CANADA ENERGY PARTNERS INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED APRIL 30, 2009 AND 2008

(Expressed in Canadian Dollars)

AUDITORS' REPORT

To the Shareholders of
Canada Energy Partners Inc.

We have audited the balance sheets of Canada Energy Partners Inc. as at April 30, 2009 and 2008 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"D&H Group LLP"

Vancouver, B.C.
August 25, 2009

Chartered Accountants

D+H Group LLP Chartered Accountants
10th Floor, 1333 West Broadway
Vancouver, British Columbia
Canada V6H 4C1
Telephone: 604 731 5881
Facsimile: 604 731 9923
Email: info@dhgroup.ca
www.DHgroup.ca
A B.C. Limited Liability Partnership of Corporations

Member of BHD Association with affiliated offices across Canada and internationally

CANADA ENERGY PARTNERS INC.

BALANCE SHEETS
AS AT APRIL 30, 2009 AND 2008
(Expressed in Canadian Dollars)

	2009 $	2008 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	10,280,593	3,816,951
Accounts receivable, prepaids and deposits	331,145	126,348
	10,611,738	3,943,299
INVESTMENT (Note 6)	932,888	1,462,850
OIL and GAS INTERESTS (Note 3)	82,743,778	66,318,692
	94,288,404	71,724,841
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,258,574	563,464
Bank loan (Note 6)	1,376,700	1,376,700
	2,635,274	1,940,164
ASSET RETIREMENT OBLIGATION (Note 4)	227,588	-
FUTURE INCOME TAX LIABILITY (Note 8)	11,942,366	12,321,635
	14,805,228	14,261,799
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	79,974,557	57,649,686
CONTRIBUTED SURPLUS (Note 5)	4,932,872	2,185,670
DEFICIT	(5,424,253)	(2,372,314)
	79,483,176	57,463,042
	94,288,404	71,724,841

NATURE OF OPERATIONS (Note 1)
COMMITMENTS (Note 3 and Note 13)
CONTINGENCY (Note 12)
SUBSEQUENT EVENTS (Note 14)

APPROVED BY THE DIRECTORS

"John Proust", Director *"Ben Jones"*, Director

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

CANADA ENERGY PARTNERS INC.
STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED APRIL 30, 2009 AND 2008
(Expressed in Canadian Dollars)

	2009 $	2008 $
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative and management services (Note 7)	499,225	434,614
Accretion and depreciation	18,020	-
Advertising	26,826	56,696
Audit and accounting	82,340	61,954
Corporate development	215,763	144,975
Filing and regulatory	46,407	62,361
General exploration	32,489	5,722
Legal	90,223	176,280
Office and miscellaneous	127,208	84,835
Professional fees	133,455	89,488
Rent	113,636	49,152
Stock-based compensation (Note 5)	2,760,803	562,365
Travel	138,600	78,140
	4,284,995	1,806,582
LOSS BEFORE OTHER ITEMS	(4,284,995)	(1,806,582)
OTHER (EXPENSES)/INCOME		
Fair value adjustment to investment	(470,934)	(258,150)
Foreign exchange	26,636	(1,613)
Interest	340,717	86,112
Other taxes (Note 8)	(109,004)	-
	(212,585)	(173,651)
LOSS BEFORE INCOME TAXES	(4,497,580)	(1,980,233)
FUTURE INCOME TAXES RECOVERED (Note 8)	1,445,641	1,794,547
NET LOSS AND COMPREHENSIVE LOSS	(3,051,939)	(185,686)
DEFICIT - BEGINNING OF YEAR	(2,372,314)	(2,186,628)
DEFICIT - END OF YEAR	(5,424,253)	(2,372,314)
LOSS PER SHARE - BASIC AND DILUTED	(0.04)	(0.004)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	79,998,319	53,422,263

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

CANADA ENERGY PARTNERS INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2009 AND 2008
(Expressed in Canadian Dollars)

	2009 $	2008 $
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(3,051,939)	(185,686)
Items not affecting cash:		
Stock-based compensation	2,760,803	562,365
Accretion and depreciation	18,020	-
Fair value adjustment to investment	529,961	258,150
Future income taxes recovery	(1,445,641)	(1,794,547)
Changes in non-cash working capital balances:		
Accounts receivable, prepaids and deposits	(204,797)	223,046
Accounts payable and accrued liabilities	(419,165)	(131,222)
	(1,812,758)	(1,067,894)
FINANCING ACTIVITIES		
Issuance of common shares	25,057,772	5,852,229
Share issue costs	(1,680,129)	(406,140)
Proceeds from bank loan	-	1,376,700
	23,377,643	6,822,789
INVESTING ACTIVITIES		
Oil and gas interests	(15,101,243)	(2,962,108)
Purchase of investment	-	(1,721,000)
	(15,101,243)	(4,683,108)
INCREASE IN CASH DURING THE YEAR	6,463,642	1,071,787
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	3,816,951	2,745,164
CASH AND CASH EQUIVALENTS - END OF YEAR	10,280,593	3,816,951

CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	5,188,299	2,239,837
Term deposits	5,092,294	1,577,114
	10,280,593	3,816,951

Supplemental disclosure with respect to cash flows (Note 9)

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

1. NATURE OF OPERATIONS

Canada Energy Partners Inc. ("the Company") is an independent natural gas exploration and development company primarily focused on unconventional resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, by Certificate of Incorporation and Notice of Articles pursuant to the provisions of the Business Corporations Act (British Columbia) for the purpose of acquiring interests in the Peace River Coalbed Methane ("CBM") Project in the Peace River area in northeast British Columbia. The Company possesses a large (approximately 100 square miles) concentrated land position in a high-impact, multi-zone, natural gas-bearing area in northeast British Columbia.

In January 2009, the gas sales from eight wells have commenced on the Company's Peace River CBM Project. As at April 30, 2009, the management of the Company has determined that the eight wells in production are still in the early dewatering process and the Company is in the development stage.

The amounts shown as oil and gas interests represent exploration and development expenditures incurred to date and acquisition costs for the working interests in the Company's prospects and do not necessarily represent present or future values. The underlying value of oil and gas interests is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the Company's prospects, the ability of the Company to obtain the necessary financing to complete its share of the development, and future profitable production.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As for most oil and gas exploration companies, the Company raises financing for its activities using a variety of sources. Based on its current plans, budgeted capital expenditures, and cash requirements, the Company has sufficient cash to finance its current plans for at least 12 months from the date of approval of the financial statements. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue business.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Black-Scholes option valuation model was used to estimate the fair value of stock options. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility.

The amounts recorded for the future asset retirement obligation costs, amortization, and accretion are based on estimates of cash flows required to settle the asset retirement obligation, inflation factors, credit adjusted discount rates, and other relevant assumptions.

The fair value of the Company's long-term investments is determined based on management estimates of premium yields required by investors.

The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood, and reversal of temporary differences between the accounting and tax bases of assets and liabilities.

These estimates are subject to measurement uncertainty, and the impact of changes in such estimates on the financial statements of future period could be material.

Cash and Cash Equivalents

Cash consists of cash in the bank and highly-liquid short-term investment with an original maturity of less than one year, which, in opinion of management, is subject to an insignificant risk of changes in value.

Oil and Gas Interests

The Company follows the full cost method of accounting for oil and gas operations. All costs related to the acquisition of, exploration for, and development of CBM and oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, cost of drilling both productive and non-productive wells, oil, gas and CBM production equipment and overhead charges directly related to exploration and development activities.

The recoverability of the amounts shown for oil and gas interests is dependent upon the existence of economically recoverable oil and gas reserves, maintaining title and beneficial interest, the ability of the Company to obtain necessary financing to bring the reserves into production, and upon future profitable production or proceeds from the disposition. The amounts shown as oil and gas interest represent net costs to date and do not necessarily represent present or future values.

Oil and gas interests' acquisition costs include cash costs and the fair value of common shares, based on the trading price of the common shares issued for property interests, pursuant to the terms of the related property acquisition agreements.

For certain acquisitions of oil and gas interests, the Company records a future income tax liability and a corresponding increase to the related asset carrying amount.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

The Company regularly reviews the carrying value of its oil and gas interests, to determine that the costs are recoverable and do not exceed the fair value of the interests. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the costs of unproved interests exceed the carrying value of the oil and gas interests. An impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the costs of unproved interests. The cash flows are estimated using the future production prices and costs and are discounted using the risk-free interest rate.

Depletion and Amortization

Capitalized costs of proven reserves and equipment are depleted using a unit-of-production method based upon estimated proved reserves (energy content) net of royalties. Oil and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content of six thousand cubic feet of natural gas to one barrel of oil. The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Joint Operations

Substantially all of the oil and gas activities of the Company are conducted jointly with others, and these financial statements reflect only the Company's proportionate interest in such activities.

Asset Retirement Obligations

Asset retirement obligations are recognized when a legal or constructive obligation arises. The fair value of the liability for the Company's asset retirement obligations is recorded in the period it is incurred with a corresponding increase in the carrying value of the related long-lived assets. The fair value is estimated using the present value of the estimated future cash outflows to reclaim and abandon wells and facilities, using the Company's credit-adjusted risk-free interest rate. The capitalized carrying amount of the long-lived asset is depleted on a straight-line basis. The liability is subsequently adjusted due to the passage of time and is recorded as an accretion expense. The liability is also adjusted for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual asset retirement obligations paid are deducted from the liability in the year incurred. Upon settlement of the liability, the Company may incur a gain or loss.

Comprehensive Income

Comprehensive income is the change in the Company's net assets that results from transactions, events, and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holdings gains and losses from available-for-sale securities, which are not included in net income (loss) until realized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Transactions

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Revenues and expenses are translated into Canadian dollars at the exchange rate in effect on the transaction date. Foreign exchange gains and losses are included in earnings.

Income Taxes

Income taxes are recorded on a tax allocation basis. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statements carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using substantively enacted income tax rates. The effect of changes in effective income tax rates is recognized in income in the period in which the change occurs. Future income tax assets are recognized with respect to deductible temporary differences and loss carry forwards only to the extent their realization is considered more likely than not.

Revenue Recognition

Revenue from the sale of petroleum and natural gas, net of transportation costs, is recognized based on the volumes delivered to customers and collectability is reasonably assured. The production costs are recognized in the same period which the related revenue is earned and recorded and the risks are transferred to the buyer. Revenue recognized during the development stage is presented as a reduction of related deferred development costs.

Flow-Through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the income tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to the oil and gas interests. A future income tax liability is recognized, and the shareholders' equity reduced, on the date the Company renounces the income tax benefits associated with the expenditures, provided there is reasonable assurance that the expenditures will be made. The Company may also recognize the benefit of previously unrecognized future income tax assets to offset the future income tax liability arising on a renouncement of expenditures. The corresponding credit reduces future income tax expense.

Loss Per Share

Loss per share is calculated based on the weighted average number of common shares outstanding during the period. In periods when a loss is incurred, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and, therefore, basic and diluted losses per share are the same. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Note 5.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-Based Compensation

The Company recognizes an expense arising from stock options granted using the fair value method. The fair value of option grants is generally established at the date of grant using the Black-Scholes option pricing model, and the expense is recognized over the period earned, with offsetting amounts recorded as contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. In the event that vested stock options expire without being exercised, previously recorded compensation costs associated with such stock options are not reversed.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument to another entity. Upon initial recognition, all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities.

The Company has designated its financial instruments as follows:

i) Cash and cash equivalents are classified as *"Held-for-trading"*. Their carrying values are equal to its fair values.

ii) Accounts receivable, prepaids and deposits are classified as *"Loans and Receivables"*. These financial assets are recorded at values that approximate their amortized cost using the effective interest method.

iii) Investments in asset-backed commercial paper and bank loan are discussed in Note 6.

iv) Accounts payable and accrued liabilities, are classified as *"Other Financial Liabilities"*. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

New Accounting Policies and Standards

Assessing Going Concern

The AcSB amended CICA Handbook Section 1400, "General Standards of Financial Statements Presentation", which includes requirements to assess an entity's ability to continue as a going concern; disclosure of material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern; disclosure of when financial statements are not prepared on a going concern basis, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Disclosures required by this standard are included in Note 1 and Note 2.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Disclosures and Financial Instruments – Disclosures and Presentation

Effective May 1, 2008, the Company adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures," and Handbook Section 3863, "Financial Instruments – Presentation."

Section 1535 requires the disclosure of both quantitative and qualitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The impact of adoption this section is disclosed in Note 11.

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation," revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The impact of adopting this section is disclosed in Note 10.

In January 2009, the CICA issued Emerging Issues Committee ("EIC') Abstract 173 entitled *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC – 173"). EIC–173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC– 173 is applicable to the Corporation's interim and annual financial statements for periods ending on or after January 20, 2009. Retrospective application with restatement of prior periods' financial statements is permitted but not required.

Issued but not Adopted Primary Sources of GAAP

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011. The Company has begun assessing the adoption of IFRS for 2011, but the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests".

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Section 1582 replaces Section 1581, "Business Combinations" and establishes standards for the accounting and business combinations. It provides the Canadian equivalent to *International Financial Reporting Standards IFRS 3, "*Business Combinations". The section applies prospectively to the business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of *International Financial Reporting Standard IAS27,* "Consolidated and Separate Financial Statements" and applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is in process of evaluating the requirements of the new standards.

3. OIL and GAS INTERESTS

For the year ended April 30, 2009	Peace River Project $	Monias Prospect $	Moberly Prospect $	Total $
Acquisition costs				
Leases acquisitions and rental costs	951	17,312	-	18,263
Balance, beginning of year	55,164,341	1,809,736	693,274	57,667,351
Balance, end of the year	55,165,292	1,827,048	693,274	57,685,614
Exploration costs				
Asset retirement costs	153,532	37,960	18,076	209,568
Drilling and completion	1,335,166	3,556,796	-	4,891,962
Geological and consulting	57,164	64,172	7,222	128,558
Joint interest billing – shallow rights	69,067	-	-	69,067
Reports and other	32,192	12,933	-	45,125
	1,647,121	3,671,861	25,298	5,344,280
Balance, beginning of year	7,852,581	771,777	26,983	8,651,341
Balance, end of year	9,499,702	4,443,638	52,281	13,995,621
Development costs				
Drilling and completion	7,509,005	-	-	7,509,005
Gas plant	3,598,103	-	-	3,598,103
Less: net revenue received in development stage	(44,565)	-	-	(44,565)
	11,062,543	-	-	11,062,543
Balance, beginning of year	-	-	-	-
Balance, end of year	11,062,543	-	-	11,062,543
Total deferred oil and gas interests	75,727,537	6,270,686	745,555	82,743,778

3. OIL and GAS INTERESTS (continued)

For the year ended April 30, 2008	Peace River Project $	Monias Prospect $	Moberly Prospect $	Total $
Acquisition costs				
Acquisitions of working interests	1,947,098	1,663,890	630,807	4,241,795
Environmental deposit	-	107,000	-	107,000
Leases acquisitions and rental costs	145,523	10,544	62,467	218,534
Future tax liability on purchase of working interests	274,030	-	-	274,030
Total acquisition costs for the year	2,366,651	1,781,434	693,274	4,841,359
Balance, beginning of year	52,797,690	28,302	-	52,825,992
Balance, end of the year	55,164,341	1,809,736	693,274	57,667,351
Exploration costs				
Drilling	-	685,751	-	685,751
Geological and consulting	50,334	42,334	26,983	119,651
Joint interest billing – shallow rights	1,722,433	-	-	1,722,433
Joint interest billing – deep rights	123,979	-	-	123,979
Reports and other	34,294	43,692	-	77,986
Total exploration costs for the year	1,931,040	771,777	26,983	2,729,800
Balance, beginning of year	5,921,541	-	-	5,921,541
Balance, end of year	7,852,581	771,777	26,983	8,651,341
Total deferred oil and gas interests	63,016,922	2,581,513	720,257	66,318,692

Included in the acquisition costs is $107,000 security bond deposited in the Company's bank account in favour of the regulatory agency to ensure that the Company can complete the reclamation, including shut-down, closure, and post-closure. The security will be released back to the Company once the reclamation has been completed according to the plan and the site is returned to an acceptable state.

Peace River Project, British Columbia

The Company has working interests in the oil and gas leases located in Peace River area near Hudson's Hope in northeast British Columbia. Peace River Project consists of shallow rights (from the surface to the base of Gething formation) and deep rights (from the base of Gething to the basement).

Shallow rights

Shallow rights include Peace River CBM Project and Moosebar Shale rights.

3. OIL and GAS INTERESTS (continued)

Peace River CBM Project consists of approximately 50,788 gross (25,394 net) acres of CBM prospective acreage. The Company owns 50% working interest and an additional 3.71% after payout working interest in the Peace River CBM Project. The operator of the Peace River CBM Project is GeoMet, Inc. The Company's interest in the Peace River CBM Project is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 1.55%.

The Company has entered into a farm-in agreement (the "Agreement") with its joint venture partner GeoMet, Inc. for Moosebar Shale shallow rights on its Peace River Project. This agreement covers the Moosebar Shale formation on Peace River Project. Under the Agreement the Company became the Operator of the Moosebar Shale rights.

In addition to its current 50% working interest, the Company has the right to earn an additional 25% to 37.5% working interest in the Moosebar Shale formation by funding 100% of the drilling costs of the earn-in wells. Subject to certain drilling obligations and elections by the GeoMet, Inc., the Company has the right or option to earn an aggregate 75% to 87.5% interest in the Moosebar Shale under the subject acreage. The Company will earn one (1) section for each Moosebar Shale vertical well drilled and two (2) sections for each Moosebar Shale horizontal well drilled (one drilled). The Company has a 180 day rolling option to drill earning wells until all acreage is earned. The Company's interest in the Moosebar Shale is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 1.55%.

During the year ended April 30, 2008, the Company acquired a 1.05% working interest in the Peace River CBM Project and 2.1% in the deep rights from two unrelated parties by the issuance of an aggregate of 300,300 common shares in the capital of the Company which were accounted for at their estimated fair value of $753,610. The Company has recorded a future income tax liability of $187,050 with a corresponding increase to the acquired asset cost as a result of accounting cost of the assets acquired being greater then the tax cost.

<u>Deep rights</u>

Deep rights on the Peace River Project consist of approximately 33,000 gross and net acres of prospective acreage. The Company owns 100% working interest subject to a joint venture agreement with Crew Energy Inc. ("Crew"). According to the joint venture agreement, Crew operates the project and will earn a 50% working interest in the subject lands upon completion of the exploration program. The initial program will consist of a three-dimensional seismic project over the majority of the Peace River Project lands (completed) and the drilling of four (one drilled) exploratory wells.

The Company's interest in the deep rights of the Peace River Project will be subject to Crown royalties, geological overriding royalties of up to 1.55% and back-in interest of 6.6% after project payout plus $2,000,000 on approximately 3,500 acres.

During the year ended April 30, 2008, the Company acquired oil and gas assets from Triumph Pacific Oil & Gas Corporation ("Triumph") in the Peace River area near Hudson's Hope in northeast British Columbia. The acquired assets included 77% working interest in one wellbore and 3,042 net acres of the deep rights and farm-in rights to 30,372 net acres (variable depth rights) of the Peace River Project, drilling licenses encompassing 8,796 net acres which include deep and shallow rights (Monias and Moberly prospects), $200,000 receivables related to the assets acquired, and certain geological data and intellectual property of Triumph. The acquired interests are subject to a 12.5% back-in after project payout, proportionately reduced to Triumph's net interest. The Company issued to Triumph 3,506,666 common shares, which were accounted for at their fair value of $3,366,399. The purchase consideration for Triumph's assets was allocated as follows:

3. OIL and GAS INTERESTS (continued)

	$
Receivables	200,000
Peace River Project – acquisition of working interest	871,702
Monias Prospect – acquisition of working interest	1,663,890
Moberly Prospect – acquisition of working interests	630,807
Total	3,366,399

During the year ended April 30, 2008, the Company acquired a 1% working interest in the deep rights of Peace River Project by the issuance of 200,000 common shares in the capital of the Company which were accounted for at their estimated fair value of $310,000. The Company has recorded a future income tax liability of $86,980 with a corresponding increase to the acquired asset cost as a result of accounting cost of the assets acquired being greater then the tax cost.

Monias Prospect, British Columbia

The Company's Monias Prospect consisting of approximately 7,821 acres or 12 sections (12 square miles) and located in the Peace River Plains area near Fort St. John, British Columbia. The Company owns 100% working interest in the deep and shallow rights in 10 sections and 70% working interest in the shallow rights on 2 sections. Deep rights on the 4 sections of Monias Prospect are subject to the joint venture agreement with West Energy Ltd. ("West"). According to the joint venture agreement, West operates the project and will earn a 65% working interest in the subject lands upon completion of the exploration program. The exploration program consisted of a three-dimensional seismic project over the majority of the Monias Prospect lands and drilling and completion of one exploratory well. See Note 12.

The Company's interest in the deep rights of the Monias Prospect will be subject to Crown royalties, geological overriding royalties of 1% and back-in interest of 12.5% after project payout plus $2,000,000.

During the year ended April 30, 2008, the Company entered into a farm-in agreement (the "Farm-in Agreement") on the lands adjacent to its Monias Prospect with a major Canadian oil and gas producer (the "Major"). The Farm-in Agreement with the Major allowed the Company to earn a 70% working interest in the shallow and certain deep rights (to the base of Nikanassin) on 8 sections comprising gross 5,216 acres, by paying 100% of the costs of the initial exploratory wells.

Under the Farm-in Agreement, the Company drilled two exploratory wells and has earned a 70% interest in the Shallow Rights in two sections of the farm-in lands and has relinquished its farm-in rights to 6 sections. One of two sections are subject to a 10% royalty on gas, a 5% - 10% royalty on oil production and both sections are subject to a back-in interest of 4.375% after project payout plus $2,000,000.

Moberly Prospect, British Columbia

Moberly Prospect consists of approximately 2,600 gross and net acres of prospective acreage and located in the Peace River Plains area near Hudson's Hope, British Columbia. The Company owns 100% working interest subject to a joint venture agreement with Crew. According to the joint venture agreement, Crew operates the project and will earn a 50% working interest in the subject lands upon completion of the exploration program. The initial program consisted of drilling of one exploratory well (drilled).

The Company's interest in the Moberly Prospect will be subject to Crown royalties, geological overriding royalties of 2.43% and back-in interest of 10.5% after project payout plus $1,000,000.

4. ASSET RETIREMENT OBLIGATIONS

Total future asset retirement obligations were estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim, and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company estimated the total undiscounted amount of cash flows required to settle the asset retirement obligation to be approximately $668,139, which will be incurred from 2019 to 2035. To calculate the net present value of its asset retirement obligations, the Company used a credit-adjusted risk free rate of 8% and an inflation rate of 2%. The credit-adjusted risk free rate of 8% was based on the cost of borrowing for similar companies in the industry. The following table summarizes the Company's asset retirement obligations:

	$
Balance, beginning of year	-
Initial recognition – May 1, 2008	210,730
Accretion expense	16,858
Balance, end of year	227,588

The present value of the reclamation liability may be subject to change in future periods. Such changes will be recorded in the accounts of the Company as they occur.

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of shares	**Amount, $**	**Contributed Surplus, $**
Authorized			
Unlimited common shares without par value			
Unlimited preferred shares without par value			
Issued			
As at April 30, 2007	47,498,117	48,648,801	1,956,122
Exercise of agent warrants	739,517	730,557	-
Fair value of agent warrants exercised	-	411,079	(411,079)
Acquisition of Peace River Project working interests	500,300	1,063,610	-
Acquisition of Triumph oil and gas interests	3,506,666	3,366,399	-
Private placement	8,828,532	5,121,672	-
Fair value of finders' warrants	-	(78,262)	78,262
Share issuance costs	-	(406,139)	-
Net future income taxes on flow-through expenses renounced		(1,208,031)	-
Stock-based compensation	-	-	562,365
As at April 30, 2008	61,073,132	57,649,686	2,185,670
Exercise of agent warrants	97,152	58,292	-
Fair value of agent warrants exercised	-	13,601	(13,601)
Private placement	21,186,000	24,999,480	-
Share issuance costs	-	(1,226,494)	-
Net future income taxes on flow-through expenses renounced	-	(1,520,008)	-
Stock-based compensation	-	-	2,760,803
As at April 30, 2009	82,356,284	79,974,557	4,932,872

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

During the year ended April 30, 2009, the Company:

a) raised gross proceeds of $24,999,480 by issuing a total of 21,186,000 common shares including 4,237,000 CDE flow-through shares and 16,949,000 common shares at a price of $1.18 per share. The Company paid agent's fees of $1,499,969 equal to 6% of the gross proceeds of the financing. The Company also incurred legal, filing, and other share issue costs related to the financing in the amount of $180,160;

b) issued 97,152 common shares for proceeds of $58,292 pursuant to the exercise of agent's warrants previously granted;

c) In February 2009, the Company renounced $5,629,660 of the qualified Canadian development expenditures ("CDE"). Pursuant to the terms of the flow-through share agreements, the tax attributes of the related expenditures were renounced to the subscribers with an effective date of December 31, 2008. As a result, the Company recognized a future income tax liability of $1,520,008 and reduced it by recognizing a future income tax asset for the share issue costs in the amount of $453,635 and non-capital losses in the amount of $1,117,011. The Company incurred sufficient CDE during calendar 2008 to fully satisfy its flow-through commitments;

d) As at April 30, 2009, an aggregate of 8,447,152 common shares are held in escrow pursuant to an escrow agreement entered into between Pacific Corporate Trust Company and certain shareholders of the Company. 4,223,576 of these shares are released every six months with the next release on May 22, 2009, and the last release on November 22, 2009.

During the year ended April 30, 2008, the Company:

a) raised gross proceeds of $5,121,672 by issuing a total of 8,828,532 common shares including 6,635,454 of the qualified Canadian Exploration Expenditures ("CEE") flow-through shares at a price of $0.60 per share, 1,211,540 CDE flow-through shares at a price of $0.52 per share and 981,538 common shares at a price of $0.52 per share. The Company paid finders' fees consisting of aggregate cash commissions of $321,827 plus the issuance of an aggregate of 559,016 finders' warrants exercisable at a price of $0.60 per share until December 14, 2008. The finders' warrants were valued using the Black Scholes Option Pricing Model. The warrants were valued at $0.14 per warrant for as total value of $78,262 and have been recorded as share issue costs with a corresponding increase to contributed surplus. The fair value of warrants granted was estimated on the date of grant using the Black Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 4.02%, expected volatility of 75%, expected life 1 year and expected dividend rate of 0%. The Company incurred additional $76,758 of share issue costs in relation to the financing.

   In January 2008, the Company renounced $4,381,272 of the CEE flow-through expenditures. Pursuant to the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to the subscribers. As a result, the Company recognized a future income tax liability of $1,358,194. The Company incurred sufficient CEE during calendar 2008 to fully satisfy its flow-through commitments.

b) issued 739,517 common shares for proceeds of $730,557 pursuant to the exercise of agent's warrants previously granted.

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Stock options and stock-based compensation

The Company grants stock options in accordance with the policies of the TSX Venture Exchange ("TSXV"). Under the plan up to 10% of outstanding Common Shares are reserved for the issuance of stock options to directors, officers, employees and consultants. The terms of the option, including the vesting terms and the option price are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's stock on the date of grant. The stock options granted are exercisable for a period of five years.

A summary of the status of the Company's stock options as of April 30, 2009 and 2008, and changes during the years then ended is presented below:

	Number of Options	Weighted Average Exercise Price, $
Balance, outstanding – April 30, 2007	3,050,000	1.00
Granted	500,000	1.10
Balance, outstanding – April 30, 2008	3,550,000	1.01
Granted	2,050,000	1.61
Balance outstanding – April 30, 2009	5,600,000	1.23

Stock options outstanding and exercisable as at April 30, 2009 are as follows:

Number of Options Outstanding and Exercisable	Weighted Average Exercise Price, $	Expiry Date
1,350,000	1.00	August 21, 2011
700,000	1.00	October 26, 2011
1,000,000	1.00	March 26, 2012
500,000	1.10	September 13, 2012
2,000,000	1.61	June 25, 2013
50,000	1.66	August 1, 2013
5,600,000	1.23	

There were no stock options exercised, forfeited or expired during 2009 and 2008.

During the year ended April 30, 2009, the Company granted 2,050,000 stock options. The stock-based compensation of $2,760,803 was charged to operations and credited to shareholder's equity to reflect the fair value of stock options granted and vested during the year.

The fair value of stock options granted during the year ended April 30, 2009, was $2,646,500 or $1.29 per share and was estimated on the date of the grant using the Black Sholes Option Pricing Model with the following assumptions: average risk-free interest rate of 3.3%, estimated volatility of 110%, expected life of 5 years, forfeiture rate of Nil and expected dividend yield of 0%.

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

During the year ended April 30, 2008, the Company granted 500,000 stock options. Stock options granted are subject to vesting period: 25% vest on the date of the grant and 25% vest every six months for a period of eighteen months from the grant date. During 2008, stock-based compensation of $468,191 was charged to operations and credited to shareholder's equity to reflect the fair value of stock options vested during the period. At April 30, 2008, $114,302 of the fair value of stock options previously granted but not yet vested remained to be expensed in fiscal 2009. The fair value of stock options granted is estimated on the dates of grants using the Black Scholes Option Pricing Model with the following assumptions used for the grants: risk-free interest rate of 4.29%, estimated volatility of 75%, expected life of 5 years and expected dividend yield of 0%.

The weighted average fair value per share of stock options granted in 2008 was $0.68 per share.

Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding agents' and finders' warrants outstanding at April 30, 2009 and 2008 and the changes for the years then ended is as follows:

	Year Ended April 30, 2009		Year Ended April 30, 2008	
	Number of Warrants	Weighted Average Exercise Price, $	Number of Warrants	Weighted Average Exercise Price, $
Balance, beginning of year	652,999	0.67	833,500	1.00
Issued	-	-	559,016	0.60
Exercised	(97,152)	0.60	(739,517)	0.99
Expired	(555,847)	0.60	-	-
Balance, end of year	-	-	652,999	0.67

6. INVESTMENT AND BANK LOAN

a) At April 30, 2009, long-term investments included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") held by the Company. These investments were designated as held-for-trading and are accounted for at their fair value.

The market for asset-backed commercial paper not sponsored by banks froze up in early August 2007 after issuers were unable to roll over maturing notes. A Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper (the "Committee) was tasked with overseeing the restructuring of the ABCP. On January 12, 2009, the Ontario Superior Court approved a complicated and controversial deal to swap essentially non-tradable, mortgage-backed debt for new securities. On January 21, 2009, the Committee announced the successful implementation of the restructuring plan. Upon the restructuring old short-term ABCP notes were exchanged for longer-term notes of various classes with maturities that generally approximate those of the assets previously contained in the underlying conduits. The Committee also announced that interest payment in respect of interest accrued since the original liquidity disruption in August 2007 to August 31, 2008 (net of restructuring costs) would be made in two installments based on the ABCP note type.

6. INVESTMENT AND BANK LOAN (continued)

As part of the Plan, the Company received new notes of various classes issued by trusts referred to as MAVII, including senior notes Class A-1, subordinated notes Class C, and ineligible tracking notes Class 13. At the time of the restructuring, DBRS assigned a rating "A" to the MAV II Class A-1 notes. The MAV II Class C and Class 13 notes have not been rated by DBRS.

Upon the restructuring, the Company received the replacement notes as follows:

Notes	Maturity Date (1)	Interest Rate (2)	Face Value, $	Fair Value Estimate, $
MAV II Class A-1	December 2056	BA - 0.5%	1,441,880	964,830
MAV II Class C	December 2056	BA + 20%	44,594	4,459
MAV II Class 13 (Ineligible Asset Tracking Notes)			226,263	22,626
Total			1,712,737	991,915
Interest received				(59,027)
Fair value				932,888

(1) Maturity date reflects legal maturity date. Latest maturity date of underlying assets is December 2016.
(2) BA rate is Canadian dollar Bankers Acceptance interest rate with a maturity of 90 days.

Accounting for the exchange of the ABCP for new notes included removal of the ABCP from the Company's balance sheet and recognition of the new notes at their fair value. The new notes are classified as held-for-trading under the Company's Financial Instruments Policy which requires them to be fair valued at each period end with changes in fair value included in the statement of operations in the period in which they arise. The fair value is determined using a discounted cash flow approach based on the maximum use of inputs observed from the market on reporting dates.

The fair value of the Class A-1 notes was established using a discounted cash flow approach based on the following inputs: the notes will pay interest at a rate 0.5% less than the bankers' acceptance ("BA") rate, prospective buyers of these notes estimated to require premium yields 5% over the BA rate, average maturity of Class A -1 Notes estimated to be 7.5 years. The Class C Notes are subordinated to the Class B Notes with respect to payment of interest and principal, and no amounts will be paid with respect to the Class C Notes until the Class B Notes are repaid in full. The Class C notes are viewed as highly speculative with regard to ultimate payment of principal at maturity in 2016. Accordingly, it is expected that Class C notes will trade at approximately 10% of face par value. The fair value of the sub-prime backed Class 13 Notes was calculated as 10% of par value. In conjunction with the note exchange, the Company received a payment of $59,027 which was its share of the accumulated interest to August 31, 2008. The interest received to August 31, 2008 was accounted for as a reduction of the Company's investment. The estimated unpaid interest up to the restructuring date of January 21, 2009 is not material and was not included in the Company's fair value calculation. As a result of the notes exchange, the Company recorded the fair value of its new investments as $932,888 and provision for impairment of $529,962.

There is significant amount of uncertainty in estimating the amount and timing of cash flows associated with these notes. Until an active market develops for the MAV II notes, the fair value will be determined using a discounted cash flow approach based on the maximum use of inputs observed from market conditions on subsequent reporting dates. Therefore, the fair values may change materially in subsequent periods.

6. INVESTMENT AND BANK LOAN (continued)

b) The Company secured a $1,376,700 demand non-revolving bridge loan from its bank pending any possible long-term solution to the current liquidity issues affecting the Company's investment in ABCP. The bridge loan is secured by the Company's investment in ABCP. Interest on direct advances is paid at the Bank's prime rate. The Company paid $39,511 (2008 - $37,047) in interest and stamping fees on the loan during the year ended April 30, 2009.

7. RELATED PARTY TRANSACTIONS

a) Included in administrative and management services for the year ended April 30, 2009 is $69,000 (2008 - $144,000) paid by the Company to a company controlled by a Director.

b) Director of the Company provides management and advisory services pursuant to a consulting agreement, for consideration of $12,000 plus GST per month. In addition, pursuant to the agreement, a private company controlled by Director provides administrative services and the services of a chief financial officer to the Company in consideration of a monthly fee of $8,000 plus GST. Included in administrative and management services is $240,000 (2008 - $194,000) of fees incurred by the Company according to the agreement.

c) Director of the Company provides services of CEO to the Company pursuant to a consulting agreement for the annual consideration of US$195,000. During the year ended April 30, 2009, the Company paid $223,256 (2008 - $120,301) according to the agreement. Of this amount $142,311 (2008 - $51,457) is included in administrative and management services and $80,945 (2008 - $68,844) in oil and gas interests.

d) Director of the Company was the original geologist that staked leases comprising of Peace River Project, Monias and Moberly prospects in which the Company acquired interests. Upon acquisitions of working interests in these lands, the Company's working interest is subject to the overriding royalty interests which range from 0.775% to 1% payable to the director.

e) The Company acquired various oil and gas interests from Triumph (Note 3). Certain shareholders and directors of Triumph are also directors of Canada Energy and the Company has obtained a favourable independent fairness opinion in relation to this transaction. In addition, the transaction was negotiated by independent directors. Directors that have interest in Triumph abstained from voting.

The related party transactions incurred during the period were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed by the related parties.

8. INCOME TAXES

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

	2009 $	2008 $
Loss for the period	(4,497,580)	(1,980,233)
Expected income tax recovery	1,364,266	651,761
Item not deductible for income tax purposes	(921,005)	(185,093)
Tax rate reduction	952,677	594,466
Previous unrecognized benefits	49,703	733,412
Future income tax recovery	1,445,641	1,794,547

The significant components of the Company's future income tax assets and liabilities are as follows:

	April 30, 2009 $	April 30, 2008 $
Future income tax assets		
Financing costs	612,883	399,421
Closure cost obligations	61,449	-
Non-capital losses	1,117,011	693,499
	1,791,343	1,092,920
Future income tax liabilities		
Oil and gas interests	(13,733,709)	(13,414,556)
	(11,942,366)	(12,321,635)

The Company has Canadian non-capital loss carry forwards of approximately $4,000,000, which expire in 2027 through to 2029, and approximately $31,000,000 in certain resource related deductions which may be available to offset future taxable income.

As at November 30, 2008, the Company fulfilled its commitment to incur $3,981,272 in CEE qualifying expenditures related to the flow-through share financings renounced to the subscribers under the look-back rule on January 31, 2008, with the effective date on December 31, 2007. During the period, the Company recorded an expense of $109,004 calculated according to Part XII.6 tax rules.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended April 30, 2009, the Company had the following significant non-cash transactions:

a) allocated $13,601 to capital stock from contributed surplus for the fair value of agent’s warrants exercised;

b) included $1,089,316 of accounts payable related to the oil and gas interests expenditures in investing activities;

c) recorded an additional share issue cost of $1,520,008 to account for the future tax cost of the CDE the Company renounced to the flow-through shares subscribers.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (continued)

During the year ended April 30, 2008, the Company had the following significant non-cash transactions:

a) issued 500,300 shares, with a fair value of $1,063,610 to acquire working interests in the Peace River Project and increased the accounting cost of the asset by the amount of recorded non-cash future income tax liability of $274,030;

b) issued 3,506,666 shares, with a fair value of $3,366,399 to acquire working interests in the Peace River Project, Monias and Moberly prospects, of which $200,000 was allocated to receivables;

c) included $423,217 of accounts payable and $74,670 of accounts receivable related to the oil and gas interests expenditures in investing activities;

d) recorded $411,079 for fair value of agent's warrants exercised;

e) recorded, using Black Scholes Option Pricing Model, share issue costs with a fair value of $78,262 for warrants granted to finders for financing incurred during the year;

f) recorded an additional share issue cost of $1,208,031 to account for the future tax cost of the exploration expenditures the Company renounced to the flow-through shares subscribers;

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company adopted the CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" and designated its financial instruments as follows:

a) Cash and cash equivalents are classified as *"Held-for-trading"*. Their carrying values are equal to its fair values.

b) Accounts receivable are classified as *"Loans and Receivables"*. These financial assets are recorded at values that approximate their amortized cost using the effective interest method.

c) Investments in Master Asset Vehicle II notes are discussed in Note 6.

d) Accounts payable, accrued liabilities and bank loan, are classified as *"Other Financial Liabilities"*. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company's risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. Management's assessment of the Company's risk for cash and cash equivalents is low as it is primarily attributable to cash, Guaranteed Investment Certificates (GICs) and Treasury bills (T-Bills) investments held in major banks.

The Company limits its exposure to credit loss by placing its cash with major financial institutions and invests only in short-term obligations.

Substantial portion of the Company's accounts receivable and prepaids consists of general sale tax (GST) due from the Federal Government of Canada. The remaining part of Company's accounts receivable and prepaids consists of receivables from customers in the energy industry and other miscellaneous receivables and prepaids and are subject to normal industry credit risk. To date the Company has not experienced any collection issues with its oil and natural gas partner.

Credit risk with respect to investments in Canadian Asset-Backed Commercial Paper ("ABCP") is discussed in Note 6.

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 evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintain sufficient reserves of cash and cash equivalents or have an available credit facility to meet its liquidity requirements in the short and long term. As the industry in which the Company operates is very capital intensive, the majority of the Company's spending is related to its capital programs. The Company prepares annual budgets, which are regularly monitored and updated as considered necessary.

The Company's short-term financial liabilities are comprised of: accounts payable and accrued liabilities which have expected maturities of less than one year and the bridge loan which is secured by the Company's investment in ABCP, resulting in their current classification on the balance sheet.

As at April 30, 2009, the Company had cash and cash equivalents balance of $10,280,593 to settle current liabilities of $2,635,274. Management believes that it has sufficient funds to meet its current liabilities as they become due.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: interest rate risk, foreign exchange risk and other price risk.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions and investments included in the Company's cash and cash equivalents are subjects to a floating rate of interest. If the interest rate on the Company's cash and cash equivalents held at the financial institutions decreased by 1%, the Company's net income would have decreased by approximately $102,806.

The interest rate risks on cash and on the Company's obligations are not considered significant.

The Company is exposed to interest rate risk to the extent that the Company's loan is subject to a floating rate of interest. If the interest rate on the Company's floating rate bank loan increased by 1%, the Company's net income would have decreased by approximately $13,767.

b) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movement in the level of the stock market.

Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatility. The supply and demand for natural gas, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities can all cause significant fluctuations in commodity prices. The Company closely monitors commodity prices or resources, individual equity movements, and the stock market to determine the appropriate course of actions to be taken by the Company.

c) Foreign exchange risk

The Company incurs operating expenses and capital expenditures mostly in Canadian dollars. The Company's exposure to assets and liabilities denominated in foreign currencies is nominal. Accordingly, the Company does not have a significant exposure to losses arising from fluctuations in exchange rates.

11. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its properties and to maintain a flexible capital structure. The Capital structure of the Company consists of shareholders' equity and working capital, including bank debt. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available.

11. CAPITAL DISCLOSURE (continued)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company has not paid or declared any dividends during the year. There were no changes in the Company's approach to capital management during the year.

12. CONTINGENCY

The Company has commenced legal proceedings in the Court of Queen's Bench of Alberta against West Energy Ltd. ("West") for a declaration that West has failed to earn a 65% interest and has no interest in the petroleum and natural gas rights below the Nikanassin formation (deep rights) on the four sections (2,608 acres) located within the Company's Monias Prospect pursuant to a seismic option agreement. West filed a statement of defense and counterclaim. The outcome of this legal action is not determinable and the estimate of the contingent gain/loss cannot be made as of the date of this report.

13. COMMITMENTS

a) The Company has committed to rent office space in the amount of $68,600 during fiscal 2010;

b) Oil and gas properties (Note 3).

14. SUBSEQUENT EVENTS

Subsequent to April 30, 2009, the Company:

a) granted an aggregate of 550,000 incentive stock options at an exercise price of $0.51 per share, for a five-year period, to a consultant as a part of a compensation for providing management and business development services to the Company;

b) expired an aggregate of 900,000 stock options that were granted to a former consultant of the Company;

c) granted an aggregate of 100,000 incentive stock options to a geological consultant at an exercise price of $0.51 per share;

d) received approval from TSX Venture Exchange to commence a normal course issuer bid (the "Bid") to purchase up to 4,117,814 of its common shares, representing 5% of the Company's 82,356,284 issued and outstanding shares. The Bid commenced on May 29, 2009, and will end on the earlier of May 28, 2010, or at such time as the Bid has been completed or the Bid is terminated at the Company's discretion. The price paid by the Company for any acquired shares will be the market price at the time of acquisition. All shares purchased under the "Bid" will be cancelled. Funding for the "Bid" will be from the Company's working capital.