

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED APRIL 30, 2009**

**Background**

The following management discussion and analysis and financial review, prepared as at August 19, 2009, should be read in conjunction with the Company's audited financial statements for the years ended April 30, 2009 and 2008, and related notes attached thereto. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Except as otherwise disclosed, all dollar figures in this report are stated in Canadian dollars. Additional information relevant to the Company can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

**Forward Looking Statements**

Certain of the statements made and information contained herein is "forward- looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in gas and coal bed methane exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations, risks associated with the estimation of resources and reserves and the geology, the possibility that future exploration, development or exploration results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour; the inherent uncertainty of future production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Prospectus that can be found on the SEDAR website. Forward-looking information is in addition based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of natural gas; that the Company can access financing, appropriate equipment and sufficient labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

**Company Overview**

Canada Energy Partners Inc. ("the Company" or "Canada Energy" or "CE") 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, and became a publicly listed entity under symbol "CE" on the TSX Venture Exchange on November 22, 2006. The Company was formed for the purpose of acquiring interests in the Peace River Coalbed Methane ("CBM") Project and became an active explorer in Northeast British Columbia.

Canada Energy has accumulated 65 gross sections or approximately 42,118 gross acres of drilling licenses with deep rights including Doig/Montney Formation and 100 gross (58 net) sections or 64,522 gross acres of shallow rights including Moosebar and Gething Formations in northeast British Columbia. The Company has three project areas: Peace River, Monias and Moberly.

In December 2008, the gas sales from eight CBM wells commenced at Peace River. The eight wells in production are still in the early dewatering process; however, the initial gas flow rates are encouraging. In addition to the CBM project, the Company has an active deep formations exploration program at Peace River and Moberly funded by its joint venture partner Crew Energy Inc. ("Crew").

## Significant Events

During the year ended April 30, 2009 and up to the date of this report, the Company:

- commenced gas sales from eight wells on Peace River CBM Project. The Company has 50% non-operated working interest in the Project. During the summer of 2008, 5 new CBM wells were drilled, gathering lines to 8 wells (including 3 previously shut-in wells) and a pipeline to the Spectra Energy transcontinental pipeline which runs through the Company's property were completed. Later during 2008, the gas plant, compressor station and metering station were installed with commencement of gas sales in January 2009. This is the first commercial CBM project in British Columbia. The eight wells on production represent the first phase of a scalable project with up to 315 potential well locations (based on 160 acre spacing). The Company's share of revenue since the commencement of production to April 30, 2009 was \$44,565;
- raised gross proceeds of approximately \$25,000,000 through the issuance of 4,237,000 flow-through shares at a price of \$1.18 per flow-through share and gross proceed of \$19,999,820 through the issuance of 16,949,000 common shares at a price of \$1.18 per common share;
- completed a 3D seismic shoot over 29 Peace River sections . This 3D seismic shoot was 100% funded by Crew;
- drilled three deep and two shallow exploration wells:
  - i) first deep exploration well on the Peace River was drilled. A thick zone of approximately 615 meters (2,018 feet) of Montney/Doig formation was encountered during the drilling of this well. The Company has 50% non-operated working interest in this well. The drilling was 100% funded by Crew. The well is shut-in pending completion;
  - ii) first deep exploration well on Moberly was drilled. Several prospective deep formations including the Montney/Doig have been identified. Casing has been set in this well. The Company has 50% non-operated working interest in this well. The drilling was 100% funded by Crew. The well is shut-in pending completion;
  - iii) first deep exploration well at Monias was drilled. Several prospective formations including the Montney/Doig have been identified in this well. Casing has been set in this well. The drilling was 100% funded by West Energy Ltd. The Company has a legal dispute with West regarding this well; see under Contingency further in this report;
  - iv) first Moosebar Shale horizontal well was drilled at Peace River. The well reached the targeted 1,000 metres of horizontal displacement. The well is currently shut-in pending a future fracture stimulation test. The drilling was 100% funded by Canada Energy. The Company is the Operator of the Moosebar Shale rights. In addition to 50% working interest it already owns, Canada Energy has the right or option to earn an aggregate 75% to 87.5% interest in the Moosebar Shale rights under the Peace River Project acreage subject to certain drilling obligations and elections by Hudson's Hope Gas Ltd., subsidiary of GeoMet Inc., the Company's joint venture partner on the shallow rights of Peace River project;
  - v) first horizontal CBM well on the farm-in lands at Monias was drilled. The drilling was 100% funded by Canada Energy and the Company earned 70% working interest in two sections. The Company is the Operator of the shallow rights at Monias. Drilling problems were encountered which prevented reaching the targeted horizontal lengths. Nevertheless, the well was completed and production tested from February to mid-May 2009 and further evaluated. The test rates have been deemed uneconomic in the current natural gas pricing environment. The well has been shut-in for possible future utility pending increased gas prices.

## **Operations Update**

The Company commenced gas sales from its 8 wells on production in December 2008. Five of the eight wells have dewatered sufficiently to contribute significant gas thus far and are averaging approximately 100 MCF/D gross. The fluid rates indicate excellent permeability in the coals and we expect the gas volumes to continue increasing for several years before peaking and rolling over into a long shallow decline.

The Company has drilled three Montney test wells on its acreage during the year ended April 30, 2009. Two wells with Crew and one well with West. All three wells were cased and are shut-in pending completions in the Montney. The 2 Crew wells are still under confidential status. The Company expects completion operations to begin in the summer 2009 on the Peace River well and later in the year on the Moberly well. Crew is obligated to spud another well at Peace River this summer, two more before August 1, 2010, and at least one of these three wells has to be horizontal. In addition, the Company is carried through completion for 50% on the fifth well, if drilled by Crew. The West well has been cased and tested in 3 zones, but has yet to test the main Upper Montney. The Company has a contractual dispute with West on whether they have earned a 65% interest in four gross sections at Monias.

## **Outlook**

Canada Energy will move forward in a cautious and conservative manner in light of continued weakness in natural gas prices and global recession. Over the next 18 months, the Company will participate in the drilling of at least three more Montney exploration wells and five Montney completions, all at no cost to Canada Energy. We will monitor gas prices and performance of the CBM Project and move forward if and when gas prices and performance are in proper alignment, and continue to seek additional exploration and acquisition opportunities in Northeast BC.

## **Projects Overview**

### *Joint Venture with Crew Energy Inc.*

In March 2008, the Company entered into a joint venture agreement with Crew Energy Inc. (TSX: CR; “Crew Energy” or “JV Partner”) to explore the Montney/Doig Formation on Canada Energy’s Peace River and Moberly prospects in northeast British Columbia.

The joint exploration program between Canada Energy and Crew Energy covers 55 sections (approximately 35,500 acres) of lands held by Canada Energy. Crew Energy operates the project and will earn a 50% working interest in the subject lands upon completion, at its sole expense, of the exploration program with the estimated budget of \$20-\$25 million.

### *Peace River Project*

The JV Partner completed a 28.5 square mile three-dimensional seismic survey of the Peace River Project in 2008. One Montney well was drilled and cased during 2008 and is shut-in pending completion testing. Several prospective deep formations, including the Montney, have been identified in this well and on the three-dimensional seismic survey.

Canada Energy and the JV Partner have amended the terms of the Joint Venture Agreement to extend the time allowed for the completion of the exploration program due to delays in permitting and access in the seismic program and the extraordinary market conditions. Under the amended terms, the JV Partner will spud the next three wells on or before, respectively September 1st, 2009, March 15<sup>th</sup>, 2010, and August 1<sup>st</sup>, 2010. At least one of these wells will be horizontal.

The \$5 million Letter of Credit provided by the JV Partner and issued in favour of Canada Energy has been extended to September 30, 2009 and will be reduced to \$2.5 million upon reaching total depth of the next well.

Talisman Energy Inc. is also very active in Montney exploration, having drilled/drilling six Montney wells north of CE’s Peace River project acreage and on depositional strike, testing one vertical well at 4 MMCF/D. They also have additional Montney well authorizations. They have publicly announced that they have spent \$300 million acquiring leases in the Montney trend and expect to spend \$7.5 billion in Montney exploration and development over the next ten years, including 49 Montney wells in 2009.

### Moberly Prospect

The JV Partner drilled an initial well on the Moberly Prospect in early 2009. Several prospective deep formations including the Montney have been identified in this well. Casing has been set on the initial well and the well is shut-in pending completion testing.

Crew has experienced significant success in the Montney formation in northeast British Columbia in their Septimus Project east of Peace River project, having tested the Montney at rates up to 17.6 MMCF/D. CE believes that Crew brings strategic expertise in the Montney to the Joint Venture.

### Joint Venture with GeoMet Inc.

Canada Energy is also developing the Peace River CBM Project with Hudson's Hope Gas Ltd., a subsidiary of GeoMet Inc. (NASDAQ: GMET). The Peace River CBM Project covers approximately 50,188 gross (25,094 net) acres near Hudson's Hope, British Columbia. The 2008 Development Program included the drilling and completion of five (5) new production wells, the connection of three existing wells, construction and installation of gas treating and compression facilities, and a pipeline and connection to Spectra's (formerly Duke Energy's) transcontinental pipeline. Initial dewatering of the eight connected wells began in calendar Q3 & Q4 of 2008. The gas plant/compressor station, pipeline connection, and gathering system were completed in December 2008 and production and gas sales began in December, 2008.

### Joint Venture with West Energy Ltd.

On April 1, 2008 the Company announced a joint venture with West Energy Ltd. (TSX:WTL) ("West") on the deep rights of the Company's Monias Prospect. The Company retained all shallow rights to the base of the Nikanassin formation.

Pursuant to the terms of the Agreement, West agreed to conduct an exploration program, the primary purpose of which is to test the potential of the Montney formation. According to the joint venture agreement, West operates the project. The initial program consisted of a three-dimensional seismic project over the majority of the Monias Prospect lands. West drilled and cased one well on the Monias Prospect. The Company has a legal dispute with West as to whether or not West has earned an interest in four sections.

Shell has recently permitted a Montney test well 1.5 miles southeast of CE's southeast corner of the Monias Prospect and Monterrey Exploration has permitted a location 2 miles south of the Company's acreage at Monias.

### **Contingency**

The Company has commenced legal proceedings in the Court of Queen's Bench of Alberta against 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.

### Operated by Canada Energy Partners

#### Monias Prospect – shallow rights

The Company's Monias Prospect consists of approximately 7,821 gross acres or 12 sections (12 square miles) and 7,430 net acres or 11.4 net sections and is located in the Peace River Plains area near Fort St. John, British Columbia. The Company owns 100% working interest in the shallow rights on all ten sections and 100% working interest in the deep rights on six 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.

#### Peace River Project – Moosebar Shale rights

In November 2008 Canada Energy entered into a farm-in agreement (the "Agreement") with GeoMet, Inc. for Moosebar Shale shallow rights on its Peace River Project. This agreement covers the Moosebar Shale formation. Under the Agreement Canada Energy became the Operator of the Moosebar Shale rights.

In addition to its current 50% working interest, Canada Energy 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 JV Partner, Canada Energy will have the right or option to earn an aggregate 75% to 87.5% interest in the Moosebar Shale under the subject acreage. Canada Energy will earn one section for each Moosebar Shale vertical well drilled and two sections for each Moosebar Shale horizontal well drilled. The Company has a 180 day rolling option to drill earning wells until all acreage is earned. Canada Energy drilled the first test well in February 2009 and the well is shut-in pending evaluation of the results.

### **Peace River CBM Project – Technical Summary**

The Company had Netherland, Sewell & Associates, Inc. ("NSA") provide a third iteration of their independent reserve assessment and evaluation report on the Peace River CBM Project effective April 30th, 2009. Highlights of the Report are as follows:

- Total gas-in-place for the Project is 1.466 Trillion Cubic Feet ("TCF") in the coal formations. NSA did not evaluate gas-in-place in the shale or deeper formations.
- Recoverable gas from the Project is estimated at 733.1 billion cubic feet ("BCF"); including proved probable, possible and contingent resource.
- The total estimated remaining recoverable gas reserves and remaining contingent gas resources net to the Company are 260.4 BCF, including 0.2 BCF proved developed producing reserves ("PDP"), 11.9 BCF probable reserves, 40.7 BCF possible reserves and 207.6 BCF contingent resources. The proved developed producing is nominal due to this being the first commercial CBM project in British Columbia and the producing wells being so early in the dewatering process.
- The estimated future net cash flow to the Company, net of development costs, operating costs, royalties, shrinkage and abandonment costs, but before income taxes, from reserves and contingent resources is \$1.624 billion. The PV10% of reserves and contingent resources is \$458.4 million.

The summary of the Report is presented below:

	Gross BCF (1)	Net BCF	Net cash flow (2) MM\$Cdn	PV10%(2) MM\$Cdn
PDP	0.86	0.2	0.7	0.6
Probable	33.4	11.9	75.6	32.1
Possible	115.8	40.7	223.4	70.1
Contingent Resource	583.1	207.6	1,325.1	355.6
Totals	733.2	260.4	1,624.8	458.4

- (1) Coal only; raw gas including carbon dioxide. Netherland did not evaluate the shales. Deep Rights were not evaluated.
- (2) Estimated future net cash and estimated PV10% values do not represent fair market value.

The study included 300 gross wells on 170-acre spacing. The NSA study has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101. Net present value was calculated before income taxes of future net revenue from the Company's resources using forecast prices and costs based on the April 1, 2009 quarterly price forecasts prepared by Canadian independent consultants. All evaluations and reviews of future cash flows are stated prior to any provisions for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves or resources have been assigned. It should not be assumed that the estimates of future net revenues presented represent the fair value of the reserves or resources. There is no assurance that the forecast prices and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of natural gas reserves or resources provided herein are estimates only and there is no guarantee that the estimates reserves or resources will be recovered. Actual natural gas reserves and resources may be greater than or less than the estimates provided herein.

Amounts representing Contingent Resources were calculated using deterministic methods and represent the "best estimate (2C)" or mid-range case. Low estimate (1C) and high estimate (3C) cases were not prepared.

The April 30, 2009 NSA report was prepared using a forecast price for the local Westcoast Station 2 and was adjusted for energy content, gathering and compression fees, transportation fees and a regional price differential, starting at CN\$3.81/MMBtu, escalating to CN\$9.13/MMBtu in 2018, and escalating at 2% per year thereafter.

The NSA Report was prepared in accordance with the requirements of NS 51-101.

It is noteworthy that GeoMet had their reserve study done by DeGolyer & MacNaughton who ascribed 4 BCF 'proved' and 22 BCF 'probable' for GeoMet's interest in the Peace River Project. This '2P' reserve estimate reflects a significantly higher "2P" reserve number than the Netherland study.

#### Definitions:

"Proved reserves" are those quantities of petroleum, which by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

“Probable reserves” are those additional Reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

“Possible reserves” are those additional reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than probable reserves.

“Contingent resources” are defined as those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations but is not currently economic. The contingencies that result in the classification of the Gething CBM as a contingent resource include, but are not limited to: permeability to gas, gas saturation and/or content, an appropriate and successful field development plan, corporate commitment, and economic factors.

“Discovered resources” are those quantities of oil and gas estimated on a given date to be remaining in, plus those quantities already produced from, known accumulations. Discovered resources are divided into economic and uneconomic categories, with the estimated future recoverable portion classified as reserves and contingent resources, respectively. The reported Discovered Resource cannot be classified into one of the sub-categories of reserve, contingent resource, or unrecoverable resource at this time because it is not possible to estimate the portion of the discovered resource that could be recoverable and/or unrecoverable due to the lack of commercial tests or production testing in the vicinity of Company interest lands. There is no certainty that it will be technically or economically viable to produce any portion of the reported Discovered Resources.

Through 2007, twenty-two wells had been drilled on the Project to date, including 9 production tested wells, 4 wells for water disposal and 4 core holes. Each of the production tested wells was allowed to flow for 5-9 months under temporary flaring permits to test the productive characteristics of the coal seams. Production rates per well ranged up to 180 MCF/d with up to 150 bw/d (barrels water per day).

Multiple techniques were used to stimulate the production tested wells, with one technique yielding significantly better results. The average flow rate at the end of the testing period on the wells stimulated with the best completion technique was 82 MCF/d and 32 bw/d with an average predicted peak rate of 482 MCF/d. Coalbed methane reservoirs similar to the Project usually increase in production over a period of several years before peaking and then going into a long, slow decline. All five of the production wells drilled and completed in 2008 manifested higher total fluid productivity than all 22 prior wells.

In 2007, Advanced Resources International, Inc., a Houston, Texas, reservoir engineering consulting firm was engaged by the Operator and performed reservoir simulations on several of the test wells. The simulations on the wells with the best stimulation technique, based on 160 acre spacing, predicted peak production rates 3-7 years after initial production of 360-685 MCF/d, with an average predicted peak rate of 482 MCF/d and an average net methane recovery of 2.83 BCF per well. The reservoir simulations predicted up to 40 years of productive life. The average projected recovery for these simulated wells, assuming the projected recoveries were attained, would be approximately 8 times the average recovery of a Horseshoe Canyon CBM well and 2-4 times the average recovery of a Manville horizontal CBM well on a per section basis. (Comparison derived from Sproule Research Report "Evolution of CBM Resources to Reserves and Commerciality in Alberta" April 17, 2007).

Netherland Sewell & Associates, Inc. ("Netherland") and Sproule Associates Limited ("Sproule"), as reported in the Company's July 16, 2007 news release, both utilized all the test data in their Resource Reports.

Reservoir simulations are forward-looking estimates of future production based upon the industry's accumulated knowledge of the production histories and characteristics of existing coalbed methane fields and the application of that historical knowledge together with geological and engineering principles by computer analogue to emerging coalbed methane fields. There is no assurance that the predicted production profile will be realized due to the unique characteristics of each coal- bed methane basin.

## **Peace River CBM Project - Regional Geology and Setting**

Most of the bituminous coal resources in the WCSB are contained within the Rocky Mountain Front Ranges and Foothills of British Columbia and Alberta. Coal deposits have been known to exist in the belt that extends almost 1,200 kilometers northwestward along the eastern side of the Rocky Mountains. The region can be divided into three geologically, physiographically and geographically distinct coal-bearing sub-divisions—the Rocky Mountain Front Ranges, the Inner Foothills Belt, and the Outer Foothills Belt.

The Rocky Mountain Front Ranges are characterized by thrust sheets of mainly Paleozoic carbonates bounded by faults that extend for tens of kilometers in length and have displacement up to several kilometers. Subsidiary thrust, tear faults and folds have further deformed the individual sheets. Jurassic-Cretaceous coal measures occur in the Rocky Mountain Front Ranges of southeastern British Columbia and southwestern Alberta.

Deformed Mesozoic and some Cenozoic clastic rocks, which extend from the Front Ranges to the eastern edge of the Disturbed Belt, constitute the Rocky Mountain Foothills. Lower Cretaceous coal is distributed through most of the Western Sedimentary Basin.

Coals of the Gething Formation in the Peace River Plains are relatively undisturbed, east of the Inner Foothills Belt, the topographically distinct belt of relatively low relief is in front of the disturbed belt.

## **Peace River CBM Project - General Stratigraphy**

Most of the Plains region is underlain by coal-bearing formations; individual coals thicken, thin, split, coalesce and pinchout in response to depositional and erosional conditions under which the original peat accumulated. Some coal beds have exceptional lateral continuity and are used as stratigraphic markers, while others are extremely variable in thickness and lateral extent.

With the exception of the areas adjacent to the Foothills, where rank may be as high as low volatile bituminous, near surface coals in the Plains region range in rank from lignite in the east to bituminous in the west, i.e. rank increases with depth and toward the west. These coals may be correlated in age and stratigraphic position with the generally low-medium volatile bituminous coals of the Foothills.

The oldest coal-bearing rocks are the Jurassic-Cretaceous Kootenay Group of the mountains and foothills. Thick coals are present in the Lower Cretaceous Mannville Groups of the Plains. Equivalent coals are exposed in the mountains and foothills, where they form part of the Luscar Group. Equivalent to Luscar in northeastern British Columbia are the Lower Cretaceous Bullhead Group and part of the Fort St. John Group.

The Lower Cretaceous Bullhead Group includes the Cadomin Formation and the Gething Formation. The Fort St. John Group, where the main coal-bearing sediments are in the Gates Formation, overlies the Bullhead Group.

In the area of the Peace River Plains, where the Project is situated, most of the upper coal-bearing Gates Formation has been eroded along with the rest of the Fort St. John Group and other overlying Upper Cretaceous/Tertiary sediments. The wedge of sediments overlying the Gething Formation thickens from east to west (from 665 to 810 metres). The Gething Formation comprises an interstratified, mainly non-marine, fluvial-deltaic sequence of sandstone, siltstone, mudstone, coal conglomerate, and is deposited over fluvial-alluvial fan strata of the Cadomin Formation. Extensive mining exploration west of the Company land indicates that the Gething Formation thickens to over 1,000 metres and contains more than 100 coal beds, each ranging in thickness from a few centimeters to over 4.3 metres.

Capping the Gething Formation within the Plains region is lenticular shoreline marine sandstone of the Bluesky Formation and marine shale of the Moosebar Formation.



## **Peace River CBM Project - CBM and Shale Gas Targets**

The Project is located in northeastern British Columbia, near the Town of Hudson's Hope. The topography of the area is of low relief, mixed farmland-pasture, with relatively easy access. The area has seen limited petroleum exploration in the past. In 1921, the British Columbia government drilled six wells and the industry had drilled only five wells prior to 1983 in the area. The Spectra Energy pipeline crosses the southwestern part of the Company's land.

The Project is located in Townships 81-82, Ranges 24-26, W6M, and in 1/93-0-16, A, H-94-A-4 and A, H/94-B-1 (BC Grid). The lands of the Project are mainly contiguous except for 13 sections (approximately 16% of the Project's acreage), which are located southeast of the Peace River, from a development perspective and consist of approximately 20,286 hectares (or 78.3 sections) of petroleum and natural gas rights.

The Moosebar Formation is present under most of the Project. The thickness of the Moosebar shale ranges from about 150 to 247 metres.

The Gething Formation is present under the entire Project. Core data, gas analyses and logs interpretation were used in the assessment of parameters to estimate the discovered resources in place.

To estimate the unconventional discovered resources, the Gething deposits were subdivided into the following rock types: coal, dirty coal, coaly shale and shale.

The net coal thickness was determined from the available log interpretation, using 1.75 g/cc density cutoff. Ash content from the core analyses would be less than 50 percent. The coals are discontinuous and correlation of individual seams is difficult.

Average gas contents and densities for each type of lithology in the Gething and Moosebar Formations were determined from core analyses of the three wells, provided by the Company.

The principal risk for the Company is the producibility of the coals and other types of rock. Ongoing testing of the Company's test holes will gather further data to assist in assessing the potential productivity of the Gething and Moosebar Formations.

## **Deep rights, northeast British Columbia**

### **Peace River Project**

The Company's 100% ownership in the 51 sections of deep rights on the Peace River Project is subject to the Crew Joint Venture discussed earlier in this report, where Crew has the right to earn 50% working interest in the Peace River Prospect. 6 of the 51 sections are also subject to 12.5% Triumph back-in as described below.

On October 2, 2007, 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) on 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, valued at \$3,366,399, using the market value of the shares on the date transaction. The purchase consideration for Triumph's assets was allocated as follows:

	\$
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
<b>Total</b>	<b>3,366,399</b>

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 than the tax cost.

### **Moberly Prospect**

The Company has 100% working interest in Moberly Prospect consisting of approximately 2,600 acres and located in the Peace River Plains area south of Fort St. John, British Columbia. The Company's interest in the Moberly Prospect is subject to a joint venture agreement by Crew Energy as previously discussed in this report. The Company's interest will be subject to Crown royalties, 10.485% back-in after project payout plus \$2,000,000 by Triumph and 2.43% overriding royalty interest. The Prospect has stacked pay objectives – CBM, shale and conventional gas potential.

### **Monias Prospect**

The Company's Monias Prospect consisting of approximately 7,821 gross acres or 12 sections (12 square miles) and located in the Peace River Plains area south of Fort St. John, British Columbia. The Company owns 100% working interest in the shallow and deep rights on 10 sections and a 70% interest in the Shallow Rights to 2 sections. Four of these sections are subject to the joint venture agreement with West Energy Ltd. ("West") as discussed earlier in this report.

Monias Prospect has stacked pay objectives – CBM, shale and conventional gas potential. There is a raw gas gathering system on the property and is approximately < 1 mile to tie in. Two of the 12 sections are subject to a 15% royalty on gas, a 5% - 15% royalty on oil production to unrelated third parties and a 6.25% after-payout working interest by Triumph.

### **Selected Annual Financial Information**

The following table provides a brief summary of the Company's financial operations for the past three years. For more detailed information, refer to the audited financial statements.

	Year ended April 30,		
	2009	2008	2007
	\$	\$	\$
Total assets	94,288,404	71,724,841	61,621,388
Oil and gas interests	82,743,778	66,318,692	58,747,533
Total current liabilities	(2,635,274)	(1,940,164)	(568,971)
Total long-term liabilities	(12,169,954)	(12,321,635)	(12,634,122)
Net loss and comprehensive loss for the year	(3,051,939)	(185,686)	(2,186,628)
General and administrative expenses	(4,284,995)	(1,806,582)	(2,560,030)
Basic and diluted loss per share	(0.04)	(0.004)	(0.17)
Cash dividends	-	-	-

- Total assets increased by \$22,563,563 during 2009 primarily due to the \$23,377,643 net proceeds from the issuance of common shares during the year offset with general and administrative expenses. During 2008 increase of \$10,103,453 in total assets was mainly due to the net proceeds of \$6,822,789 from the issuance of common shares and \$4,430,009 acquisition of oil and gas interests for shares offset with general and administrative expenses;
- Oil and gas interests deferred costs increased by \$16,425,086 in 2009 mainly due to \$11,062,543 development costs on Peace River CBM Project, \$1,647,121 exploration on Peace River and \$3,671,861 exploration on Monias. During 2009, the revenue of \$44,565 (2008 - \$Nil) was recorded against oil and gas deferred costs. 2008 increase of \$7,571,159 is mainly due to the \$4,297,691 acquisition costs and exploration expenditures on Peace River, \$2,553,211 on Monias and \$720,257 on Moberly;
- Current liabilities consist of accounts payable, accrued liabilities and bank loan. 2009 increase of \$695,110 was mainly due to timing of drilling activities and corresponding increase in accounts payable; 2008 increase of \$1,371,193 was due to \$1,376,700 ABCP bank loan obtained during that year;
- Long-term liabilities include asset retirement obligation and future income tax liability. Asset retirement obligation of \$227,588 was recorded in 2009 for the first time due to a significant number of wells drilled during the year. This was offset with the decrease in future income tax liability in 2009 mainly due to the decrease in tax rates.
- Net loss and comprehensive loss for 2009 increased by \$2,866,253 mainly due to the following non-cash items: \$2,198,438 increase in stock-based compensation expense for the stock options granted and vested during 2009, \$212,784 increase in fair value write down related to ABCP and decrease of \$348,906 in future income tax recovered. 2008 net loss decreased by \$2,000,942 mainly due to \$922,967 decrease in stock-based compensation expense, \$1,618,521 increase in future income tax recovery offset with \$258,150 fair value write-down of ABCP and increase in other general and administrative expenses due to increase in corporate activities.
- General and administrative expenses increased in 2009 by \$2,478,413 mainly due to increase of \$2,198,438 in stock-based compensation expense and increase in other expense categories mainly due to increase in activities during 2009. Decrease of \$753,448 in 2008 general and administrative expenses is mainly due to \$922,967 decrease in stock-based compensation offset with increases in other general and administrative expenses due to the increase in Company's activities since becoming public in November 2006.

### **Summary of Financial Results**

For the year ended April 30, 2009, the Company reported a net loss of \$3,051,939 of which loss of \$4,284,995 can be attributed to general and administrative expenses, a loss of \$212,585 to other items, and an income of \$1,445,641 to future income tax recovery. General and administrative expenses are discussed below in Results of Operations. Other items included \$470,934 charge for fair value adjustment to investment, which is discussed under Asset-backed Commercial Paper further in this report, \$26,636 income from foreign exchange on the US\$ denominated cash and invoices, \$340,717 interest income from short-term investments and \$109,004 payment of Part XII tax related to flow-through expenditures.

### **Results of Operations**

In January 2009, the Company commenced gas sales from eight wells on its Peace River CBM Project. The Company's share of production revenue was \$44,565 (2008 - \$Nil). Revenue recognized during the development stage was presented as a reduction of related deferred development costs in accordance with the requirements of the CICA Handbook AcG-11, Enterprises in the development stage.

During 2009, the Company incurred \$4,284,995 (2008 - \$1,806,582) of general and administrative expenses. Significant expenditures were incurred in the following categories:

- Administrative and management fees of \$499,225 (2008 – \$434,614) incurred in connection with the management agreements described further in this MD&A in the Related Party Transactions. The 2009 increase is mainly due to hiring of a new CEO in October 2008;
- Corporate development expense of \$215,763 (2008 - \$144,975) consists mainly of fees and expenses paid to business development consultants. The increase in this expense category is due to the increase in activities during 2009;
- Travel expenses of \$138,600 (2008-\$78,140) increased mainly due to the site visits to the Company's properties;
- Stock based compensation expense of \$2,760,803 (2008 - \$562,365) is non-cash and represents the estimated fair value of stock options vested during the year. The stock-based compensation charge was greater in 2009 due to additional stock options granted during the year. Stock-based compensation expense is accounted for at fair value as determined by the Black Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and risk-free interest rate;
- Professional fees of \$133,455 (2008 - \$89,488) were paid in connection with the corporate activities during the year;
- Office and miscellaneous expense of \$127,208 (2008 - \$84,835) includes bank charges and interest on ABCP loan (only partial period in 2008), office supplies, telephone, insurance, professional fees and dues; rent of \$113,636 (2008 - \$49,152) includes rent of Company's offices in Vancouver, Calgary, Baton Rouge and Dallas. Both expense categories increased mainly due the increased corporate activities of the Company in 2009.
- Legal expenses of \$90,223 were lower in 2009 compared to \$176,280 in 2008 due to the greater number of acquisitions of oil and gas interests during 2008.

During the year ended April 30, 2009, the Company recognized a further impairment charge in the amount of \$470,934 (2008 - \$258,150) on its asset-backed commercial paper investment.

The Company's interest income is attributable to interest earned on the Company's cash and cash equivalents. Interest income during 2009 was \$340,717 (2008 – \$86,112). The increase in interest income is due to increase in the balance of cash and cash equivalents.

The Company capitalized \$12,710,615, net of \$44,565 gas production revenue, on the Peace River Project, \$3,689,173 on Monias Prospect, and \$25,298 on Moberly project during 2009. There were no properties written off during 2009 or in prior years.

## Summary of Quarterly Results and Fourth Quarter

The following is a summary of the Company's selected financial results for the eight most recently completed quarters. The information has been prepared in accordance with Canadian GAAP.

	Fiscal 2009				Fiscal 2008			
	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$
Total assets	94,288,404	95,809,728	95,718,223	94,297,032	71,724,841	71,038,065	66,195,624	62,190,333
Long term financial liabilities	-	-	-	-	-	-	-	-
General and administrative expenses	438,049	343,351	984,732	2,518,863	460,821	410,804	576,287	358,670
Net income/(loss)	582,790	(356,518)	(838,709)	(2,439,502)	1,047,035	(65,874)	(830,950)	(335,897)
Net income/(loss) per common share basic and diluted	(0.00)	(0.00)	(0.01)	(0.03)	0.03	(0.00)	(0.02)	(0.01)

### Total assets

- decreased by \$1,521,324 during Q4 2009 due to general and administrative expenditures of \$438,049, decrease in accounts payables of \$882,215, write-off in the fair value of ABCP of \$529,961, offset by \$209,568 asset retirement obligation and interest income of \$40,104 from the Company's short-term investments;
- there were no significant fluctuations in total assets in Q3, 2009;
- increased by \$1,421,191 during Q2 2009 due to the expenditures on the Peace River Project included in accounts payable as at October 31, 2008, offset with general and administrative expenditures;
- increased by \$22,572,191 during Q1 2009 due to the net proceeds of \$23,314,098 from the financing completed during the period offset with general and administrative expenditures;
- increased by \$686,776 during Q4 2008 due to the proceeds of \$402,058 from exercise of warrants, \$396,980 acquisition of oil and gas interests from GFR Canada for shares offset with general and administrative expenditures;
- increased by \$4,842,441 during Q3 2008 due to the proceeds from \$5,121,540 private placement and proceeds of \$172,000 from the bank loan obtained during the period offset by \$383,906 share issue costs and operating expenditures;
- increased by \$4,005,291 during Q2 2008 due to the acquisition of working interests in various oil and gas assets from Triumph Pacific Oil & Gas Corporation for shares with a fair value of \$3,366,399 and proceeds of \$1,204,700 from the bank loan obtained during the period offset by operating expenditures.

### General and administrative expenses

- increase of \$94,698 in Q4 2009 compared to Q3 2009 is mainly due to \$41,570 increase in professional fees due to increase in corporate activities, \$27,084 increase in legal expenses due to Company's legal proceedings, and asset retirement obligation depreciation and accretion expenses of \$18,020;
- decrease of \$641,381 in Q3 2009 compared to Q2 2009 is mainly due to decrease of \$629,005 in non-cash stock based compensation for the stock options vested during Q3 2009. There were no other significant fluctuations in individual expenses categories during Q3 2009;
- there were no significant fluctuation in individual expenses categories during Q2 2009 except for \$66,500 non-cash stock based compensation for the stock options granted during the Q2 2009 for the 50,000 stock options granted during the Q2 2009 and \$540,000 non-cash stock based compensation for the stock options granted during the Q1 2009 and recognized during the Q2 2009 (2,000,000 stock options were granted during the Q1 2009);

- increase of \$2,058,042 in Q1 2009 compared to Q4 2008 is mainly due to \$2,040,000 non-cash stock based compensation for the stock options granted during the Q1 2009 (2,000,000 stock options were granted during the Q1 2009);
- there were no significant fluctuation in individual expense categories during Q4 2008;
- decrease of \$165,483 in Q3 2008 compared to Q2 2008 is mainly due decreases of \$87,053 in non-cash stock based compensation for the stock options vested during the Q3 2008, \$46,566 decrease in professional fees and \$57,600 decrease in legal expenses due to the corporate and acquisitions activities during the Q2 2008;
- increase of \$217,617 in Q2 2008 compared to Q1 2008 is mainly due the increase of \$101,933 in non-cash stock based compensation for the stock options vested during the Q2 2008 (500,000 stock options were granted during the Q2 2008, of which 25% vested during the period and Nil were granted during Q1 2007), \$60,691 increase in professional fees and \$35,137 increase in legal expenses due to the increase in corporate and acquisition activities during the Q2 2007;

#### **Net loss**

- Q4 2009 net loss included non-cash future income tax recovery of \$1,445,641 due to the tax rate reduction effect on the Company's future income tax liability and \$470,934 loss recognized on the a further impairment charge of the Company's asset-backed commercial paper investment in addition to general and administrative expenses discussed above;
- there were no significant fluctuations in individual expense categories during Q3 2009 except for \$109,004 part XII.6 tax in respect of a 2007 flow-through financing renounced to the subscribers under the look-back rule in January 2008. This Part XII.6 tax expense was calculated by multiplying the unspent qualified Canadian exploration expenditures ("CEE") at the end of each month (starting with February 2008) by the prescribed monthly interest rate set by Revenue Canada;
- there were no significant fluctuation in individual expense categories during Q2 2009 except stock-based compensation discussed in the above offset with \$62,642 increase in interest income from the short-term investments;
- there were no significant fluctuation in individual expense categories during Q1 2009 except stock-based compensation discussed in the above;
- Q4 2008 net income includes non-cash future income tax recovery of \$1,473,732, compared to \$320,814 future income tax recovery recorded in Q3 2008. Income tax recovery recorded in Q4 2008 is mainly due to the tax rate reduction effect on the Company's future income tax liability;
- Q3 2008 net loss includes non-cash future income tax recovery of \$320,814, compared to \$Nil future income tax recovery recorded in Q2 2008, on the renunciation of exploration expenses to the investors in the flow-through shares. In addition, Q2 net loss includes \$258,150 (Q3 - \$Nil) fair value adjustment to the Company's investment in asset-backed commercial paper.

#### **Liquidity and Capital Resources**

As at April 30, 2009, the Company had a positive working capital of \$7,976,464 compared to a positive working capital of \$2,003,135 as at April 30, 2008. The increase in the Company's working capital is attributed mostly to the June 10, 2008 equity financing.

As at the date of this MD&A, the Company has a positive working capital of approximately \$7,300,000. The working capital does not include the Company's investment in ABCP fair valued at \$932,888 (face value \$1,712,737).

As at April 30, 2009, the Company had cash and cash equivalents of 10,280,593, accounts receivable and prepaids of \$331,145 being available to cover the Company's short-term liabilities of \$2,635,274.

During 2009, the Company generated revenue from operations of \$44,565 and recorded interest income of \$340,717 from its short-term investments. The Company funded its operations during 2009 from \$23,377,643 cash inflow from the financing activities and from interest earned from its investments. Since the production at the Peace River CBM Project is in its early stage, the Company is still dependant on the equity markets as its major source of future development and exploration activities.

#### ***Asset-backed Commercial Paper***

At April 30, 2009, the Company held restructured asset-backed commercial papers ("ABCP") notes with a face value of \$1,712,737 and estimated fair value of \$932,888. These investments were designated as held-for-trading and are accounted for at their fair value.

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 assets.

Upon restructuring, the Company received new notes ("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
			1,712,737	991,915
Return of capital				(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.

In Q4 2009, the Company settled the original notes and recognized the New Notes with the face value of \$1,712,737. The New Notes were measured at fair value on initial recognition. The Company estimated the fair value of these notes to be \$991,915 and recognized additional impairment charge of \$529,962 (\$258,150 impairment charge recognized in the fiscal 2008). In conjunction with the notes exchange, the Company received a payment of \$59,027 which was its share of the accumulated interest to August 31, 2008. This amount was accounted for as a reduction of the Company's investment. Additional information on the Company's estimation of fair value is included in note 6 of the Company's audited financial statements.

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.

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 (effective May 22, 2009, the interest rate payable increased to the Bank's prime rate plus 1% and stamping fees increased to 1.5% per annum). The Company paid \$39,511 in interest and stamping fees on the loan during the year ended April 30, 2009.

The Company considers that it has adequate resources to maintain its ongoing operations and current property commitments for 2010 fiscal year but may not have sufficient working capital to fund all of its planned development and exploration work. The Company will continue to rely on successfully completing additional equity and/or debt financing to further exploration of its existing and new properties in British Columbia. There can be no assurance that the Company will be successful in obtaining the required financing.

The Company does not know of any trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in liquidity are substantially determined by the success or failure of the development and exploration programs.

### **Operating Cash Flow**

Net cash used in operating activities during the year ended April 30, 2009, was \$1,812,758 compared to net cash of \$1,067,894 used during the year ended April 30, 2008. Included in the net loss is stock-based compensation of \$2,760,803 (2008 - \$562,365), a further impairment charge of \$470,934 on asset-backed commercial paper (2008 - \$258,150) and \$59,027 interest income received in conjunction with the notes exchange (2008 - \$Nil), future income tax recovery of \$1,445,641 (2008 - \$1,794,547), and change in non-cash working capital of \$623,962 (increase in accounts receivable and prepaid expenses of \$204,797 and increase in accounts payable and accrued liabilities of \$419,165) (2008 - \$223,046 decrease in accounts receivable and prepaids and increase of \$131,222 in accounts payable).

### **Financing Activities**

The Company received \$25,057,772 from the private placement and exercise of agent's warrants during 2009 less share issue costs of \$1,680,129 (2008 - \$5,852,229 from the private placement and exercise of agent's warrants less share issue costs of \$406,140). The Company received proceeds of \$Nil in 2009 (2008 - \$1,376,700) from the bridge loan facility secured by its investment in ABCP.

### **Investing Activities**

Investing activities required cash of \$15,101,243 during the year ended April 30, 2009, compared to cash of \$2,962,108 used during the year ended April 30, 2008. Significant increase in the Company's investing activities during fiscal 2009 is due to increased activities on the Company's Peace River CBM Project and Monias Prospect.

### **Outstanding Share Data**

As of April 30, 2009, the Company had 82,356,284 common shares and 5,600,000 stock options outstanding.

In May 2009 the Company received approval from TSX Venture Exchange to repurchase 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.

Subsequent to the year ending April 30, 2009, the Company:

- granted 650,000 incentive stock options at an exercise price of \$0.51 per share;
- cancelled an aggregate of 900,000 stock options at an exercise price of \$1.61 per share;
- repurchased 30,000 of its common shares at a weighted average price of \$0.53 per share.

As at the date of this MD&A, there were 82,326,284 common shares and 5,350,000 stock options outstanding.



### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements

### Related Party Transactions

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.

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.

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.

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 CEO.

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.

### Contractual Commitments

a) The Company has committed to rent office space for the following annual amounts:

Unit	Commencement Date	Term	\$/ month	Fiscal 2010
Calgary #1041	1-Oct-08	30-Sept-09	\$ 5,800	\$ 29,000
Vancouver #1501	1-Jan-09	28-Feb-10	2,670	26,700
Vancouver #1521	1-Feb-09	28-Feb-10	1,290	12,900

b) Mineral properties commitments are disclosed in Note 3 of the Company's audited financial statements for the year ended April 30, 2009.

## **Financial Instruments**

The Company has 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, 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.
- c) Investments in asset-backed commercial paper and bank loan are designated as "*Held-for-trading*".
- d) 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.

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. A summary of financial risk factors related to the Company's business are provided in Note 10 of the Company's April 30, 2009 audited financial statements. The additional risks to which the Company is exposed are described below.

## **Risk Factors**

The Company's operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding exploration, additional financing, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, and regulatory requirements, environmental regulations risks. Exploration for gas and CBM resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess.

A summary of financial risk factors related to Company's business is provided in the Note 10 of the Company's audited financial statements for the year ended April 30, 2009. Additional risks are described below.

## **Substantial Capital Requirements**

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development, and production of CBM reserves in the future. If the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

## **Global Financial Crisis**

Recent market events and conditions have caused significant volatility in commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in global credit and financial markets and creating a climate of greater volatility, less liquidity, and tighter credit conditions. Commodity prices are expected to remain volatile for the near future as a result of market uncertainties over the level of global demand for and supply of petroleum products, and availability of alternative fuels. These factors may negatively impact the future Company's performance.

## **Environmental Risks**

All phases of the gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of gas, water or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

## **Water Disposal**

The coal beds from which CBM gas is produced frequently contain water that may hamper the Company's ability to produce gas in commercial quantities or affect the Company's profitability.

Unlike conventional natural gas production, coal beds frequently contain water that must be removed in order for the gas to desorb from the coal and flow to the well bore. The Company's ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not the Company can produce gas in commercial quantities. The cost of water disposal may affect the Company's profitability.

Where water produced from the Project fails to meet the quality requirements of applicable regulatory agencies or wells produce water in excess of the applicable volumetric permit limit, the Company may have to shut in wells, reduce drilling activities, or upgrade facilities. The costs to dispose of this produced water may increase if any of the following occur:

- the Company cannot obtain future permits from applicable regulatory agencies;
- water of lesser quality is produced;
- wells produce excess water; or
- new laws and regulations require water to be disposed of in a different manner.

## **Reliance on Operators and Key Employees**

The Company is not the operator on all of its prospects and may not be the operator of certain gas properties in which it acquires an interest. To the extent the Company is not the operator of its gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. The operator may incur liability for liens related to its subcontractors. If subcontractors fail to timely pay for materials and services, the assets of the operator could be subject to materialmen's and workmen's liens. In that event, the operator could incur excess costs in discharging such liens.

In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

## **Conflicts of Interest**

Certain of the directors and officers of the Company are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the Business Corporations Act.

## **Permits, Licenses and Government Regulations**

Governmental permits and approvals for drilling operations must be obtained for the Project, which can be a costly and time consuming process and result in restrictions on operations.

Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. For example, GeoMet as the operator of the Project will often be required to prepare and present to federal, provincial or local authorities data pertaining to the effect or impact that proposed exploration for or production of gas may have on the environment. Further, the public may comment on and otherwise engage in the permitting process, including through intervention in the courts. Accordingly, the permits that are needed may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements that restrict the ability to conduct the operations on the Project or to do so profitably.

Oil and gas exploration is subject to significant regulation. Changes in these regulations may have a material adverse impact on the Company's operations.

## **Title Matters**

Although title reviews on the Company's property interests will be done or have been done to the satisfaction of management of the Company, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the interests of the Company. Such defects in title could result in a reduction of the possible revenue to be received by the Company. In addition, the Company's properties which are held in the form of licences, leases and/or working interests in licences and leases may be adversely affected if the holder of the licence or lease fails to meet the specific requirements of a licence or lease. There can be no assurance that any of the obligations required to maintain such licences or leases will be met. The termination or expiration of such licences, leases or working interests in licences or leases may have a significant material adverse effect on the Company's results of operations and business.

## **Aboriginal Land Claims**

Many lands in British Columbia are or could become subject to aboriginal lands claim to title, which could adversely affect the Company's title to its properties. While the Company actively consults with all groups which may be adversely affected by the Company's activities, including aboriginal groups, there can be no assurance that satisfactory agreements can be reached.

## **Additional Funding Requirements**

Since the production at the Peace River Project is in its early stage, the Company is still dependant on the equity markets as its major source of operating working capital. From time to time, the Company may require additional financing in order to carry out its acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. There can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms.

## **Company Not the Operator of the Peace River, Moberly and deep rights on Monias Projects**

The Company is not the operator of the Projects and will have limited or no control over the Projects. More specifically, the Company will have limited or no control over the following: the timing of the drilling and recompleting of wells; the timing and amounts of production; and the development and operating costs.

### **Issuance of Debt**

From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The Company's Articles do not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

### **Availability of Drilling Equipment and Access Restrictions**

CBM exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

### ***Changes in Accounting Policies including Initial Adoption***

Effective May 1, 2008, the Company implemented the new CICA Handbook Section 1506 "Accounting Changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of change in accounting policies, estimates and error on the financial statements.

These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued that the company has not adopted because there are not yet in effect. The adoption of this new section is not expected to have an impact on the Company's financial statements.

### ***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 of the Company's annual audited financial statements.

### ***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 ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

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 of the audited financial statements.

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 of the audited financial statements.

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 December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, 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”.

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.

### **Investor Relations Activities**

Mr. John Proust, a Director of the Company, coordinates investor relations activities.

**Change in Directors and Management**

During the year ended April 30, 2009, the Company announced the resignation of Mr. Winston Purifoy as President. Mr. Ben Jones, the CEO of the Company, assumed the role of the President. Subsequent to April 30, 2009, Mr. Winston Purifoy resigned as director of Canada Energy. Mr. Purifoy reduced his directorships in order to pursue his other business interests.

**Additional Information and Continuous Disclosure**

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website at [www.canadaenergypartners.com](http://www.canadaenergypartners.com).