CANADA ENERGY PARTNERS INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED APRIL 30, 2010 AND 2009

(Expressed in Canadian Dollars)

D+H Group LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Canada Energy Partners Inc.

We have audited the balance sheets of Canada Energy Partners Inc. as at April 30, 2010 and 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.
August 24, 2010

"D&H Group LLP"
Chartered Accountants

CANADA ENERGY PARTNERS INC.

BALANCE SHEETS
AS AT APRIL 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010 $	2009 $
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	6,386,141	10,280,593
Accounts receivable, prepaids, and deposits	99,435	331,145
	6,485,576	10,611,738
INVESTMENT (Note 6)	955,479	932,888
OIL and GAS INTERESTS (Note 3)	85,533,420	82,743,778
	92,974,475	94,288,404
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	141,255	1,258,574
Bank loan (Note 6)	1,376,126	1,376,700
	1,517,381	2,635,274
ASSET RETIREMENT OBLIGATION (Note 4)	257,468	227,588
FUTURE INCOME TAX LIABILITY (Note 8)	11,906,968	11,942,366
	13,681,817	14,805,228
S H A R E H O L D E R S' E Q U I T Y		
SHARE CAPITAL (Note 5)	79,997,590	79,974,557
CONTRIBUTED SURPLUS (Note 5)	5,422,838	4,932,872
DEFICIT	(6,127,770)	(5,424,253)
	79,292,658	79,483,176
	92,974,475	94,288,404

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

APPROVED BY THE DIRECTORS

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

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

CANADA ENERGY PARTNERS INC.
STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED APRIL 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010 $	2009 $
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative and management services (Note 7)	461,316	499,225
Accretion and depreciation	15,289	18,020
Advertising	12,342	26,826
Audit and accounting (Note 7)	85,229	82,340
Corporate development	88,235	215,763
Filing and regulatory	35,173	46,407
General exploration	99,408	32,489
Legal	67,039	90,223
Office and miscellaneous	144,783	127,208
Professional fees	74,678	133,455
Rent	101,665	113,636
Stock-based compensation (Note 5)	267,800	2,760,803
Travel	45,528	138,600
	1,498,485	4,284,995
LOSS BEFORE OTHER ITEMS	(1,498,485)	(4,284,995)
OTHER (EXPENSES)/INCOME		
Fair value adjustment to investment	54,794	(470,934)
Foreign exchange	(1,092)	26,636
Interest	(17,908)	340,717
Other taxes	-	(109,004)
	35,794	(212,585)
LOSS BEFORE INCOME TAXES	(1,462,691)	(4,497,580)
FUTURE INCOME TAXES RECOVERED (Note 8)	759,174	1,445,641
NET LOSS AND COMPREHENSIVE LOSS	(703,517)	(3,051,939)
DEFICIT - BEGINNING OF YEAR	(5,424,253)	(2,372,314)
DEFICIT - END OF YEAR	(6,127,770)	(5,424,253)
LOSS PER SHARE - BASIC AND DILUTED	(0.01)	(0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	82,289,728	79,998,319

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

CANADA ENERGY PARTNERS INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010 $	2009 $
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(703,517)	(3,051,939)
Items not affecting cash:		
Stock-based compensation	267,800	2,760,803
Accretion and depreciation	15,289	18,020
Fair value adjustment to investment	(54,794)	470,934
Future income taxes recovery	(759,174)	(1,445,641)
Interest and principal repayment received from investment	32,203	59,027
Changes in non-cash working capital balances:		
Accounts receivable, prepaids and deposits	235,363	(204,797)
Accounts payable and accrued liabilities	(101,195)	(419,165)
	(1,068,025)	(1,812,758)
FINANCING ACTIVITIES		
Issuance of common shares	-	25,057,772
Share issue costs	-	(1,680,129)
Issuer bid share repurchase	(370,800)	-
Loan principal repayment	(574)	-
	(371,374)	23,377,643
INVESTING ACTIVITIES		
Oil and gas interests	(2,455,053)	(15,101,243)
(DECREASE)/INCREASE IN CASH DURING THE YEAR	(3,894,452)	6,463,642
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	10,280,593	3,816,951
CASH AND CASH EQUIVALENTS - END OF YEAR	6,386,141	10,280,593
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	6,386,141	5,188,299
Term deposits	-	5,092,294
	6,386,141	10,280,593

Supplemental disclosure with respect to cash flows (Note 9)

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

1. NATURE OF OPERATIONS

Canada Energy Partners Inc. ("the Company") is an independent natural gas exploration and development company primarily focused on unconventional resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, by Certificate of Incorporation and Notice of Articles pursuant to the provisions of the Business Corporations Act (British Columbia).

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Use of Estimates

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

The amounts recorded for the future asset retirement obligation costs, amortization, and accretion are based on estimates of cash flows required to settle the asset retirement obligation, inflation factors, credit adjusted discount rates, and other relevant assumptions. The fair value of the Company's long-term investments is determined based on management estimates of premium yields required by investors. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood, and reversal of temporary differences between the accounting and tax bases of assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less and Guaranteed Investment Certificates ("GICs") or Term Deposits which are cashable after 30 days. The Company places its cash and cash investments with institutions of high credit worthiness.

Oil and Gas Interests

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

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

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

For certain acquisitions of oil and gas interests, the Company records a future income tax liability and a corresponding increase to the related asset carrying amount. Where an oil and gas interest is acquired and the tax basis of the interest is less than its cost, the cost of future income taxes recognized at the time of acquisition is added to the cost of the of the oil and gas interest.

Impairment

The Company regularly reviews the carrying value of its oil and gas interests, to determine that the costs are recoverable and do not exceed the fair value of the interests. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the costs of unproved interests exceed the carrying value of the oil and gas interests.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the costs of unproved interests. The cash flows are estimated using the future production prices and costs and are discounted using the risk-free interest rate.

Joint Operations

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

Depletion and Amortization

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

Asset Retirement Obligations

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

Comprehensive Income

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Transactions

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

Revenue Recognition

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

Comparative figures

Certain of the prior period comparatives have been reclassified to conform to the current period's presentation.

Income Taxes

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

Flow-Through Financing

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

CICA Section 3855 requires that all financial assets initially measured at fair value, except those classified as held to maturity, and loans and receivables, must be subsequently measured at fair value. All financial liabilities must be subsequently measured at fair value when they are classified as held-for trading; otherwise, they are measured at amortized cost. Investments classified as available-for-sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. When a decline in the fair value of a financial asset is determined to be other-than-temporary, the cumulative loss is recognized in net income. Those instruments classified as held-for-trading, have gains or losses included in earnings in the period in which they arise.
The Company does not use derivative instruments or hedges to manage risks. Transaction costs related to all financial instruments will be expensed in the period incurred. The Company has elected to use settlement date accounting on any regular way contracts.

Cash and cash equivalents have been designated as *"Held-for-trading"*. Accounts receivable, prepaids and deposits are designated as *"Loans and Receivables"*. Investments in asset-backed commercial paper and bank loan are discussed in Note 6. Accounts payable and accrued liabilities, are designated as *"Other Financial Liabilities"*.

Stock-Based Compensation

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

Loss Per Share

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

New Accounting Policies and Standards

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. CICA Section 3862 "Financial Instruments – Disclosure" requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 quoted prices in active markets for identical assets or liabilities. Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value. The Company adopted this amended standard for the year ended April 30, 2010.

3. OIL and GAS INTERESTS

For the year ended April 30, 2010	Peace River Project $	Monias Prospect $	Moberly Prospect $	Total $
Acquisition costs				
Leases acquisitions and rental costs	1,428,365	22,648	-	1,451,013
Balance, beginning of year	55,165,292	1,827,048	693,274	57,685,614
Balance, end of the year	56,593,657	1,849,696	693,274	59,136,627
Exploration costs				
Asset retirement costs	14,590	-	-	14,590
Drilling and completion	15,290	21,004	-	36,294
Geological and consulting	55,780	64,557	1,543	121,880
Reports and other	35,605	7,314	439	43,358
	121,265	92,875	1,982	216,122
Balance, beginning of year	9,499,702	4,443,638	52,281	13,995,621
Balance, end of year	9,620,967	4,536,513	54,263	14,211,743
Development costs				
Drilling and completion	951,376	-	-	951,376
Gas plant	353,926	-	-	353,926
Less: net revenue received in development stage	(182,795)	-	-	(182,795)
	1,122,507	-	-	1,122,507
Balance, beginning of year	11,062,543	-	-	11,062,543
Balance, end of year	12,185,050	-	-	12,185,050
Total deferred oil and gas interests	78,399,674	6,386,209	747,537	85,533,420

(Expressed in Canadian Dollars)

3. OIL and GAS INTERESTS (continued)

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

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

During the year ended April 30, 2010 the Company purchased a 1.5% overriding royalty interest on certain portions of the Company's Peace River Project from two arm's-length parties in consideration for the issuance of 800,000 common shares of the Company at an estimated fair value of $0.77 per share for a total consideration of $616,000.

Peace River Project, British Columbia

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

3. OIL and GAS INTERESTS (continued)

Shallow rights

Shallow rights include Peace River coalbed methane "CBM" Project and Moosebar Shale rights. The Company owns 50% working interest and an additional 3.71% after payout working interest in the Peace River CBM Project. The operator of the Peace River CBM Project is GeoMet, Inc. The Company's interest in the Peace River CBM Project is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 0.05%.

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. The Company drilled an initial Moosebar horizontal test well and has earned an 87.5% interest in 2 sections (approximately 2 square miles), subject to final completion or plug and abandonment. The Company has relinquished further drilling rights under the Agreement. The Company's interest in the Moosebar Shale is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 0.05%.

Deep rights

The Company owns 100% working interest subject to a joint venture agreement with Crew Energy Inc. ("Crew"). According to the joint venture agreement, Crew operates the project and will earn a 50% working interest in the subject lands upon paying 100% of the costs of the exploration program. The Company's interest in the deep rights of the Peace River Project will be subject to Crown royalties, geological overriding royalties of up to 0.85% and back-in interest of 6.6% after project payout plus $2,000,000 on approximately 3,500 acres.

Monias Prospect, British Columbia

The Company owns 100% working interest in the deep and shallow rights in 8 sections and 70% working interest in the shallow rights on 2 sections. Deep rights on the 4 sections of Monias Prospect are subject to the joint venture agreement with West Energy Ltd. ("West"). According to the joint venture agreement, West operates the project and will earn a 65% working interest in the subject lands upon completion of the exploration program. The exploration program consisted of a three-dimensional seismic project over the majority of the Monias Prospect lands and drilling and completion of one exploratory well. The Company's interest in the deep rights of the Monias Prospect will be subject to Crown royalties, geological overriding royalties of up to 1% and back-in interest of 12.5% after project payout plus $2,000,000. The Company's interest in the shallow rights of the Monias Prospect will be subject to Crown royalties, one section is subject to a 10% royalty on gas, a 5% - 10% royalty on oil production and two sections are subject to a back-in interest of 4.375% after project payout plus $2,000,000.

Moberly Prospect, British Columbia

The Company owns 100% working interest subject to a joint venture agreement with Crew. According to the joint venture agreement, Crew operates the prospect and will earn a 50% working interest in the subject lands upon completion of the exploration program. The initial program consisted of drilling of one exploratory well (drilled).

The Company's interest in the Moberly Prospect will be subject to Crown royalties, geological overriding royalties of 0.93% and back-in interest of 10.5% after project payout plus $1,000,000.

(Expressed in Canadian Dollars)

4. ASSET RETIREMENT OBLIGATION

Total future asset retirement obligations were estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim, and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company estimated the total undiscounted amount of cash flows required to settle the asset retirement obligation to be approximately $698,629 which will be incurred from 2019 to 2036. To calculate the net present value of its asset retirement obligations, the Company used a credit-adjusted risk free rate of 8% and an inflation rate of 2%. The credit-adjusted risk free rate of 8% was based on the cost of borrowing for similar companies in the industry. The following table summarizes the Company's asset retirement obligations:

	$
Balance, beginning of period	227,588
Liabilities incurred	18,076
Accretion expense	11,804
Balance, end of period	257,468

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

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of shares	Amount, $	Contributed Surplus, $
Authorized			
Unlimited common shares without par value			
Unlimited preferred shares without par value			
Issued common shares			
As at April 30, 2008	61,073,132	57,649,686	2,185,670
Exercise of agent warrants	97,152	58,292	-
Fair value of agent warrants exercised	-	13,601	(13,601)
Private placement	21,186,000	24,999,480	-
Share issuance costs	-	(1,226,494)	-
Net future income taxes on flow-through expenses renounced	-	(1,520,008)	-
Stock-based compensation	-	-	2,760,803
As at April 30, 2009	82,356,284	79,974,557	4,932,872
Stock-based compensation	-	-	267,800
Shares issued for royalty interest acquisition	800,000	616,000	-
Issuer bid share repurchases	(609,000)	(592,967)	222,166
As at April 30, 2010	82,547,284	79,997,590	5,422,838

During the year ended April 30, 2010, the Company:

a) purchased 609,000 common shares for $370,800 under a normal course issuer bid (the "Bid"). The price paid by the Company for the acquired shares was the market price at the time of acquisitions. All shares purchased under the Bid are cancelled. The difference between the average equity cost of the Company's shares on the repurchase date and the repurchase price was recorded as an increase to contributed surplus;

(Expressed in Canadian Dollars)

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

b) purchased a 1.5% overriding royalty interest on certain portions of the Company's land base in northeast British Columbia from two arm's-length parties in consideration for the issuance of 800,000 common shares of the Company at an estimated fair value of $0.77 per share.

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

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

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

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

Stock options and stock-based compensation

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

A summary of the status of the Company's stock options as of April 30, 2010 and 2009, and changes during the years then ended are presented below:

	Number of Options	Weighted Average Exercise Price, $
Balance, outstanding – April 30, 2008	3,550,000	1.01
Granted	2,050,000	1.61
Balance, outstanding – April 30, 2009	5,600,000	1.23
Granted	650,000	0.51
Expired	(912,500)	1.61
Exercised	-	-
Balance outstanding – April 30, 2010	5,337,500	1.08

(Expressed in Canadian Dollars)

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Stock options outstanding and exercisable as at April 30, 2010, are as follows:

Number of Options Outstanding and Exercisable	Weighted Average Exercise Price, $	Expiry Date
1,350,000	1.00	August 21, 2011
700,000	1.00	October 26, 2011
1,000,000	1.00	March 26, 2012
500,000	1.10	September 13, 2012
1,087,500	1.61	June 25, 2013
50,000	1.66	August 1, 2013
650,000	0.51	May 5, 2014
5,337,500	1.08	

During the year ended April 30, 2010 the Company granted 650,000 stock options. The stock-based compensation of $267,800 ($0.41 per share) was charged to operations and credited to shareholder's equity to reflect the fair value of stock options granted and vested during the year.

During the year ended April 30, 2009 the Company granted 2,050,000 stock options. The stock-based compensation of $2,760,803 was charged to operations and credited to shareholder's equity to reflect the fair value of stock options granted and vested during the year. The fair value of stock options granted during the year ended April 30, 2009, was $2,646,500 or $1.29 per share.

The fair value of stock options granted is estimated on the dates of grants using the Black-Scholes option pricing model with the following assumptions used for the grants made during the years:

	2010	2009
Risk-free interest rate	2.01%	3.3%
Expected life	5 years	5 years
Annualized volatility	114%	110%
Dividend rate	0.00%	0.00%

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

Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding agents' and finders' warrants outstanding at April 30, 2010 and 2009 and the changes for the years then ended are as follows:

	Year Ended April 30, 2010		Year Ended April 30, 2009	
	Number of Warrants	Weighted Average Exercise Price, $	Number of Warrants	Weighted Average Exercise Price, $
Balance, beginning of year	-	-	652,999	0.67
Issued	-	-	-	-
Exercised	-	-	(97,152)	0.67
Expired	-	-	(555,847)	0.67
Balance, end of year	-	-	-	-

(Expressed in Canadian Dollars)

6. INVESTMENT AND BANK LOAN

At April 30, 2010, long-term investments included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") held by the Company. When the ABCP matured but was not redeemed in 2007, it became the subject of a restructuring process that replaced the ABCP with long-term asset backed securities. These investments were designated as held-for-trading and are accounted for at their fair value.

The table below summarizes the Company's valuations of these investments at April 30, 2010 and 2009:

	April 30, 2010		April 30, 2009		
Notes	Face value $	Fair value $	Face Value, $	Fair Value $	Expected maturity (1)
MAV II Class A-1	1,437,261	1,015,005	1,441,880	964,830	July 15, 2056
MAV II Class C	44,594	4,459	44,594	4,459	July 15, 2056
MAV II Class 13 (Ineligible Asset Tracking Notes)	226,263	22,626	226,263	22,626	March 20, 2014
Interest received	-	(86,611)	-	(59,027)	
Total	1,708,118	955,479	1,712,737	932,888	

(1) Maturity date reflects legal maturity date.

The fair value of the Class A-1 notes was established using a discounted cash flow approach based on the following inputs: the notes will pay interest at a rate 0.5% less than the bankers' acceptance ("BA") rate, prospective buyers of these notes estimated to require premium yields 5% over the BA rate, maturity of Class A -1 Notes estimated to be 6.5 years. The Class C notes are viewed as highly speculative with regard to ultimate payment of principal at maturity. Accordingly, it is expected that Class C notes will trade at approximately 10% of face par value. The fair value of the sub-prime backed Class 13 Notes was calculated as 10% of par value. To date, the Company received an interest payment of $86,611 on the notes and a payment of $4,619 as partial redemption of the MAV II Class A-1 tracking notes. The interest received was accounted for as a reduction of the Company's investment.

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 fair value of the Company's investment in the ABCP is classified as Level 3 within the fair value hierarchy established by CICA section 3862.

The Company secured a $1,376,126 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, cash, credit balances and deposit instruments. Interest on direct advances is paid at the Bank's prime rate. The Company paid $24,512 (2009 - $39,511) in interest and stamping fees during the year ended April 30, 2010.

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS

a) Included in administrative and management services for the year ended April 30, 2010, is $8,000 (2009 - $69,000) paid for corporate advisory services to a company controlled by a former Officer and Director.

b) Director of the Company provides management and advisory services pursuant to a consulting agreement, for consideration of $12,000 plus GST per month. In addition, pursuant to the agreement, a private company controlled by the Director provides administrative, accounting and the services of a chief financial officer to the Company in consideration of a monthly fee of $11,975. Included in administrative and management services is $260,300 (2009 - $240,000) and in audit and accounting is $7,600 (2009 - $nil) of fees incurred by the Company according to the agreement.

c) As at April 30, 2010, accounts receivable, prepaids, and deposits included $13,516 of advances made to a private company controlled by a Director of the Company.

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

8. INCOME TAXES

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

	2010 $	2009 $
Loss for the period	(1,462,691)	(4,497,580)
Expected income tax recovery	431,494	1,364,266
Item not deductible for income tax purposes	(71,458)	(921,005)
Tax rate reduction	395,136	952,677
Previous unrecognized benefits	4,002	49,703
Future income tax recovery	759,174	1,445,641

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

	April 30, 2010 $	April 30, 2009 $
Future income tax assets		
Financing costs	395,053	612,883
Closure cost obligations	66,942	61,449
Non-capital losses	1,501,841	1,117,011
	1,963,836	1,791,343
Future income tax liabilities		
Oil and gas interests	(13,870,804)	(13,733,709)
	(11,906,968)	(11,942,366)

8. INCOME TAXES (continued)

The Company has Canadian non-capital loss carry forwards of approximately $6,000,000, which expire in 2027 through to 2030, and approximately $25,000,000 in certain resource related deductions which may be available to offset future taxable income.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the years ended April 30, 2010 and 2009, the Company had the following significant non-cash transactions:

a) allocated $222,166 to contributed surplus for the shares repurchased for cancellation under the normal course issuer bid;

b) included in investing activities $73,192 (April 30, 2009 - $1,089,316) of accounts payable related to the oil and gas interest expenditures;

c) included in investing activities $26,383 (April 30, 2009 - $22,731) of accounts receivable related to revenue from the sale of petroleum and natural gas;

d) issued 800,000 shares with a fair value of $616,000 to acquire an aggregate 1.5% overriding royalty interest;

e) included in investing activities $723,776 (April 30, 2009 - $nil) related to future income tax liability arising from current year acquisitions.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company adopted the CICA amended Section 3862, “Financial Instruments – Disclosures”, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. Upon adoption of this new standard, the Company designated its financial instruments as follows:

a) Cash and cash equivalents are classified as *“Held-for-trading”*. The fair value of the Company’s cash and cash equivalents are classified as Level 1 within the fair value hierarchy established by CICA section 3862.

b) Accounts receivable are classified as *“Loans and Receivables”*. The recorded values of receivables approximate their current fair value because of their nature and respective maturity dates or durations.

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

d) Accounts payable and accrued liabilities are classified as *“Other Financial Liabilities”*. The Company believes that the recorded values of accounts payable and accrued liabilities approximate their current fair value because of their nature and respective maturity dates or durations.

e) The Company’s non-revolving bridge loan is classified as *“Other Financial Liabilities”*. The fair value of the loan equal to the principal amount drawn and is classified as Level 2 within the fair value hierarchy established by CICA section 3862.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. Management's assessment of the Company's risk for cash is low as it is attributable to cash held in major banks. The Company limits its exposure to credit loss by placing its cash with major financial institutions and invests only in short-term obligations.

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

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintain sufficient reserves of cash and cash equivalents or have an available credit facility to meet its liquidity requirements in the short and long term. As the industry in which the Company operates is very capital intensive, the majority of the Company's spending is related to its capital programs. The Company prepares annual budgets, which are regularly monitored and updated as considered necessary.

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

As at April 30, 2010, the Company had cash and cash equivalents balance of $6,386,141 to settle current liabilities of $1,517,381. The Company intends to settle these with funds from its positive working capital position.

Market risk

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions and investments included in the Company's cash and cash equivalents are subjects to a floating rate of interest. If the interest rate on the Company's cash and cash equivalents held at the financial institutions decreased by 1%, the Company's net income would have decreased by approximately $63,861.

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

The Company is exposed to interest rate risk to the extent that the Company's loan is subject to a floating rate of interest. If the interest rate on the Company's floating rate bank loan increased by 1%, the Company's net income would have decreased by approximately $13,761.

b) Price risk

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

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

c) Foreign exchange risk

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

11. CAPITAL DISCLOSURE

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

In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year.

12. CONTINGENCY

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

13. COMMITMENTS

a) The Company has committed to rent office space in the amount of $69,541 during fiscal 2011;

b) Oil and gas properties (Note 3);

c) Asset retirement obligations (Note 4).

14. SUBSEQUENT EVENTS

Subsequent to April 30, 2010, the Company:

a) has purchased for cancellation 114,000 common shares for $68,400;

b) has received approval from the TSX Venture Exchange (the “Exchange”) to commence a normal course issuer bid (the “Bid”) to purchase up to 4,121,664 of its common shares (“Shares”), representing 5% of the Company’s 82,433,284 issued and outstanding Shares, as at May 28, 2010. Under the Exchange’s policies, the Bid will commence on June 4, 2010 and will end on the earlier of June 3, 2011, 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;

c) together with its Joint Venture Partner, has purchased 14 gross (7 net) sections of Deep Rights drilling licenses/leases in the Peace River Project area.