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**CANADA ENERGY PARTNERS INC.**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED APRIL 30, 2016 AND 2015  
*(Expressed in Canadian Dollars)*

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August 22, 2016

## **Independent Auditor's Report**

### **To the Shareholders of Canada Energy Partners Inc.**

We have audited the accompanying consolidated financial statements of Canada Energy Partners Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at April 30, 2016 and April 30, 2015 and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Energy Partners Inc. and its subsidiaries as at April 30, 2016 and April 30, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern.

*signed "PricewaterhouseCoopers LLP"*

**Chartered Professional Accountants**

**CANADA ENERGY PARTNERS INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Expressed in Canadian Dollars)*

	April 30, 2016	April 30, 2015
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 345,727	\$ 52,008
Accounts receivable	-	3,369
Prepaid and deposits	2,289	27,768
Reclamation deposit (Note 3)	2,161,810	-
	2,509,826	83,145
<b>RECLAMATION DEPOSIT</b> (Note 3)	-	2,161,810
<b>OIL AND GAS INTERESTS</b> (Note 5)	1,546,350	17,005,603
	\$ 4,056,176	\$ 19,250,558
<b>L I A B I L I T I E S</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 373,784	\$ 88,264
Loans (Note 9)	52,965	-
Current portion of decommissioning liability	1,081,954	-
	1,508,703	88,264
<b>DECOMMISSIONING LIABILITY</b> (Note 6)	230,068	2,156,707
	1,738,771	2,244,971
<b>S H A R E H O L D E R S ' E Q U I T Y</b>		
<b>SHARE CAPITAL</b> (Note 8)	71,124,785	71,124,785
<b>SHARE-BASED PAYMENT RESERVE</b> (Note 8)	8,548,325	8,536,275
<b>DEFICIT</b>	(77,355,705)	(62,655,473)
	2,317,405	17,005,587
	\$ 4,056,176	\$ 19,250,558

**NATURE OF OPERATIONS AND GOING CONCERN** (Note 1)

Approved by the Board of Directors and authorized for issuance on August 19, 2016.

“John Proust”, Director      “Ben Jones”, Director

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

**CANADA ENERGY PARTNERS INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
*(Expressed in Canadian Dollars)*

	Year ended April 30, 2016	Year ended April 30, 2015
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Accretion	\$ 40,322	\$ 43,675
Administrative and management services (Note 9)	358,801	403,724
Audit and accounting	11,400	30,680
Filing and regulatory	19,511	29,631
General exploration	108,821	5,185
Research	17,199	-
Loss on sale of PP&E (Note 4)	1,957,455	-
Impairment of oil and gas interests (Note 5)	12,216,791	10,609,590
Interest expense	3,808	10,340
Office and miscellaneous	53,561	70,393
Professional fees	29,530	51,606
Rent	18,929	27,548
Share-based compensation	12,050	58,203
Travel	8,372	10,700
	(14,856,550)	(11,351,275)
<b>OTHER ITEMS</b>		
Gain on disposition of assets	149,415	-
Foreign exchange gain	6,903	673
Interest income	-	6,157
	156,318	6,830
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	\$ (14,700,232)	\$ (11,344,445)
<b>LOSS PER SHARE - BASIC AND DILUTED</b>	\$ (0.16)	\$ (0.13)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED</b>	90,394,534	90,073,188

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

**CANADA ENERGY PARTNERS INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(Expressed in Canadian Dollars)*

	Number of Issued and Outstanding Shares	Share Capital	Share-based Payment Reserve	Deficit	Total Shareholders' Equity
<b>Balance as at May 1, 2015</b>	90,394,534	\$ 71,124,785	\$ 8,536,275	\$ (62,655,473)	\$ 17,005,587
Share-based compensation	-	-	12,050	-	12,050
Net loss for the year	-	-	-	(14,700,232)	(14,700,232)
<b>Balance as at April 30, 2016</b>	90,394,534	\$ 71,124,785	\$ 8,548,325	\$ (77,355,705)	\$ 2,317,405

	Number of Issued and Outstanding Shares	Share Capital	Share-based Payment Reserve	Deficit	Total Shareholders' Equity
<b>Balance as at May 1, 2014</b>	89,255,784	\$ 82,953,215	\$ 8,558,240	\$ (51,311,028)	40,200,427
Share issued - options exercised	1,138,750	113,875	-	-	113,875
Fair value of options exercised	-	80,168	(80,168)	-	-
Distribution of capital to shareholders	-	(12,022,473)	-	-	(12,022,473)
Share-based compensation	-	-	58,203	-	58,203
Net loss for the year	-	-	-	(11,344,445)	(11,344,445)
<b>Balance as at April 30, 2015</b>	90,394,534	\$ 71,124,785	\$ 8,536,275	\$ (62,655,473)	\$ 17,005,587

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

**CANADA ENERGY PARTNERS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Expressed in Canadian Dollars)*

	<u>Year ended</u> <u>April 30, 2016</u>	<u>Year ended</u> <u>April 30, 2015</u>
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (14,700,232)	\$ (11,344,445)
Accretion	40,322	43,675
Interest expense	3,808	10,340
Share-based compensation	12,050	58,203
Gain on disposition of asset	(149,415)	-
Loss on sale of PP & E	1,957,455	-
Impairment of oil and gas interests	12,216,791	10,609,590
Changes in non-cash working capital balances		
Accounts receivable and prepaid and deposits	28,846	10,560
Accounts payable and accrued liabilities	264,965	(197,491)
	<u>(325,410)</u>	<u>(809,568)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposition of asset	149,415	-
Oil and gas interests	-	(97,148)
Proceeds from sale of PP&E ( Note 4)	420,000	-
Disposition of oil and gas interests (net)	-	12,492,995
	<u>569,415</u>	<u>12,395,847</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from loans (Note 9)	49,714	-
Issuance of shares (net of share issuance costs)	-	113,875
Distribution of capital to shareholders	-	(12,022,473)
	<u>49,714</u>	<u>(11,908,598)</u>
<b>INCREASE (DECREASE) IN CASH DURING THE YEAR</b>	293,719	(322,319)
<b>CASH - BEGINNING OF THE YEAR</b>	52,008	374,327
<b>CASH - END OF THE YEAR</b>	<u>\$ 345,727</u>	<u>\$ 52,008</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Accounts payable related to oil and gas interests	\$ -	\$ -
Interest expense paid	\$ -	\$ -

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

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2016**  
*(Expressed in Canadian Dollars)*

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Canada Energy Partners Inc. (“the Company”) is an independent natural gas exploration and development company focused primarily on 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). The Company’s principal and executive office is located at Suite 3123, 595 Burrard Street, Vancouver, BC, Canada V7X 1J1.

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 ability of the Company to obtain the necessary financing to complete its share of the development, and future profitable production.

**Going Concern**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

For the year ended April 30, 2016, the Company incurred a net loss of \$14,700,232 (April 30, 2015: \$11,344,445) and had working capital of \$1,001,123 (April 30, 2015: deficiency of \$5,119). The Company does not generate sufficient cash flow from operations to adequately fund its future activities and has relied principally upon issuance of securities to fund its exploration, development and administrative expenditures.

The Company continues to pursue a number of options to increase its financial capacity, including the sale of a portion of its oil and gas interests, raising equity financing, debt agreements, and the commercialization of its cavitation tool.

The Company will require additional capital to fund its future property acquisitions and its exploration and research programs as well as for administrative purposes. There is material uncertainty about whether the Company will be able to obtain additional capital, which casts significant doubt on the Company’s ability to continue as a going concern. If management is unable to obtain new funding, the Company may be unable to continue its operations, realize its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.



**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2016**  
*(Expressed in Canadian Dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

These consolidated financial statements have been prepared in accordance with IFRS by the IASB.

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Hudson's Hope Gas, Ltd. ("HHG"). Control exists when the Company has the power over its subsidiaries, exposure or right, to variable returns from its involvement with the subsidiary, and the ability to use its power over the subsidiary to affect the amount of the subsidiaries return. Control of HHG was obtained effective June 26, 2012 when the Company acquired all of the outstanding shares of HHG. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical judgments**

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- Management is required to assess the Company's oil and gas interests for indicators of impairment at each reporting date. In making the assessment, management is required to make judgments regarding the recoverable amount of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined impairment indicators were present in respect of its oil and gas interests, and as a result an impairment test was performed. Refer to Note 5.

- Considerable judgment is required to identify the point in the progress of a research and development project at which a new or improved product or process is determined to be technologically feasible, marketable, or useful and therefore determining when research and development costs should be capitalized.

Management has determined that the Company is still in the early stages of research and no costs should be capitalized.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2016**  
*(Expressed in Canadian Dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Estimation uncertainty**

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- The assessment of any impairment of oil and gas properties is dependent upon the recoverable amount that take into account factors as such as economic and market conditions, the useful lives of assets used, revenue estimates and capacity limits for inputs in present value calculations.
- The Company has recognized a provision for a decommissioning liability associated with its oil and gas interests. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to restore property to its original condition and the expected timing of those costs. The carrying amount of the liability at April 30, 2016 is \$1,312,022 (2015 - \$2,156,707).

***Oil and gas interests***

All costs directly associated with the acquisition and development of oil and gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include costs to acquire acreage and exploration rights, geological and geophysical costs, decommissioning liabilities, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as general exploration expense.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings as impairment expenses.

- Plant and equipment

All costs directly associated with the development of plants and equipment are initially capitalized. These costs include property acquisition, development drillings, completion of wells, gathering facilities and infrastructure, asset retirement costs, and transfer from exploration and evaluation assets where technical feasibility and commercial viability has been determined.

The net carrying value of plant and equipment is depreciated using the unit-of-production method by reference the ratio of production in the year to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to bring those reserves into production.

***Assets held for sale***

The Company's assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The Company's assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

***Impairment of non-financial assets***

Impairment tests for non-financial assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the non-financial asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the non-financial asset to its recoverable amount.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2016**  
*(Expressed in Canadian Dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Decommissioning liabilities***

Decommissioning liabilities include present obligations where the Company will be required to retire tangible non-financial assets such as producing well sites and facilities. The decommissioning liabilities are measured at the present value of the expenditure expected to be incurred using a risk-free discount rate. The associated asset retirement obligation is capitalized as part of the cost of the related non-financial assets. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liabilities and the related decommissioning cost.

Increase in decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liabilities in the statement of comprehensive loss. Actual expenditures incurred are charged against the decommissioning liabilities as incurred.

***Research and development costs***

Expenditures during the research phase are expensed as incurred, because during this phase, the Company cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Upon a determination that the criteria to capitalize development expenditures, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred.

To date, no development costs have been capitalized.

***Income taxes***

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2016**  
*(Expressed in Canadian Dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Share-based payment transactions***

The Company's stock option plan allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value for employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

***Loss per share***

The Company presents basic loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In reporting periods when a loss is incurred, potential issuance of shares would be anti-dilutive and therefore, basic and diluted loss per share are the same.

***Foreign currency transactions***

Items included in the financial statements of each of the Company and its subsidiary are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional and reporting currency of the Company and its subsidiary is the Canadian dollar.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the statement of financial position 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.

***Fair value hierarchy***

IFRS requires disclosure about fair market value measurements for financial instruments measured at fair value using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2016**  
*(Expressed in Canadian Dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Financial instruments***

On initial recognition, all financial assets and financial liabilities are recorded at fair value plus directly attributable transaction costs, other than financial assets and liabilities classified as at fair value through profit or loss. The directly attributable transaction costs of financial assets and liabilities classified as at fair value through profit or loss are expensed in the period they are incurred.

Subsequent measurement

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term and financial assets and liabilities designated at fair value through profit or loss on initial recognition. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Cash, accounts receivable and reclamation deposit are classified as loans and receivables.

*Held-to-maturity* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the asset, including impairment losses, are recognized in the statement of operations and comprehensive loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2016**  
*(Expressed in Canadian Dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Financial instruments (continued)*

*Other financial liabilities:* This category includes accounts payables and the loans, all of which are recognized at amortized cost at the settlement date using the effective interest method of amortization.

**New Accounting Standards and Recent Pronouncements**

The following is an overview of accounting standard change that the Company will be required to adopt in future years. The Company continues to evaluate the impact of these standards on its financial statements.

- IFRS 9 - Financial Instruments. This IFRS introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 - Financial Instruments: Recognition and measurement, derecognition of financial assets and financial liabilities. The required adoption date for IFRS 9 is January 1, 2018.
- IFRS 15 - Revenue from Contracts with Customers. This IFRS establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- IFRS 16 – Leases. This IFRS, which supersedes IAS 17 – Leases, specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied.

**3. RECLAMATION DEPOSIT**

The Company has a reclamation deposit of \$2,161,810 (April 30, 2015: \$2,161,810) that is held by the British Columbia Oil and Gas Commission (“BCOGC”) as a financial guarantee of the future abandonment costs for the Company's wells and gas processing plant.

**4. GAS PROCESSING PLANT SALE**

The Company owned 100% of a gas processing plant located in Peace River, British Columbia, which was reclassified as asset held for sale and sold during the year ended April 30, 2016 for gross proceeds of \$420,000. The gas processing plant asset was measured at the lower of carrying value and fair value less cost to sell. As a result, the Company recorded an impairment charge of \$1,957,455 with regards to these assets.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2016**  
*(Expressed in Canadian Dollars)*

**5. OIL AND GAS INTERESTS**

<b>For the year ended April 30, 2016</b>	<b>Total</b>
<b>Acquisition costs</b>	
Balance, beginning of year	\$ 15,815,574
Impairment of oil and gas interest	(11,026,762)
Change in estimate	(1,071,089)
Gas plant sold	(2,171,373)
Balance, end of year	\$ 1,546,350
<b>Exploration costs</b>	
Balance, beginning of year	\$ -
Balance, end of year	\$ -
<b>Development costs</b>	
Balance, beginning of year	\$ 1,190,029
Impairment of development costs	\$ (1,190,029)
Balance, end of year	\$ -
<b>Total oil and gas interests</b>	<b>\$ 1,546,350</b>

  

<b>For the year ended April 30, 2015</b>	<b>Total</b>
<b>Acquisition costs</b>	
Balance, beginning of year	\$ 25,915,043
Leases, acquisitions and rental costs	132,457
Impairment of oil and gas interest	(10,231,926)
Balance, end of year	\$ 15,815,574
<b>Exploration costs</b>	
Balance, beginning of year	\$ -
Asset retirement costs	351,570
Report and others	28,212
Impairment of oil and gas interest	(379,782)
Balance, end of year	\$ -
<b>Development costs</b>	
Balance, beginning of year	\$ 1,190,029
Balance, end of year	\$ 1,190,029
<b>Total oil and gas interests</b>	<b>\$ 17,005,603</b>

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**5. OIL AND GAS INTERESTS** (continued)

**Peace River Project, British Columbia**

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

***Shallow rights***

Shallow rights include the Peace River coalbed methane project and Moosebar Shale rights. The Company's interest in the Peace River Project and the Moosebar Shale rights is subject to Crown royalties and, for certain acreage, to overriding royalties of up to 0.05%.

***Deep rights***

On July 31, 2014, the Company completed the sale of its Montney rights for \$15,720,000 and received net proceeds of \$12,492,995 after adjustments, including a \$2.2 million reclamation deposit paid directly by Crew Energy Inc. ("Crew") on behalf of the Company to the BCOGC and repayments to Crew of a short-term loan and other liabilities. As part of the sale, the Company retained water disposal rights in all the leasehold rights it sold. As at April 30, 2016, the cost capitalized for the water disposal well is \$1,546,350.

***Impairment***

The Peace River Project consisted of the shallow rights and a water disposal well. As at April 30, 2016, the Company evaluated its Peace River Project and determined that the carrying amount of the oil and gas interest for the shallow rights was unlikely to be recovered in full from successful development or by sale. Subsequent to the year ended April 30, 2016, the Company started a plug and abandonment program on its shallow rights project. As a result, the Company recorded an impairment of \$12,216,791 (2015: \$10,609,590).

The Company also evaluated the carrying amount recorded for the water disposal well by using an assessment of net present value. Based on discounted cash flows using future revenue less cost to sell of 1% and a discount rate of 10%, the Company determined the net present value of the water disposal well to be higher than the current carrying value. As a result, the Company did not trigger an impairment to the water disposal well.



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**6. DECOMMISSIONING LIABILITY**

Total future decommissioning liability was 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 risk adjusted undiscounted amount of cash flows required to settle the decommissioning liability to be \$1,307,304. Out of this amount, \$1,081,954 is expected to be incurred within the next twelve months as the Company has started a plug and abandonment program on its shallow rights project. As a result, the decommissioning liability related to the shallow rights has been reclassified as current. The remaining undiscounted balance of \$225,350 relating to the water disposal well is expected to be incurred within the next seven years. To calculate the net present value of its decommissioning liability, the Company used a risk free interest rate of 1.2% (2015: 1.67%). The following table summarizes the Company's decommissioning liability:

	Decommissioning Liability
Balance, as at April 30, 2014	\$ 1,761,462
Change in estimate	351,570
Accretion expense	43,675
Balance, as at April 30, 2015	2,156,707
Moved to current portion of decommissioning liability	(1,081,954)
Change in estimate	(885,007)
Accretion expense	40,322
Balance, as at April 30, 2016	\$ 230,068

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.

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**7. INCOME TAXES**

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

	April 30, 2016	April 30, 2015
Loss before income taxes	\$ (14,700,232)	\$ (11,344,445)
Expected income tax recovery	(3,822,060)	(2,949,556)
Item not deductible for income tax purposes	3,698,388	2,717,911
Change in deferred income tax assets	(3,466,406)	(2,605,065)
Unrecognized tax benefits	3,590,078	2,836,710
Deferred income tax recovery	\$ -	\$ -

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

	April 30, 2016	April 30, 2015
<b>Deferred income tax assets</b>		
Investment	\$ -	\$ 67,235
Share issuance costs	1,064	1,596
Property and equipment	1,847,184	1,886,184
Closure cost obligations	341,126	560,744
Non-capital losses	3,118,060	2,994,535
Oil and gas interest	2,579,764	-
Unrecognized deferred tax assets	(7,887,198)	(4,582,307)
Deferred income tax recovery	\$ -	\$ 927,987
<b>Deferred income tax liabilities</b>		
Oil and gas interests	-	(927,987)
<b>Net deferred income tax liabilities</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has Canadian non-capital loss carry forwards of approximately \$12,000,000 which expire in 2027 through to 2036, and approximately \$11,500,000 in certain resource related and capital asset deductions which may be available to offset future taxable income. The Company through, HHG, has additional Canadian non-capital loss carry forwards of approximately \$28,000 which expire in 2027 through to 2036, and approximately \$11,700,000 in certain resource related assets deductions which may be available to offset future taxable income.

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**8. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE**

**Share Options and Share-Based Compensation**

The Company grants stock options in accordance with the requirements of the TSX Venture Exchange. Under the Company's stock option 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 options, including the vesting terms and the exercise 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 continuity table of share options for the years ended April 30, 2016 and 2015 is as follows:

	Number of options	Weighted Average Exercise Price
Balance, outstanding - April 30, 2014	5,208,750	\$ 0.38
Granted	800,000	\$ 0.10
Exercised	(1,138,750)	\$ 0.10
Cancelled	(2,430,000)	\$ 0.63
Balance, outstanding - April 30, 2015	2,440,000	\$ 0.17
Expired	(357,500)	\$ 0.57
Balance, outstanding - April 30, 2016	2,082,500	\$ 0.10

The following table summarizes information about share options outstanding and exercisable as at April 30, 2016:

Exercise Price	Options Outstanding		Options Exercisable	
	Number of Options	Weighted Average Contractual Life (Years)	Number of Options	Weighted Average Contractual Life (Years)
\$0.10	1,982,500	2.74	1,782,500	2.66
\$0.20	100,000	2.36	-	-
	2,082,500	2.73	1,782,500	2.66

There were no options granted during the year ended April 30, 2016.

**Warrants**

There were no warrants outstanding as at April 30, 2016.

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**9. RELATED PARTY TRANSACTIONS**

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

**Key Management and Personnel Compensation**

During the year ended April 30, 2016, administrative and management fees of \$244,801 (April 30, 2015: \$271,724) were charged by a company controlled by the Chief Executive Officer in connection with the Company's Baton Rouge, Louisiana office. At April 30, 2016, accounts payable and accrued liabilities included \$260,920 (April 30, 2015: \$36,652) payable to the related entity. The Company began to accrue interest on the balance owed to this party effective April 3, 2016 at a rate of 3% per annum. As at April 30, 2016, the balance owed to this party includes an accrued interest amount of \$381 (April 30, 2015: \$Nil).

During the year ended April 30, 2016, administrative and management fees of \$114,000 were charged to a company controlled by the Chairman in connection with the Company's Vancouver head office (April 30, 2015: \$132,000). At April 30, 2016, accounts payable and accrued liabilities included \$79,483 (April 30, 2015: \$5,775) payable to the related entity. The Company began to accrue interest on the balance owed to this party effective April 3, 2016 at a rate of 3% per annum. As at April 30, 2016, the balance owed to this party includes an accrued interest amount of \$176 (April 30, 2015: \$Nil).

	Year ended April 30, 2016	Year ended April 30, 2015
Administrative and management services	\$ 358,801	\$ 403,724
Share-based compensation	9,498	51,830
	<b>\$ 368,299</b>	<b>\$ 455,554</b>

**Loans**

On September 1, 2015, the Company received loans totaling \$29,714 from three directors, of which one is an officer of the Company. These loans bear an interest rate of 10% and are payable within 30 days upon demand. Interest expense of \$1,978 was accrued for the year ended April 30, 2016.

On September 3, 2015, the Company received a \$10,000 loan from an officer and director of the Company. This loan bears an interest rate of 10% and is payable within 30 days upon demand. Interest expense of \$658 was accrued for the year ended April 30, 2016.

On September 18, 2015, the Company received a \$10,000 loan from a director of the Company. This loan bears an interest rate of 10% and is payable within 30 days upon demand. Interest expense of \$615 was accrued for the year ended April 30, 2016.

**Other related parties transactions**

During the year ended April 30, 2016, rent of \$18,292 (April 30, 2015: \$27,548) was charged by a company controlled by the CEO of the Company for rent for the office in Baton Rouge.

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**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

*Fair value*

The fair value of the Company's financial instruments is approximated by their carrying value as at April 30, 2016 due to their short term-nature. The fair value of the Company's financial instruments may be less than the carrying value due to liquidity risk.

Fair Value Hierarchy

IFRS requires disclosure about fair market value measurements for financial instruments, and measurement of fair value using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

Level 1 -	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 -	Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 -	Inputs that are not based on observable market data.

*Credit risk*

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company reduces its credit risk by maintaining its bank accounts at highly rated international financial institutions. The credit risk on these amounts is minimal.

*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 minimal. Accordingly, the Company does not have a significant exposure to losses arising from fluctuations in exchange rates.

*Liquidity risk*

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. See also Note 1.

As at April 30, 2016, the Company had a cash balance of \$345,727 (2015 - \$52,008) to settle current financial liabilities of \$1,508,703 (2015 - \$88,264).

The following are the contractual maturities of financial liabilities at April 30, 2016:

	<b>Less than 1 year</b>	<b>2 – 5 years</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 373,784	\$ -	\$ -	\$ 373,784
Loans	\$ 52,965	\$ -	\$ -	\$ 52,965
Total	<u>\$ 426,749</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 426,749</u>

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**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued)

The following are the contractual maturities of financial liabilities at April 30, 2015:

	<b>Less than 1 year</b>	<b>2 – 5 years</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 88,264	\$ -	\$ -	\$ 88,264
Total	<u>\$ 88,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,264</u>

***Market risk***

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed only to the interest rate risk to the extent that the cash maintained at the financial institutions and short-term loan are subject to floating rate of interest. The interest rate risk on the Company's cash is minimal. Sensitivity to a 1% change (plus or minus) in interest rate would affect the reported loss by approximately \$Nil (\$Nil at April 30, 2015).

**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 oil and gas properties and to maintain a flexible capital structure. The capital structure of the Company consists of equity attributable to common shareholders comprised of issued capital, share-based payment reserve, and deficit. 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.

The Company currently does not produce any revenue and has relied on equity issuance and advances from related parties to fund its operations and expects continued financial support through the next twelve months.

The Company is currently not subject to externally imposed capital requirements.