4,779,327)
Net finance income	234,216	(392,276)	(158,060)
Loss for the period	$ (1,742,740)	$ (3,194,647)	$ (4,937,387)
Segment assets	$ 6,471,246	$ 57,834,220	$ 64,305,466
Segment liabilities	$ 552,374	$ 5,273,918	$ 5,826,292
Exploration and evaluation assets	$ -	$ 57,274,782	$ 57,274,782
Capital additions (excluding foreign currency adjustment)	$ 4,614	$ 11,304,452	$ 11,309,066

Assets held in the Corporate segment are primarily cash in nature.

24. Income taxes

Reconciliation of effective tax rate:

	2012	2011
Income (loss) before taxes	**$ 806,236**	$ (4,937,387)
Expected tax rate	**25.0%**	26.5%
	$ 201,559	$ (1,308,408)
Rate	**121,592**	(26,729)
Stock based compensation	**125,830**	201,819
Unrecognized deferred tax benefit	**1,152,607**	4,093,136
Foreign exchange	**(295,980)**	(3,015,095)
True up of tax pools	**(1,305,608)**	55,277
Total income tax expense	**$ -**	$ -

The statutory rate was 25.0% in 2011 (2011 - 26.5%). The decrease from 2011 to 2012 was due to a reduction in the 2012 Canadian corporate tax rates as part of a series of corporate tax rate reductions previously enacted by the Canadian federal government in 2007.

Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of the following temporary differences:

		2012		2011
Cost recovery pool	**$**	**17,582,496**	$	15,425,044
Property, plant and equipment		**(8,463)**		9,124
Asset retirement obligation		**1,912,811**		1,794,460
Share issue costs and other		**176,528**		387,744
Tax losses		**9,014,008**		7,492,456
Total temporary differences	**$**	**28,677,380**	$	25,108,828

The Company has temporary differences associated with its investments in a foreign subsidiary. As at December 31, 2012, the Company has no deferred tax liabilities in respect of these temporary differences.

The tax losses expire through 2032. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

Movement in temporary differences during the year:

	Balance January 1, 2011	Recognized in profit or loss	Balance December 31, 2011
Cost recovery pool	$ 2,383,158	$ 13,041,886	$ 15,425,044
Property, plant & equipment	159,434	(150,310)	9,124
Asset retirement obligation	1,386,669	407,791	1,794,460
Share issue costs and other	545,353	(157,609)	387,744
Non-capital tax losses	6,178,681	1,313,775	7,492,456
	$ 10,653,295	$ 14,455,533	$25,108,828

	Balance January 1, 2012	Recognized in profit or loss	Balance December 31, 2012
Cost recovery pool	$ 15,425,044	$ 2,157,452	$ 17,582,496
Property, plant & equipment	9,124	(17,587)	(8,463)
Asset retirement obligation	1,794,460	118,351	1,912,811
Share issue costs and other	387,744	(211,216)	176,528
Non-capital tax losses	7,492,456	1,521,552	9,014,008
		$ 3,568,552	
	$25,108,828		$27,677,380