
CANADA ENERGY PARTNERS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JULY 31, 2012
(Unaudited)

(Expressed in Canadian Dollars)

CANADA ENERGY PARTNERS INC.

**NOTICE OF NO AUDITOR REVIEW OF THESE
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Canada Energy Partners Inc. (the “Company”) for the three months ended July 31, 2012, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

CANADA ENERGY PARTNERS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(Expressed in Canadian Dollars)

	<u>July 31, 2012 \$</u>	<u>April 30, 2012 \$</u>
A S S E T S		
CURRENT ASSETS		
Cash	419,457	806,032
Accounts receivable	37,615	29,833
Prepaid and deposits	62,875	49,250
	<u>519,947</u>	<u>885,115</u>
OIL AND GAS INTERESTS (Note 3, 4)	<u>76,311,892</u>	<u>75,360,372</u>
	<u>76,831,839</u>	<u>76,245,487</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	<u>25,741</u>	<u>77,724</u>
	25,741	77,724
DECOMMISSIONING LIABILITY (Note 5)	1,278,946	740,269
DEFERRED INCOME TAX LIABILITY	<u>7,245,276</u>	<u>7,289,493</u>
	<u>8,549,963</u>	<u>8,107,486</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	82,463,449	82,183,449
SHARE-BASED PAYMENT RESERVE (Note 6)	8,446,010	8,446,010
DEFICIT	<u>(22,627,583)</u>	<u>(22,491,458)</u>
	<u>68,281,876</u>	<u>68,138,001</u>
	<u>76,831,839</u>	<u>76,245,487</u>

NATURE OF OPERATIONS (Note 1)

COMMITMENTS (Note 9)

Approved by the Board of Directors and authorized for issue on September 25, 2012.

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

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

CANADA ENERGY PARTNERS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(Expressed in Canadian Dollars)

	Three Months Ended July 31, 2012 \$	Three Months Ended July 31, 2011 \$
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative and management services (Note 7)	98,159	101,294
Accretion and depreciation	4,422	5,494
Audit and accounting	(1,105)	27,016
Corporate development	1,747	9,075
Filing and regulatory	4,649	1,189
General exploration	17,417	20,390
Legal	2,753	1,145
Office and miscellaneous	16,719	26,385
Professional fees	6,373	7,860
Rent	10,806	20,475
Travel	19,109	8,290
	<u>181,049</u>	<u>228,613</u>
LOSS BEFORE OTHER ITEMS	(181,049)	(228,613)
OTHER ITEMS		
Future income tax recovery	44,217	-
Fair value adjustment to investment	-	(9,157)
Interest income	707	3,110
	<u>(136,125)</u>	<u>(234,660)</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(136,125)	(234,660)
LOSS PER SHARE - BASIC AND DILUTED	<u>(0.00)</u>	<u>(0.00)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
	<u>83,016,654</u>	<u>82,255,784</u>

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

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

	Number of Issued and Outstanding Shares	Share Capital \$	Share-based Payment Reserve \$	Deficit \$	Shareholders' Total Equity \$
Balance as at May 1 , 2012	82,255,784	82,183,449	8,446,010	(22,491,458)	68,138,001
Shares issued for the acquisition of Hudson Hope's Gas, Ltd.	2,000,000	280,000	-	-	280,000
Loss and comprehensive loss for the period	-	-	-	(136,125)	(136,125)
Balance as at July 31, 2012	84,255,784	82,463,449	8,446,010	(22,627,583)	68,281,876

	Number of Issued and Outstanding Shares	Share Capital \$	Share-based Payment Reserve \$	Deficit \$	Shareholders' Total Equity \$
Balance as at May 1 , 2011	82,255,784	82,183,449	8,446,010	(14,130,734)	76,498,725
Loss and comprehensive loss for the period	-	-	-	(234,660)	(234,660)
Balance as at July 31, 2011	82,255,784	82,183,449	8,446,010	(14,365,394)	76,264,065

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

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

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
	<u>\$</u>	<u>\$</u>
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the period	(136,125)	(234,660)
Accretion and depreciation	4,422	5,494
Future income tax recovery	(44,217)	-
Fair value adjustment to investment	-	9,157
Changes in non-cash working capital balances:		
Accounts receivable, prepaids and deposits	(21,408)	10,207
Accounts payable and accrued liabilities	(36,973)	(15,092)
	<u>(234,301)</u>	<u>(224,894)</u>
INVESTING ACTIVITIES		
Oil and gas interests	<u>(152,274)</u>	<u>(174,058)</u>
	<u>(152,274)</u>	<u>(174,058)</u>
DECREASE IN CASH DURING THE PERIOD	(386,575)	(398,952)
CASH - BEGINNING OF THE PERIOD	<u>806,032</u>	<u>2,308,180</u>
CASH - END OF THE PERIOD	<u><u>419,457</u></u>	<u><u>1,909,228</u></u>

Supplemental disclosure with respect to cash flows (Note 10)

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

CANADA ENERGY PARTNERS INC.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED JULY 31, 2012
(Unaudited)
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Canada Energy Partners Inc. (“the Company”) is an independent natural gas exploration and development company 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 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 period ended July 31, 2012, the Company incurred a net loss of \$136,125 (July 31, 2011 - \$234,660) and had working capital of \$494,206 (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, its bonding obligation (see Note 9) 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 the 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 financial statements.

The 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.

CANADA ENERGY PARTNERS INC.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED JULY 31, 2012
(Unaudited)
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2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended April 30, 2012, which have been prepared in accordance with IFRS as issued by the IASB. The Company has used the same accounting policies and methods of computation as in the annual financial statements for the year ended April 30, 2012.

These condensed consolidated interim financial statements were approved for issuance by the Company’s Board of Directors on September 25, 2012.

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.

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 2 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 shares based on the market value of shares on the date of transaction.

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

CANADA ENERGY PARTNERS INC.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED JULY 31, 2012

(Unaudited)

(Expressed in Canadian Dollars)

4. OIL AND GAS INTERESTS

For the period ended July 31, 2012	Peace River Project \$	Monias Prospect \$	Moberly Prospect \$	Total \$
Acquisition costs				
Leases acquisitions and rental costs	875,339	-	-	875,339
Balance, beginning of the period	45,036,600	1,891,974	711,541	47,640,115
Balance, end of the period	45,911,939	1,891,974	711,541	48,515,454
Exploration costs				
Drilling and completion	66,430	-	-	66,430
Reports and other	8,418	1,333	-	9,751
	74,848	1,333	-	76,181
Balance, beginning of the period	10,707,792	4,599,482	62,427	15,369,701
Balance, end of the period	10,782,640	4,600,815	62,427	15,445,882
Development costs				
Balance, beginning of the period	12,350,556	-	-	12,350,556
Balance, end of the period	12,350,556	-	-	12,350,556
Total oil and gas interests	69,045,135	6,492,789	773,968	76,311,892

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 the 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

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FOR THE THREE MONTH PERIOD ENDED JULY 31, 2012
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4. OIL AND GAS INTERESTS (continued)

Included in acquisition costs is 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 will be released back to the Company once the reclamation has been completed according to the plan agreed with the BCOGC and the site is returned to an acceptable state.

Peace River Project, British Columbia

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

Shallow rights

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 2 sections (approximately 2 square miles). This interest increased to 100% upon the acquisition of the HHG shares from GeoMet. 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 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.

Monias Prospect, British Columbia

The Company owns a 100% working interest in the shallow rights in 7 sections, a 70% working interest in the shallow rights on 2 sections, and a 35% working interest in 1 section. With regard to the Deep Rights, the Company owns 100% working interest in 3 sections, a 40% working interest in 4 sections, and a 35% working interest in 1 section.

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FOR THE THREE MONTH PERIOD ENDED JULY 31, 2012
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4. OIL AND GAS INTERESTS (continued)

Deep rights on 4 sections of Monias Prospect were subject to a joint venture agreement with West Energy Ltd. ("West"), which was later acquired by Daylight Energy Ltd. ("Daylight"), which in turn was acquired by Sinopec International Petroleum Exploration and Production Corporation in December 2011. During the year ended April 30, 2011, the Company and Daylight mutually settled the legal dispute over the Seismic Option Agreement on the Company's Monias Prospect. Under the terms of the settlement, Daylight is deemed to have earned a 60% working interest in the four sections and the 13-30-81-21 wellbore with the Company retaining the other 40% interest. Daylight will have no further earning rights in the Monias Prospect. The Company will retain a 100% interest in three remaining sections in the Monias Prospect and the Company preserves a 35% interest in the eighth section at Monias Prospect, in a license grouping arrangement with Terra Energy.

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 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 1.73 to 2.61%. 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
Accretion expense	4,422
Balance, as at July 31, 2012	1,278,946

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.

CANADA ENERGY PARTNERS INC.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED JULY 31, 2012
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6. SHARE CAPITAL AND SHARE BASED PAYMENT RESERVE

During the period ended July 31, 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 July 31, 2012:

	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
Cancelled	(37,500)	0.63
Balance, outstanding – July 31, 2012	6,820,000	0.63

Stock options outstanding and exercisable as at July 31, 2012 are as follows:

Number of Options Outstanding and Exercisable	Weighted Average Exercise Price, \$	Expiry Date
6,820,000	0.63	October 8, 2015

Warrants

There are no warrants outstanding as at July 31, 2012. There were no warrants granted, exercised or expired during the period ended July 31, 2012.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED JULY 31, 2012
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7. RELATED PARTY TRANSACTIONS

Key management and personnel compensation

The key management personnel include the Directors and other Officers of the Company. Key management compensation consists of the following:

	For the three months ended July 31, 2012	For the three months ended July 31, 2011
Salary and management fees	\$ 98,159	\$ 101,294
Share based compensation	\$ -	\$ -

As at July 31, 2012, there were no related party balances arising from purchases of goods and services resulted. The above transactions occurred in the normal course of operations and recorded at the consideration established and agreed to by the related parties.

8. INCOME TAXES

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

	2013 \$	2012 \$
Loss before income taxes	(180,342)	(1,071,299)
Expected income tax recovery	45,086	278,538
Item not deductible for income tax purposes	15,533	53,310
Tax rate reduction	-	(12,763)
Previous unrecognized benefits	(16,402)	(78,593)
Future income tax recovery	44,217	240,492

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

	2013 \$	2012 \$
Deferred income tax assets		
Financing costs	63,005	84,006
Investment	64,649	64,649
Property and equipment	1,813,639	1,813,639
Closure cost obligations	186,172	154,736
Non-capital losses	2,280,299	2,219,681
	4,407,764	4,336,711
Deferred income tax liabilities		
Oil and gas interests	(11,653,040)	(11,626,204)
	(7,245,276)	(7,289,493)

The Company has Canadian non-capital loss carry forwards of approximately \$9,100,000 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.

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FOR THE THREE MONTH PERIOD ENDED JULY 31, 2012
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9. COMMITMENTS

Under a new British Columbia Oil & Gas Commission (“BCOGC”) policy, the Company, through HHC, will have to post an \$826,500 bond in November 2012 and an additional \$826,500 in September 2013 unless at least one of the following events occur:

- 1) HHG achieves commercial activity deemed by the BCOGC to be equal or greater than \$1.65 million;
- 2) HHG transfers operatorship of the property to another Company whose commercial oil and gas activity in the province exempts it from the bonding obligation; or
- 3) HHG moves forward with the abandonment of the CBM project.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the period ended July 31, 2012, the Company had the following significant non-cash transactions:

- included in investing activities is \$920 (July, 2011 - \$15,930) of accounts payable related to the oil and gas interest expenditures.