

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

*This Management’s Discussion and Analysis (“MD&A”), prepared as of March 27, 2014, should be read in conjunction with the condensed consolidated financial statements of Canada Energy Partners Inc. (the “Company”) for the period ending January 31, 2014, and related notes thereto, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). This MD&A contains “forward-looking statements” that are subject to risk factors set out in a cautionary note contained herein. All figures are stated in Canadian dollars unless otherwise indicated.*

Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.canadaenergypartners.com](http://www.canadaenergypartners.com).

**Company Overview**

Canada Energy Partners Inc. 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, and became a publicly listed entity under symbol “CE” on the TSX Venture Exchange on November 22, 2006. The Company was formed for the purpose of exploring for, acquiring and developing coalbed methane (“CBM”) reserves in the Peace River area of northeast British Columbia. The Company does not generate sufficient cash flow from operations to adequately fund its future activities and historically has relied upon issuance of securities to fund its exploration, development and administrative expenditures. The Company will require additional capital to fund its future acquisition, exploration and development activities, as well as administrative requirements, but there is material uncertainty about whether the Company will be able to obtain the required additional capital. These conditions raise significant doubt regarding the Company’s ability to continue as a going concern.

The Company has three project areas: Peace River, Monias, and Moberly. The following table summarized the gross sections or approximately gross acres of drilling licenses and leases the Company has in northeast British Columbia:

	Shallow (above the base Nikanassin) (acres)		Deep (below the base Nikanassin) (acres)	
	Gross	Net	Gross	Net
<b>Peace River</b>	51,219	51,219	44,159	22,079
<b>Monias</b>	2,609	1,957	2,609	1,957
<b>Moberly</b>	6,521	3,912	5,216	3,227
<b>Total</b>	<b>60,349</b>	<b>57,088</b>	<b>51,984</b>	<b>27,263</b>
<b>In Sections (640 acres per section)</b>	<b>94.30</b>	<b>89.20</b>	<b>81.23</b>	<b>42.60</b>

**Significant Events**

During the nine months ended January 31, 2014 and up to the date of this report, there was no exploration or development activity on the Company’s lands.

On January 15, 2013, the Company transferred operations of its Peace River CBM Project to a third party, but retained the right to reassume its role as operator of the Peace River CBM Project at the Company’s sole election. After two years, the Company is required to reassume the role of operator of the Peace River CBM Project and to repay all outstanding amounts owed to the third party. The Company has provided the third party with fixed charge security over its interest in the Monias Project in support of its performance obligations under this arrangement.

On June 26, 2012, the Company acquired all of the outstanding shares of Hudson’s Hope Gas, Ltd. (“HHG”), the 50% owner and the operator of the Company’s Peace River CBM Project, from GeoMet Inc., for consideration of 2 million shares of the Company. The Company believes that this is a strategic acquisition for the following reasons: (1) the Company obtains 100% ownership and consolidates operation of the Peace River CBM Project into the Company; (2) the

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

acquisition adds approximately 230 billion cubic feet (BCF) of CBM gas resource potential, bringing the total Peace River CBM Project gas resource potential to 500 BCF. the resource potential of the Peace River CBM Project can only be commercialized under higher gas prices); (3) the Company obtains 100% ownership of the Peace River gas plant which is strategic to both the CBM and Montney Shale developments; and (4) the Company obtains 100% ownership of one water disposal wells, along with rights to drill additional disposal wells in the future, which are strategic to both CBM and Montney Shale developments. The Company believes that this acquisition was achieved at an attractive price due to the depressed gas market.

The Company's reserves are summarized below. The year-over-year reserves are essentially unchanged from last year. 7.1% of the Company's Montney lands have booked reserves.

Canada Energy Ptnrs Reserves	CE Net BCFe*	Undisc CF C\$MM	PV10% C\$MM
<b>CE Montney</b>			
Proved	8.9	\$ 12.6	\$ 2.2
Proved + Probable	25.0	\$ 49.1	\$ 12.5
Proved + Probable + Possible	31.9	\$ 76.1	\$ 22.6
<b>CE Peace River CBM</b>			
Proved	0.4	\$ 0.6	\$ 0.4
Proved + Probable	23.5	\$ 77.8	\$ 30.8
Proved + Probable + Possible	102.5	\$ 277.6	\$ 81.4
<b>CE Reserve Totals=</b>	<b>134.4</b>	<b>\$ 353.7</b>	<b>\$ 104.0</b>

\*6:1 Gas/Oil ratio

The Company's contingent resources are summarized below. Offset drilling adjacent to the Company's Monias Project has resulted in the attribution of 173 BCFe of Contingent Resources to the Company's Monias Project, including a liquids component of 14 barrels per million cubic feet. The Company had no Contingent Resources on this property in 2012. 89.5% of the Company's Montney Contingent Resources are attributable to the Company's Monias Project.

Canada Energy Ptnrs Resources	CE Net BCFe*	Undisc CF C\$MM	PV10% C\$MM
<b>CE Montney</b>			
Best Estimate Contingent Resources	173.1	\$ 417.4	\$ 76.1
<b>CE Peace River CBM</b>			
Best Estimate Contingent Resources	394.1	\$ 1,218.0	\$ 294.9
<b>CE Contingent Resource Totals =</b>	<b>567.2</b>	<b>\$ 1,635.4</b>	<b>\$ 371.0</b>

\*6:1 Gas/Oil ratio

All of the Company's CBM Reserves and CBM Contingent Resources are attributable to the Company's Peace River CBM Project.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

**Outlook**

The Company will have to recapitalize its balance sheet in order to finance the development of its properties. The Company will pursue this goal by seeking one or more of the following: a farmout, a joint venture, an asset sale, a merger, project finance or the issuance of additional equity.

With the June 26, 2012 acquisition of HHG, the Company now owns 100% of the Peace River CBM gas plant which can be adapted to process Montney production with minor modifications. The Company is evaluating several innovative drilling and completion techniques which have the potential of enhancing the economic profile of the CBM resource. We will continue to seek additional exploration and acquisition opportunities in northeast BC.

**Projects Overview**

**Joint Venture with Crew Energy Inc.**

In March 2008, the Company entered into a joint venture agreement with Crew Energy Inc. (TSX: CR; "Crew Energy") to explore the Montney/Doig Formation on Canada Energy's Peace River and Moberly prospects in northeast British Columbia. Crew Energy operates the project and has earned a 50% working interest in the subject lands. Crew is a major Montney landowner and producer, with 377 net sections and 350 BCFe of reserves in the Montney. Canada Energy believes that Crew brings strategic expertise in the Montney to the Joint Venture.

**Peace River Project**

Crew completed a 28.5 square mile three-dimensional seismic survey of the Peace River Project in 2008. One Montney well was drilled, cased, and tested in two zones during 2008-09 and is shut-in pending completion. Several prospective deep formations, including the Montney, have been identified in this well and on the three-dimensional seismic survey. Under the Joint Venture Agreement, Crew Energy has drilled and tested two additional horizontal wells: the Portage c-20-E and the Portage 3-12-82-26. Both wells are shut-in pending pipeline connections.

The Company notes that there remain three untested formations (the Doig Siltstone, the Doig Phosphate, and the Lower Montney) that have been deemed commercial by adjacent operators in the area with large confirmed in-place gas resources.

**Moberly Project**

Crew Energy drilled an initial test well on the Moberly Project in early 2009. Several prospective deep formations including the Montney have been identified in this well. Casing has been set on the initial well and the well is shut-in pending completion testing.

Aduro drilled a vertical Montney test well one quarter mile east of the Company's Moberly block in Q3 2010 and ran casing on it. The well tested gas from the Belloy formation and is shut-in pending pipeline connection.

**Peace River CBM Project**

Canada Energy developed the Peace River CBM Project on a 50/50 basis with HHG. In 2008, the Peace River CBM Project development program included the drilling and completion of five new production wells, the connection of three existing wells, construction and installation of gas treating and compression facilities, and a pipeline and connection to the Spectra transcontinental pipeline. Initial dewatering of the eight connected wells began in Q3 & Q4 of 2008. The gas plant/compressor station, pipeline connection, and gathering system were completed in December 2008, and production and gas sales began in January 2009. In April 2010, the eight producing CBM wells were shut-in.

The decision to shut the wells in was based upon continued monthly operating losses due to low gas prices and a longer than expected dewatering time to obtain gas production rates necessary to generate a positive cash flow. The Company continues to believe that the Peace River CBM Project has commercial potential and has maintained the Peace River CBM Project. The shut-in CBM wells can be restarted in the future upon improvement in the gas prices and/or when the

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

Montney wells are producing through the gas plant, thereby achieving an economy of scale that reduces the gas plant costs per well.

The Company has an on-going investigation into several innovative drilling and completion technologies which may lead to improved flow-rates and reduced costs.

On June 26, 2012 the Company announced the acquisition of all of the outstanding shares of HHG from GeoMet Inc. for consideration of 2 million common shares of the Company. The 2 million Company shares were subject to a 12 month hold period. The Company now controls 100% of the Peace River CBM Project and gas plant.

On January 15, 2013 the Company transferred operatorship of the Peace River CBM Project to a third party, but the Company retains the right 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.

**Monias Project**

On April 1, 2008, the Company announced a joint venture with West Energy Ltd. ("West") with respect to the deep rights underlying the Company's Monias Project. Pursuant to the terms of the joint venture, West agreed to conduct a three-dimensional seismic project over the majority of the Monias Project lands and drill and case one well on the Monias Project in order to earn a 60% interest in four sections of the Monias Project. Daylight Energy Ltd. subsequently acquired West in Q2 2010 and, in turn, was subsequently acquired by Sinopec in December 2011. In June 2012, Aduro Resources Inc. ("Aduro") acquired Sinopec's interest in the Monias Project. In addition to the lands held in common by the Company and Aduro, the Company owns 100% of three additional sections and 35% of another section in the Monias Project area.

The Company has provided a third party with fixed charge security over its interest in the Monias Project in support of its performance of certain obligations owed by the Company to such third party.

**Reserves**

The Company's Statement of Reserves Data and Other Oil and Gas Information is filed on the Sedar website at [www.sedar.com](http://www.sedar.com).

**Selected Summary Financial Information**

The following table provides a brief summary of the Company's financial operations for the nine months ended January 31, 2014 and the years ended April 30, 2013 and 2012. The information has been prepared in accordance with IFRS. For more detailed information, refer to the related financial statements.

	<b>January 31, 2014</b>	April 30, 2013	April 30, 2012
	\$	\$	\$
Total assets	<b>76,457,128</b>	76,416,541	76,245,487
Oil and gas interests	<b>76,391,767</b>	76,219,804	75,360,372
Total current liabilities	<b>(237,180)</b>	(55,110)	(77,724)
Total long term financial liabilities	-	(75,657)	-
Total long-term liabilities (1)	<b>(8,587,554)</b>	(8,514,777)	(8,029,762)
Net loss and comprehensive loss for the period	<b>(811,699)</b>	(571,347)	(830,807)
Basic and diluted loss per share	<b>(0.01)</b>	(0.01)	(0.01)
Cash dividends	-	-	-

(1) Long term liabilities include decommissioning liability and deferred income tax liability.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

**Summary of Financial Results**

**Nine months ended January 31, 2014 compared to the nine months ended January 31, 2013**

During the nine months ended January 31, 2014, the Company incurred a loss of \$811,699 (2013 - \$323,145). Significant expenditures were incurred in the following categories:

- Administrative and management fees of \$281,530 (2013 - \$276,623) were in connection with the Company's Vancouver head office \$99,000 (2013 - \$99,000) and Baton Rouge operational office \$182,530 (2013 - \$177,623). Please see additional discussion in the Related Party Disclosure section;
- Share based compensation of \$102,073 (2013 - \$ nil) was incurred during the nine months ended January 31, 2014. These expenses were incurred as a result of vesting of options previously granted.
- Legal fees of \$87,779 (2013 - \$30,877) increased due to higher level of corporate activity during the nine months ended January 31, 2014.
- A deferred tax expense of \$125,255 was recorded in the nine months ended January 31, 2014 (2013 - a recovery of \$264,654).

During the nine months ended January 31, 2014, the Company capitalized \$170,240 (2013 - \$911,282) on the Peace River Project; \$1,723 (2013 - \$15,232) on the Monias Prospect; and \$nil (2013 - \$1,926) on the Moberly Prospect. There were no write-downs during the period ended January 31, 2014 or in prior periods.

**Summary of Financial Results**

**Three months ended January 31, 2014 compared to the three months ended January 31, 2013**

During the three months ended January 31, 2014, the Company incurred a loss of \$186,413 (2013 - \$124,561). Significant expenditures were incurred in the following categories:

- Administrative and management fees of \$94,564 (2013 - \$88,272) were mainly in connection with the Company's Vancouver head office \$33,000 (2013 - \$33,000) and Baton Rouge operational office \$61,564 (2013 - \$55,272). Please see additional discussion in the Related Party Disclosure section;
- Share based compensation of \$40,215 (2013 - \$ nil) was incurred during the three months ended January 31, 2014. These expenses were incurred as a result of vesting of options previously granted.
- Legal fees of \$17,762 (2013 - \$14,182) increased due to higher level of corporate activity during the three months ended January 31, 2014.
- A deferred tax recovery of \$49,486 was recorded in the three months ended January 31, 2014 (2013 - \$34,371).

**Summary of Selected Quarterly Results**

The following is a summary of the Company's selected financial results for the eight most recently completed quarters. The information has been prepared in accordance with IFRS.

	Fiscal 2014			Fiscal 2013				Fiscal 2012
	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$
Total assets	76,457,128	76,646,485	76,379,632	76,416,541	76,484,662	76,609,182	76,831,839	76,245,487
Long-term financial liabilities	-	(216,593)	(129,450)	(75,657)	(45,741)	-	-	-

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

	Fiscal 2014			Fiscal 2013				Fiscal 2012
	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$
Net (loss) income	(186,413)	(484,060)	(140,226)	(248,202)	(124,561)	(58,258)	(136,125)	33,719
Net (loss) income per common share basic and diluted	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	0.00

(1) The Company had no revenue and paid no dividends during the above periods.

Total assets fluctuated only slightly over the past eight quarters, with movements generally attributable to effects of net income or loss (excluding non-cash charges) and to fluctuations in working capital.

Net (loss) income fluctuated over the past eight quarters due to effects of movement of deferred income tax expenses or recovery recognized in each of the period. The significant fluctuations were in Q4, 2012, the Company recognized a deferred income tax recovery of \$240,492; In Q2, 2013, the Company recognized a deferred income tax recovery of \$190,266; In Q4 2013 the Company recognized a in Q2 2014 the Company recognized a deferred income tax expense of \$216,319; In Q3 2014 the Company recognized a deferred income tax recovery of \$49,486.

General and administrative expenses have been generally consistent over the past eight quarters.

### Liquidity and Capital Resources

As at January 31, 2014, the Company had cash of \$23,250 (April 30, 2013 - \$151,438) and accounts receivable and prepaid and deposits of \$42,111 (April 30, 2013 - \$45,299). During the nine month period ended January 31, 2014, the company reclassified the amount payable to the Peace River property of \$235,444 from long term to current. The payable is due on December 31, 2014.

Due to this reclassification, on January 31, 2014, the Company has working capital deficiency of \$171,819 compared to working capital of \$141,627 as at April 30, 2013. As at the date of this MD&A, the Company has working capital deficiency of approximately \$250,000.

During the nine months ended January 31, 2014, the Company recorded interest income of \$30 (2013 – \$795) from its deposit in the bank. The Company funded its operating during fiscal 2013 to date from its exiting working capital. The Company is dependent on the equity markets to fund the majority of its future development and exploration activities.

On August 12, 2013 the Company announced that it had completed the private placement sale of five million shares of the Company's common stock at \$0.10 per share for total net proceeds of \$500,000. There were no brokerage fees associated with the private placement. These shares are subject to a four-month hold period.

The Company does not know of any trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present.

Material increases or decreases in liquidity are substantially determined by the success or failure of the development and exploration programs and by the Company's access to suitable financing.

### Operating Cash Flow

Net cash used in operating activities during the nine months ended January 31, 2014, was \$597,493 compared to net cash used in operating activities of \$578,774 during the nine months ended January 31, 2013.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

**Financing Activities**

During the nine months ended January 31, 2014, the Company generated \$495,366 (2013: \$nil) from financing activities. On August 12, 2013 the Company completed the private placement sale of five million shares of the Company's common stock at \$0.10 per share for total net proceeds of \$500,000. The company paid share issuance costs of \$4,634 (2013 - \$nil) during the nine months ended January 31, 2014.

**Investing Activities**

The Company invested cash of \$26,061 during the nine months ended January 31, 2014 for oil and gas interests, compared to \$84,374 invested during the nine months ended January 31, 2013.

**Outstanding Share Data**

As at the date of this MD&A, there were 89,255,784 common shares and 5,208,750 stock options outstanding.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**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 staffs, totaled \$94,564 and \$281,530 for the three and nine month period ended January 31, 2014 (\$88,272 and \$276,623 for the three and nine months ended January 31, 2013).

	For the three months ended January 31, 2014	For the three months ended January 31, 2013	For the nine months ended January 31, 2014	For the nine months ended January 31, 2013
	\$	\$	\$	\$
Administrative and management services	94,564	88,272	281,530	276,623
Share based compensation	36,400	-	91,247	-
	<u>130,964</u>	<u>88,272</u>	<u>372,777</u>	<u>276,623</u>

***Other related parties transactions***

During the period ended January 31, 2014, the Company paid \$20,548 (2013 - \$15,209) to a company controlled by the CEO of the Company for rent for the Company's office in Baton Rouge.

**Financial Instruments and Risk Management**

***Fair value***

The fair value of the Company's financial instruments is approximated by their carrying value as at January 31, 2014 due to their short term nature.

***Fair value hierarchy***

IFRS requires disclosure about fair market value measurements for financial instruments and measured at fair value using

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

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. Receivables are amounts receivable 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.

As at January 31, 2014, the Company had a cash balance of \$23,250 (April 30, 2013 - \$151,438) and working capital deficiency of \$171,819 (April 30, 2013 - working capital of \$141,627)

*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.

**Other Risk and Uncertainties**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company's

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. Additional risks to which the Company is exposed are described below.

The Company's operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding exploration, additional financing, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, and regulatory requirements, environmental regulations risks. Exploration for gas and CBM resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess.

*Substantial capital requirements*

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development, and production of CBM and other reserves in the future and for BCOGC bonding requirements. If the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

*Environmental risks*

All phases of the gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of gas, water or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

*Water disposal*

The coal beds from which CBM gas is produced frequently contain water that may hamper the Company's ability to produce gas in commercial quantities or affect the Company's profitability.

Unlike conventional natural gas production, coal beds frequently contain water that must be removed in order for the gas to desorb from the coal and flow to the well bore. The Company's ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not the Company can produce gas in commercial quantities. The cost of water disposal may affect the Company's profitability.

Where water produced from the Project fails to meet the quality requirements of applicable regulatory agencies or wells produce water in excess of the applicable volumetric permit limit, the Company may have to shut in wells, reduce drilling activities, or upgrade facilities. The costs to dispose of this produced water may increase if any of the following occur:

- the Company cannot obtain future permits from applicable regulatory agencies;
- water of lesser quality is produced;
- wells produce excess water; or
- new laws and regulations require water to be disposed of in a different manner.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

*Reliance on operators and key employees*

The Company is not the operator on all of its prospects and may not be the operator of certain gas properties in which it acquires an interest. To the extent the Company is not the operator of its gas properties; the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. The operator may incur liability for liens related to its subcontractors. If subcontractors fail to timely pay for materials and services, the assets of the operator could be subject to materialmen's and workmen's liens. In that event, the operator could incur excess costs in discharging such liens.

In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

*Conflicts of interest*

Certain of the directors and officers of the Company are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the Business Corporations Act.

*Permits, licenses and government regulations*

Governmental permits and approvals for drilling operations must be obtained for the Project, which can be a costly and time consuming process and result in restrictions on operations.

Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. For example, as the operator of the Project the Company will often be required to prepare and present to federal, provincial or local authorities data pertaining to the effect or impact that proposed exploration for or production of gas may have on the environment. Further, the public may comment on and otherwise engage in the permitting process, including through intervention in the courts. Accordingly, the permits that are needed may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements that restrict the ability to conduct the operations on the Project or to do so profitably.

Oil and gas exploration is subject to significant regulation. Changes in these regulations may have a material adverse impact on the Company's operations.

*Title matters*

Although title reviews on the Company's property interests will be done or have been done to the satisfaction of management of the Company, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the interests of the Company. Such defects in title could result in a reduction of the possible revenue to be received by the Company. In addition, the Company's properties which are held in the form of licences, leases and/or working interests in licences and leases may be adversely affected if the holder of the licence or lease fails to meet the specific requirements of a licence or lease. There can be no assurance that any of the obligations required to maintain such licences or leases will be met. The termination or expiration of such licences, leases or working interests in licences or leases may have a significant material adverse effect on the Company's results of operations and business.

*Aboriginal land claims*

Many lands in British Columbia are or could become subject to aboriginal land claims to title, which could adversely affect the Company's title to its properties. While the Company actively consults with all groups which may be adversely affected by the Company's activities, including aboriginal groups, there can be no assurance that satisfactory agreements can be reached.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

*Additional funding requirements*

Since the Peace River Project is in its early stage and is currently not in production due to low gas prices, the Company is still dependant on the equity markets as its major source of operating working capital. From time to time, the Company may require additional financing in order to carry out its acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. As the Company's revenues have ceased as a result of lower gas prices, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. There can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favorable terms.

*Company not the operator of the Peace River, Moberly and Deep Rights on Monias Projects*

The Company is not the operator of the above Projects and will have limited or no control over these Projects. More specifically, the Company will have limited or no control over the following: the timing of the drilling and recompleting of wells; the timing and amounts of production; and the development and operating costs.

*Issuance of debt*

From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The Company's Articles do not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

*Availability of drilling equipment and access restrictions*

CBM exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

**Critical Judgments and Sources of Estimation Uncertainty**

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 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.

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.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

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 \$800 per net acre, which the Company believes is consistent with comparable land values. If the Company used a land value \$100 less per net acre in the fair value calculation, an impairment charge of approximately \$7.9 million would have been recognized.

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 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 January 31, 2014 is \$1,388,018 (April 30, 2013 - \$1,364,839).
- The calculation of income taxes requires judgement in applying tax laws and regulations, estimating the timing of the reversal of temporary differences, and estimating the realizability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expenses (recovery).
- The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of stock options. These estimates impact share-based compensation expense and share-based payment reserve. The estimated fair value of the Company's financial assets and liabilities are by their nature, subject to measurement uncertainty.

#### **Adoption of New Accounting Policies**

The Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended April 30, 2013, other than the following new standards that were adopted by the Company effective May 1, 2013:

- 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. The Company has determined that there is no impact on its consolidated interim 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. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

- 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. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.
  
- 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. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

**Investor Relations Activities**

Mr. John Proust, a Director of the Company, coordinates investor relations activities.

**Additional Information and Continuous Disclosure**

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.canadaenergypartners.com](http://www.canadaenergypartners.com).

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE NINE MONTHS ENDED JANUARY 31, 2014**

**Cautionary Note Regarding Forward-Looking Statements**

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates", "plans", "budget", "scheduled", "continue", "estimates", "forecasts", "expect", "is expected", "project", "propose", "potential", "targeting", "intends", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur" or "be achieved" or the negative connotation thereof. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by readers, as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company and its joint venture partners on its properties and work plans to be conducted. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving well permits in British Columbia;
- the impact of increasing competition in the shale gas business;
- unpredictable changes to the market prices for natural gas;
- exploration and developments costs for its properties;
- availability of additional financing or joint-venture partners;
- anticipated results of exploration and development activities; and
- the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A: volatility in the market price for natural gas; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in natural gas extraction operations; unanticipated reclamation expenses; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; title disputes or claims; limitations on insurance coverage; lack of availability of additional financing and/or joint venture partners and unpredictable weather conditions. Although Canada Energy has attempted to identify important factors that could cause results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Forward looking statements are made as of the date hereof and accordingly are subject to change after such date. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.