CANADA ENERGY PARTNERS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED APRIL 30, 2013 AND 2012

(Expressed in Canadian Dollars)

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., which comprise the consolidated statements of financial position as at April 30, 2013 and April 30, 2012, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended April 30, 2013 and April 30, 2012, and 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.

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

+Understanding, Advising, Guiding
Member of BHD™ an Association of Independent Accounting Firms Located Across Canada and Internationally

D+H Group LLP
Chartered Accountants

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Energy Partners Inc. as at April 30, 2013 and April 30, 2012, and its financial performance and its cash flows for the years ended April 30, 2013 and April 30, 2012 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Canada Energy Partners Inc.'s ability to continue as a going concern.

"D&H Group LLP"

Vancouver, B.C.
August 21, 2013

Chartered Accountants

CANADA ENERGY PARTNERS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

	April 30, 2013 $	April 30, 2012 $
A S S E T S		
CURRENT ASSETS		
Cash	151,438	806,032
Accounts receivable	9,809	29,833
Prepaid and deposits	35,490	49,250
	196,737	885,115
OIL AND GAS INTERESTS (Notes 3, 4)	76,219,804	75,360,372
	76,416,541	76,245,487
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	55,110	77,724
	55,110	77,724
LONG-TERM PAYABLE (Note 4)	75,657	-
DECOMMISSIONING LIABILITY (Note 5)	1,364,839	740,269
DEFERRED INCOME TAX LIABILITY (Note 6)	7,074,281	7,289,493
	8,569,887	8,107,486
S H A R E H O L D E R S' E Q U I T Y		
SHARE CAPITAL (Note 7)	82,463,449	82,183,449
SHARE-BASED PAYMENT RESERVE (Note 7)	8,446,010	8,446,010
DEFICIT	(23,062,805)	(22,491,458)
	67,846,654	68,138,001
	76,416,541	76,245,487

Nature of operations and going concern (Note 1)
Commitments (Note 9)
Events after the reporting period (Note 13)

Approved by the Board of Directors and authorized for issue on August 21, 2013.

"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 COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Year ended April 30, 2013 $	Year ended April 30, 2012 $
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative and management services (Note 8)	372,135	465,009
Accretion and depreciation	29,232	21,933
Audit and accounting	52,096	61,385
Corporate development	1,747	19,745
Filing and regulatory	27,596	14,075
General exploration	57,269	117,137
Legal	45,742	64,088
Office and miscellaneous	113,224	122,820
Professional fees	20,227	25,126
Rent	26,029	52,199
Travel	45,811	36,279
LOSS BEFORE OTHER ITEMS	(791,108)	(999,796)
OTHER ITEMS		
Fair value adjustment to investment	-	(87,999)
Foreign exchange gain (loss)	(15)	222
Interest income	4,564	16,274
	4,549	(71,503)
LOSS BEFORE INCOME TAXES	(786,559)	(1,071,299)
DEFERRED INCOME TAXES RECOVERED (Note 6)	215,212	240,492
NET LOSS AND COMPREHENSIVE LOSS	(571,347)	(830,807)
LOSS PER SHARE - BASIC AND DILUTED	(0.01)	(0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	83,948,935	82,255,784

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 $	Shareholders' Total Equity $
Balance as at April 30, 2012	82,255,784	82,183,449	8,446,010	(22,491,458)	68,138,001
Shares issued for acquisition of Hudson's Hope Gas, Ltd. (Note 3)	2,000,000	280,000	-	-	280,000
Net loss for the year	-	-	-	(571,347)	(571,347)
Balance as at April 30, 2013	84,255,784	82,463,449	8,446,010	(23,062,805)	67,846,654

	Number of Issued and Outstanding Shares	Share Capital $	Share-based Payment Reserve $	Deficit $	Shareholders' Total Equity $
Balance as at April 30, 2011	82,255,784	82,183,449	8,446,010	(21,660,651)	68,968,808
Net loss for the year	-	-	-	(830,807)	(830,807)
Balance as at April 30, 2012	82,255,784	82,183,449	8,446,010	(22,491,458)	68,138,001

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)

	Year ended April 30, 2013 $	Year ended April 30, 2012 $
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(571,347)	(830,807)
Accretion and depreciation	29,232	21,933
Interest on loan	1,319	-
Fair value adjustment to investment	-	87,999
Deferred income taxes recovered	(215,212)	(240,492)
Changes in non-cash working capital balances:		
Accounts receivable, prepaid and deposits	33,784	(1,899)
Accounts payable and accrued liabilities	(8,003)	(36,705)
	(730,227)	(999,971)
FINANCING ACTIVITIES		
Loan repayment	-	(1,376,126)
	-	(1,376,126)
INVESTING ACTIVITIES		
Proceeds from disposition of investment	-	1,199,187
Oil and gas interests	(305,437)	(325,238)
Proceeds for releasing third party development obligations (Note 9)	381,070	-
	75,633	873,949
DECREASE IN CASH DURING THE YEAR	(654,594)	(1,502,148)
CASH - BEGINNING OF THE YEAR	806,032	2,308,180
CASH - END OF THE YEAR	151,438	806,032

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 Company's principal and executive office is located at Suite 1680, 200 Burrard Street, Vancouver, BC, Canada V6C 3L6.

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.

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, 2013, the Company incurred a net loss of $571,347 (April 30, 2012 - $830,807) and had working capital of $141,627 (April 30, 2012 - $807,391). 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. These conditions raise significant doubt regarding the Company's ability to continue as a going concern.

The Company will require additional capital to fund its future property acquisitions and its exploration and development programs as well as for administrative purposes. There is material uncertainty about whether the Company will be able to obtain additional capital. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these consolidated financial statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

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, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical judgments and sources of estimation uncertainty

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:

- The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

- Management is required to assess impairment in respect of the Company's oil and gas interests. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status 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 Peace River Project, Monias Prospect and Moberly Prospect and as a result an impairment test was performed.

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 reserves, economic and market conditions and the useful lives of assets. As a result of this assessment, management has carried out an impairment test on the Company's Peace River Project, Monias Prospect and Moberly Prospect.

  The fair value of Peace River Project used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves, and estimated value of undeveloped land. By nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the financial statements of future periods could be material. Undeveloped land is valued at fair value based on the value of comparable properties. The impairment test compares the carrying value of the Peace River Project at the reporting date with the expected discounted cash flows from its 2P reserves and the estimated value of the undeveloped land. No impairment is required as a result of the impairment test.

  Currently, the Company's carrying value for its undeveloped deep and shallow rights approximates $1,100-1,300 per net acre, which the Company believes is consistent with comparable land values. If the Company used a land value of $1,000 per net acre vs. $1,100-1,300 per net acre in the fair value calculation, an impairment charge of approximately $10.3 million would have been recognized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value of Monias Prospect used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. The impairment test compares the carrying value of the Monias Prospect at the reporting date with the expected discounted cash flows from its 2P reverse. No impairment is required as a result of the impairment test.

The fair value of Moberly Prospect used in impairment calculations are based on the land value of undeveloped land. The impairment test compares the carrying value of the Moberly Prospect at the reporting date with the estimated value of its undeveloped land. No impairment is required as a result of the impairment test.

- 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, 2013 is $1,364,839 (2012 - $740,269).

  If the estimated pre-tax discount rate used in the calculation was decreased by 1%, the carrying amount of the provision would have been approximately $226,000 lower. If the estimated pre-tax discount rate used in the calculation was increased by1%, the carrying amount of the provision would have been approximately $275,000 higher.

- The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversal of temporary differences, and estimating the realizability of deferred income tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).
- The estimated fair value of the Company's financial assets and liabilities are disclosed in Note 11.

Oil and gas interests

All costs directly associated with 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 through the granting of a permit, 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 general exploration expenses.

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.

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.

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.

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.

Share-based payment transactions

The share option plan allows the Company's 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-dilutives and therefore, basic and diluted loss per share are the same.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The increase to share capital when flow-through shares are issued is measured based on the current market price of the Company's common shares. The residual proceeds, if any, are recorded as a liability. When the qualifying expenditures are incurred and renunciation of the tax benefits to the investors has occurred, or is likely to occur, a credit to income tax expense is recognized.

Foreign currency transactions

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.

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.

<u>Subsequent measurement</u>

<u>Financial assets</u>
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. 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. Cash is classified as fair value through profit or 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. Accounts receivable are classified as loans and receivables.

Held-for-trading – This category comprises derivatives, or assets acquired or incurred principally for short-term profit taking or have been designated as held-for-trading on initial recognition. They are measured at fair value at the end of each period with changes in fair values recorded in earnings in the period they occur.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Other financial liabilities: This category includes accounts payables and accrued liabilities and the long-term payable, 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 changes that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its financial statements.

- IFRS 9 - Financial Instruments. This standard partially replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2015. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.
- IFRS 10 - Consolidated Financial Statements. In May 2011, the IASB issued IFRS 10, which replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This standard is effective for annual periods beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.
- IFRS 11 – Joint Arrangement. In May 2011, the IASB issued IFRS 11, which replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form, as is currently the case. The standard distinguishes between joint operations, where the joint operator accounts for the assets, liabilities, revenues, and expenses relating to its involvement, and joint ventures, which must be accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted, if IFRS 10, IFRS 12, and consequential amendments to IAS 28 Investments in Associates and Joint Ventures are applied at the same time.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 12 – Disclosure of interest in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- IFRS 13 - Fair Value Measurement. IFRS 13 is a new standard that applies to both financial and non-financial items measured at fair value. It defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. Previously, a variety of fair value techniques and disclosures were possible under the requirements of separate applicable IFRSs. IFRS 13 is applicable for fiscal years beginning on or after January 1, 2013. The standard, which may be early adopted, will apply prospectively from the beginning of the annual period in which it is adopted.

3. ACQUISITION OF HUDSON'S HOPE GAS, LTD.

On June 26, 2012 the Company acquired all of the outstanding shares of Hudson's Hope Gas, Ltd. ("HHG"), from GeoMet Inc. ("GeoMet") for a consideration of two million shares of the Company. HHG is the operator and 50% owner of the Company's Peace River Coalbed Methane ("CBM") Project. This share purchase, plus the 50% of the CBM that the Company already owned, brings the Company's ownership of the CBM Project to 100%.

The fair value of the common shares of the company issued in connection with the acquisition has been determined at $0.14 per share based on the market value of shares on the date of transaction. The Company accounted for the transaction as an asset acquisition rather than a business combination, as HHG did not meet the definition of a business as defined by IFRS 3 - Business Combinations.

The purchase consideration is comprised of the following:

Total purchase price	
Issuance of 2,000,000 Canada Energy Partners shares for HHG	$ 280,000
Transaction costs	41,017
	$ 321,017

The fair value of Hudson's Hope Gas, Ltd. assets acquired and liabilities assumed as at the acquisition date were as follows:

Purchase price allocation	
Exploration and evaluation asset (Oil and Gas Interests)	$ 854,416
Accounts receivable	856
Decommissioning liabilities	(534,255)
	$ 321,017

(Expressed in Canadian Dollars)

4. OIL AND GAS INTERESTS

For the year ended April 30, 2013	Peace River Project $	Monias Prospect $	Moberly Prospect $	Total $
Acquisition costs				
Leases acquisitions and rental costs	1,086,239	13,891	1,926	1,102,056
Cost recovery (Note 9)	(171,070)	-	-	(171,070)
Balance, beginning of year	45,036,600	1,891,974	711,541	47,640,115
Balance, end of year	45,951,769	1,905,865	713,467	48,571,101
Exploration costs				
Cost recovery (Note 9)	(210,000)	-	-	(210,000)
Drilling and completion	93,930	1,456	694	96,080
Reports and other	41,025	1,341	-	42,366
	(75,045)	2,797	694	(71,554)
Balance, beginning of year	10,707,792	4,599,482	62,427	15,369,701
Balance, end of year	10,632,747	4,602,279	63,121	15,298,147
Development costs				
Balance, beginning of year	12,350,556	-	-	12,350,556
Balance, end of year	12,350,556	-	-	12,350,556
Total oil and gas interests	68,935,072	6,508,144	776,588	76,219,804

For the year ended April 30, 2012	Peace River Project $	Monias Prospect $	Moberly Prospect $	Total $
Acquisition costs				
Leases, acquisitions and rental costs	112,127	14,546	7,920	134,593
Balance, beginning of year	44,924,473	1,877,428	703,621	47,505,522
Balance, end of year	45,036,600	1,891,974	711,541	47,640,115
Exploration costs				
Drilling and completion	259,132	10,438	5,673	275,243
Geological and consulting	15,872	4,222	-	20,094
Reports and other	11,911	1,821	655	14,387
	286,915	16,481	6,328	309,724
Balance, beginning of year	10,420,877	4,583,001	56,099	15,059,977
Balance, end of year	10,707,792	4,599,482	62,427	15,369,701
Development costs				
Balance, beginning of year	12,350,556	-	-	12,350,556
Balance, end of year	12,350,556	-	-	12,350,556
Total oil and gas interests	68,094,948	6,491,456	773,968	75,360,372

4. OIL AND GAS INTERESTS (continued)

Included in acquisition costs was a $171,070 term deposit pledged in support of the letter of credit issued by the Company's bank in favor of the British Columbia Oil and Gas Commission ("BCOGC") to ensure that the Company can complete its reclamation obligations, including shut-down, closure, and post-closure. The security was released back to the Company when operation of the property was transferred to a qualified third party in January 2013. (Note 9)

Peace River Project, British Columbia

The Company has working interests in the oil and gas leases located in the 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).

<u>Shallow rights</u>

Shallow rights include Peace River CBM Project and Moosebar Shale rights. On June 26, 2012 the Company increased its working interest in the CBM Project and Moosebar Shale rights to 100% by acquisition of all of the outstanding shares of HHG, the other 50% owner and the operator of the CBM Project, from GeoMet, Inc., for consideration of two million common shares of the Company. 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 two sections (approximately two square miles). This interest increased to 100% upon the acquisition of the HHG shares from GeoMet, Inc. 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%.

The Company bought all the shares of HHG in June 2012 and now controls 100% of the interest in the CBM Project.

<u>Deep rights</u>

The Company owns a 50% working interest, subject to a joint venture agreement with Crew Energy Inc. ("Crew"). According to the joint venture agreement, Crew operates the project and has earned 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. During fiscal year 2011, the Company and Crew acquired an additional 14 sections of deep rights in Peace River.

$74,337 of long-term payable to Crew related to the Peace River property has been deferred until December 31, 2014 at an interest rate of Prime + 4%. Accrued interest recorded to April 30, 2013 was $1,319. (Note 9)

Monias Prospect, British Columbia

The Company owns a 100% working interest in the shallow rights in seven sections, a 70% working interest in two sections, and a 35% working interest in one section. With regard to the Deep Rights, the Company owns 100% working interest in three sections, a 40% working interest in four sections, and a 35% working interest in one section.

(Expressed in Canadian Dollars)

4. OIL AND GAS INTERESTS (continued)

Deep rights on four sections of Monias Prospect were subject to a joint venture agreement with West Energy Ltd. ("West"), which was acquired by Daylight Energy Ltd. ("Daylight"), which in turn was acquired by Sinopec International Petroleum Exploration and Production Corporation in December 2011, and then sold to Aduro Resources ("Aduro") in early 2012. Aduro owns a 60% working interest in four sections and the 13-30-81-21 wellbore with the Company retaining the other 40% interest. The Company owns a 100% interest in three additional sections in the Monias Prospect and the Company owns a 35% interest in the eighth section at Monias Prospect.

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.

The Company has provided a third party with a fixed charge security over its Monias assets to guarantee the Company's performance under related agreements. (Note 9)

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 two sections upon completion of the initial test well. The initial program consisted of the 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.

5. 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 approximately $2,111,479 which will be incurred from 2019 to 2033. To calculate the net present value of its decommissioning liability, the Company used a risk free rate of 1.40% to 2.37%. The following table summarizes the Company's decommissioning liability:

	Decommissioning Liability $
Balance, as at April 30, 2011	597,012
Adjustment due to change in discount rate	121,324
Accretion Expense	21,933
Balance, as at April 30, 2012	740,269
Liabilities incurred	534,255
Change in estimate	61,083
Accretion expense	29,232
Balance, as at April 30, 2013	1,364,839

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.

(Expressed in Canadian Dollars)

6. INCOME TAXES

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

	April 30, 2013 $	April 30, 2012 $
Loss before income taxes	(786,559)	(1,071,299)
Expected income tax recovery	196,640	278,538
Item not deductible for income tax purposes	62,340	53,310
Tax rate reduction	-	(12,763)
Previous unrecognized benefits	(43,768)	(78,593)
Deferred income tax recovery	215,212	240,492

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

	April 30, 2013 $	April 30, 2012 $
Deferred income tax assets		
Financing costs	-	84,006
Investment	64,649	64,649
Property and equipment	1,813,639	1,813,639
Closure cost obligations	197,897	154,736
Non-capital losses	2,475,620	2,219,681
	4,551,805	4,336,711
Deferred income tax liabilities		
Oil and gas interests	(11,626,086)	(11,626,204)
	(7,074,281)	(7,289,493)

The Company has Canadian non-capital loss carry forwards of approximately $9,900,000 which expire in 2027 through to 2033, and approximately $36,000,000 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 $16,000,000 which expire in 2027 through to 2033, and approximately $19,500,000 in certain resource related and capital asset deductions which may be available to offset future taxable income.

(Expressed in Canadian Dollars)

7. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE

On June 26, 2012, the Company issued 2,000,000 common shares for the acquisition of all of the outstanding shares of HHG. The 2,000,000 common shares of the Company issued are subject to a 12-month hold period.

During the year ended April 30, 2012, there were no share capital transactions.

Share options and share-based compensation

The Company grants stock options in accordance with the requirements of the Exchange. 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.

The following summarizes information about stock options that are outstanding at April 30, 2013:

	Number of Options	Weighted Average Exercise Price, $
Balance, outstanding – April 30, 2011	7,667,500	0.63
Expired	(810,000)	0.63
Balance, outstanding – April 30, 2012	6,857,500	0.63
Expired	(62,500)	0.63
Balance, outstanding –April 30, 2013	6,795,000	0.63

Stock options outstanding and exercisable as at April 30, 2013 are as follows:

Number of Options Outstanding and Exercisable	Weighted Average Exercise Price, $	Expiry Date
6,795,000	0.63	October 8, 2015

Warrants

There are no warrants outstanding as at April 30, 2013. There were no warrants granted, exercised or expired during the year ended April 30, 2012 and April 30, 2013.

(Expressed in Canadian Dollars)

8. 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

Fees paid to companies controlled by directors and is inclusive of payments for support staff, totalled $372,135 for the year ended April 30, 2013 (2012 - $465,009).

	April 30, 2013 $	April 30, 2012 $
Administrative and management services	372,135	465,009
	372,135	465,009

Other related parties transactions

During fiscal 2013, the Company pays $21,841 (2012 - $25,645) to a company controlled by the CEO of the Company for rent for the Company's office in Baton Rouge.

9. COMMITMENTS

Effective January 15, 2013, the Company released a third party from certain oil and gas development obligations in exchange for $210,000 cash; the establishment of a line of credit of up to $540,000 at an interest rate of Prime + 4% for the period up to December 31, 2014 to cover certain land related expenses; and for the third party to assume operations of the Company's Peace River CBM Project thereby relieving the Company of the P&A bond commitment to the BCOGC until at least December 31, 2014. The balance of the line of credit outstanding at April 30, 2013 was $74,338. The Company's previous $171,070 BCOGC bonding commitment has been released back to the Company.

The Company has transferred operations of its Peace River CBM Project to the third party, but the Company retains the right during the two year period to reassume its role as operator at the Company's election. After two years, the Company is required to reassume the role of operator of the Peace River CBM Project and to repay the outstanding amounts. The Company has provided a fixed charge security over its Monias lands in support of its performance obligations under these agreements.

The Company has also granted the third party a 12 month first-right-of refusal on the Company's deep rights of the Peace River Project and a right to participate in any equity financings the Company may undertake during the 12 month period to January 15, 2014.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transactions:

- At April 30, 2013, included in accounts payable is $5,134 (April 30, 2012 - $15,930) related to the oil and gas interest expenditures;
- During fiscal 2013, the Company issued 2,000,000 common shares at a fair value of $280,000 for the acquisition of Hudson's Hope Gas, Ltd. (Note 3).

11. 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, 2013 due to their short term nature.

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.

The fair value of cash, accounts receivable, accounts payable, and long-term payable are based on Level 1 inputs of the fair value hierarchy.

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 fair value or carrying value of the financial assets.

The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Accounts receivable largely consist of amounts from the Canadian federal government for the refundable HST/GST amounts. The credit risk on these amounts is minimal.

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, 2013, the Company had a cash balance of $151,438 (2012 - $806,032) to settle current liabilities of $55,110 (2012 - $77,724).

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The following are the contractual maturities of financial liabilities at April 30, 2013:

	Less than 1 year	2 – 5 years	Thereafter	Total
Accounts payable and accrued liabilities	55,110	-	-	55,110
Long-term payable	-	75,657	-	75,657
Total	55,110	75,657	-	130,767

The following are the contractual maturities of financial liabilities at April 30, 2012:

	Less than 1 year	2 – 5 years	Thereafter	Total
Accounts payable and accrued liabilities	77,724	-	-	77,724
Total	77,724	-	-	77,724

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 is subject to floating rate of interest. The interest rate risk on the Company's cash is minimal. The Company is exposed to market risk as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

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.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and bank loans which bear a floating rate of interest. The risk is not considered significant.

12. 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.

There were no changes in the Company's approach to capital management during the year ended April 30, 2013.

13. EVENTS AFTER THE REPORTING PERIOD

The Company granted stock options to purchase an aggregate of 2,515,000 shares to directors, officers, employees and a consultant of the Company at an exercise price of $0.10 per common share until July 23, 2018 and cancelled an aggregate of 2,544,000 stock options previously issued.

On August 12, 2013, the Company announced completion of a non-brokered private placement for $500,000 by the issuance of 5,000,000 common shares at a price of $0.10 per share. The proceeds of the private placement will be used for general working capital purposes.