# CANADA ENERGY PARTNERS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 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 six months ended October 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)*

| | October 31, 2012 $ | April 30, 2012 $ |
|---|---|---|
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash | 87,893 | 806,032 |
| Accounts receivable | 50,784 | 29,833 |
| Prepaid and deposits | 52,265 | 49,250 |
| | 190,942 | 885,115 |
| **OIL AND GAS INTERESTS** (Notes 3, 4) | 76,418,240 | 75,360,372 |
| | 76,609,182 | 76,245,487 |
| **L I A B I L I T I E S** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | 42,568 | 77,724 |
| | 42,568 | 77,724 |
| **DECOMMISSIONING LIABILITY** (Note 5) | 1,287,986 | 740,269 |
| **DEFERRED INCOME TAX LIABILITY** (Note 8) | 7,055,010 | 7,289,493 |
| | 8,385,564 | 8,107,486 |
| **S H A R E H O L D E R S' E Q U I T Y** | | |
| **SHARE CAPITAL** (Note 6) | 82,463,449 | 82,183,449 |
| **SHARE-BASED PAYMENT RESERVE** (Note 6) | 8,446,010 | 8,446,010 |
| **DEFICIT** | (22,685,841) | (22,491,458) |
| | 68,223,618 | 68,138,001 |
| | 76,609,182 | 76,245,487 |

**Nature of operations and going concern** (Note 1)
**Commitments** (Note 9)

Approved by the Board of Directors and authorized for issue on December 20, 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 October 31, 2012 $ | Three Months Ended October 31, 2011 $ | Six Months Ended October 31, 2012 $ | Six Months Ended October 31, 2011 $ |
|---|---|---|---|---|
| **GENERAL AND ADMINISTRATIVE** | | | | |
| Administrative and management services (Note 7) | 90,192 | 87,785 | 188,351 | 189,078 |
| Accretion and depreciation | 9,040 | 5,480 | 13,461 | 10,974 |
| Audit and accounting | 22,409 | 45,576 | 21,304 | 72,592 |
| Corporate development | - | 5,720 | 1,747 | 14,795 |
| Filing and regulatory | 13,994 | 1,132 | 18,644 | 2,321 |
| General exploration | 29,813 | 46,583 | 47,230 | 66,972 |
| Legal | 13,941 | 11,455 | 16,695 | 12,600 |
| Office and miscellaneous | 37,212 | 37,939 | 53,930 | 64,326 |
| Professional fees | 11,471 | 1,461 | 17,844 | 9,321 |
| Rent | 8,730 | 8,308 | 19,536 | 28,783 |
| Travel | 11,777 | 13,629 | 30,886 | 21,919 |
| **LOSS BEFORE OTHER ITEMS** | (248,579) | (265,068) | (429,628) | (493,681) |
| **OTHER ITEMS** | | | | |
| Fair value adjustment to investment | - | (82,434) | - | (91,591) |
| Interest income | 55 | 7,394 | 762 | 10,504 |
| **LOSS BEFORE INCOME TAXES** | (248,524) | (340,108) | (428,866) | (574,768) |
| Future income tax recovery | 190,266 | - | 234,483 | - |
| **NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD** | (58,258) | (340,108) | (194,383) | (574,768) |
| **LOSS PER SHARE - BASIC AND DILUTED** | (0.00) | (0.00) | (0.00) | (0.01) |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING** | 84,255,784 | 82,255,784 | 83,636,219 | 82,468,262 |

*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 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. | 2,000,000 | 280,000 | - | - | 280,000 |
| Loss and comprehensive loss for the period | - | - | - | (194,383) | (194,383) |
| **Balance as at October 31, 2012** | 84,255,784 | 82,463,449 | 8,446,010 | (22,685,841) | 68,223,618 |

| | 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 | (14,130,734) | 76,498,725 |
| Loss and comprehensive loss for the period | - | - | - | (574,768) | (574,768) |
| **Balance as at October 31, 2011** | 82,255,784 | 82,183,449 | 8,446,010 | (14,705,502) | 75,923,957 |

*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 October 31, 2012 $ | Three Months Ended October 31, 2011 $ | Six Months Ended October 31, 2012 $ | Six Months Ended October 31, 2011 $ |
|---|---|---|---|---|
| **CASH PROVIDED FROM (USED FOR)** | | | | |
| **OPERATING ACTIVITIES** | | | | |
| Net loss for the period | (58,258) | (340,108) | (194,383) | (574,768) |
| Accretion and depreciation | 9,040 | 5,480 | 13,461 | 10,974 |
| Future income tax recovery | (190,266) | - | (234,483) | - |
| Fair value adjustment to investment | - | 82,434 | - | 91,591 |
| Changes in non-cash working capital balances: | | | | |
| Accounts receivable, prepaids and deposits | (2,559) | (3,566) | (23,966) | 6,643 |
| Accounts payable and accrued liabilities | 13,646 | (2,099) | (23,326) | (54,037) |
| | (228,397) | (257,859) | (462,697) | (519,598) |
| **INVESTING ACTIVITIES** | | | | |
| Oil and gas interests | (103,167) | (85,572) | (255,442) | (222,786) |
| **DECREASE IN CASH DURING THE PERIOD** | (331,564) | (343,431) | (718,139) | (742,384) |
| CASH - BEGINNING OF THE PERIOD | 419,457 | 1,909,228 | 806,032 | 2,308,180 |
| **CASH - END OF THE PERIOD** | 87,893 | 1,565,797 | 87,893 | 1,565,797 |

**Supplemental disclosure with respect to cash flows** (Note 10)

*The accompanying notes are an integral part of these condensed consolidated interim 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 period ended October 31, 2012, the Company incurred a net loss of $194,383 (October 31, 2011 - $574,768) and had working capital of $148,374 (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 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.

*(Expressed in Canadian Dollars)*

## 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 December 20, 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** |

*(Expressed in Canadian Dollars)*

## 4. OIL AND GAS INTERESTS

| For the period ended October 31, 2012 | Peace River Project $ | Monias Prospect $ | Moberly Prospect $ | Total $ |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Leases acquisitions and rental costs | 964,659 | 13,198 | - | 977,857 |
| Balance, beginning of the period | 45,036,600 | 1,891,974 | 711,541 | 47,640,115 |
| Balance, end of the period | 46,001,529 | 1,905,172 | 711,541 | 48,617,972 |
| **Exploration costs** | | | | |
| Drilling and completion | 66,430 | - | - | 66,430 |
| Reports and other | 12,240 | 1,341 | - | 13,581 |
| | 78,670 | 1,341 | - | 80,011 |
| Balance, beginning of the period | 10,707,792 | 4,599,482 | 62,427 | 15,369,701 |
| Balance, end of the period | 10,786,462 | 4,600,823 | 62,427 | 15,449,712 |
| **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** | 69,138,277 | 6,505,995 | 773,968 | 76,418,240 |

| 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 |

## 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).

<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. 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%.

<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.

### 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 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.

**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 | 534,256 |
| Accretion expense | 13,461 |
| Balance, as at October 31, 2012 | 1,287,986 |

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. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE

During the period ended October 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 October 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 –October 31, 2012 | 6,820,000 | 0.63 |

Stock options outstanding and exercisable as at October 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 October 31, 2012. There were no warrants granted, exercised or expired during the period ended October 31, 2012.

*(Expressed in Canadian Dollars)*

## 7. RELATED PARTY TRANSACTIONS

**Key management and personnel compensation**

Key management personnel include the directors and other officers of the Company. Key management compensation consists of the following:

| | Three months ended October 31, 2012 $ | Three months ended October 31, 2011 $ | Six months ended October 31, 2012 $ | Six months ended October 31, 2011 $ |
|---|---|---|---|---|
| Salary and management fees | 90,192 | 153,632 | 188,351 | 254,926 |

As at October 31, 2012, there were no related party balances arising from purchases of goods and services. The above transactions occurred in the normal course of operations and are 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:

| | Six months ended October 31, 2012 $ | Year ended April 30, 2012 $ |
|---|---|---|
| Loss before income taxes | (428,866) | (1,071,299) |
| Expected income tax recovery | (107,217) | 278,538 |
| Item not deductible for income tax purposes | (26,803) | 53,310 |
| Tax rate reduction | - | (12,763) |
| Previous unrecognized benefits | 368,503 | (78,593) |
| Future income tax recovery | 234,483 | 240,492 |

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

| | October 31, 2012 $ | April 30, 2012 $ |
|---|---|---|
| Deferred income tax assets | | |
| Financing costs | 42,003 | 84,006 |
| Investment | 64,649 | 64,649 |
| Property and equipment | 1,813,639 | 1,813,639 |
| Closure cost obligations | 321,996 | 154,736 |
| Non-capital losses | 2,353,701 | 2,219,681 |
| | 4,595,988 | 4,336,711 |
| Deferred income tax liabilities | | |
| Oil and gas interests | (11,650,998) | (11,626,204) |
| | (7,055,010) | (7,289,493) |

The Company has Canadian non-capital loss carry forwards of approximately $9,400,000 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.

## 9. COMMITMENTS

BCOGC has implemented a new plug and abandonment ("P&A") bonding program wherein certain operators will have to post bonds in addition to those previously posted. The Company has a $816,000 bond obligation coming due in January 2013 and a second deposit of $816,000 due in September 2013 unless one of the following occurs: (1) achieves commercial activity (either CBM or Montney) deemed by the BCOGC to be valued equal to or greater than $1.63 million; (2) 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) moves forward with the abandonment of the CBM project. The Company is currently working to meet this obligation by either posting the bond or removing the obligation via 1, 2, or 3 above. The Company believes that the salvage value of the CBM equipment should be sufficient to cover the cost of abandoning the CBM Project.

## 10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transaction. At October 31, 2012, the Company included in accounts payable $4,101 (October 31, 2011 - $nil) related to the oil and gas interest expenditures.