
CANADA ENERGY PARTNERS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED APRIL 30, 2014 AND 2013

(Expressed in Canadian Dollars)



August 28, 2014

Independent Auditor's Report

To the Shareholders of Canada Energy Partners Inc.

We have audited the accompanying consolidated financial statements of Canada Energy Partners Inc. (the "Company"), which comprise the consolidated statement of financial position as at April 30, 2014 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Energy Partners Inc. as at April 30, 2014 and its financial performance and its cash

*PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern.

Other matter

The consolidated financial statements of Canada Energy Partners Inc. for the year ended April 30, 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements dated August 21, 2013.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

CANADA ENERGY PARTNERS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	April 30, 2014	April 30, 2013
A S S E T S		
CURRENT ASSETS		
Cash	\$ 374,327	\$ 151,438
Accounts receivable	6,877	9,809
Prepaid and deposits	34,820	35,490
Assets held for sale (Note 4)	15,685,958	-
	16,101,982	196,737
OIL AND GAS INTERESTS (Note 5)	27,105,072	76,219,804
	\$ 43,207,054	\$ 76,416,541
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	\$ 521,388	\$ 55,110
Short-term loan (Note 6)	501,359	-
Decommissioning liability - held for sale (Notes 4, 7)	222,418	-
	1,245,165	55,110
LONG-TERM PAYABLE (Note 5)	-	75,657
DECOMMISSIONING LIABILITY (Note 7)	1,761,462	1,364,839
DEFERRED INCOME TAX LIABILITY (Note 8)	-	7,074,281
	3,006,627	8,569,887
S H A R E H O L D E R S ' E Q U I T Y		
SHARE CAPITAL (Note 9)	82,953,215	82,463,449
SHARE-BASED PAYMENT RESERVE (Note 9)	8,558,240	8,446,010
DEFICIT	(51,311,028)	(23,062,805)
	40,200,427	67,846,654
	\$ 43,207,054	\$ 76,416,541

Nature of operations and going concern (Note 1)

Approved by the Board of Directors and authorized for issue on August 28, 2014.

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

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

CANADA ENERGY PARTNERS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Year ended April 30, 2014	Year ended April 30, 2013
GENERAL AND ADMINISTRATIVE EXPENSES		
Accretion	\$ 30,726	\$ 29,232
Administrative and management services (Note 10)	379,331	372,135
Audit and accounting	31,839	52,096
Corporate development	-	1,747
Filing and regulatory	21,280	27,596
General exploration	10,636	57,269
Impairment of oil and gas interests (Note 5)	34,443,642	-
Interest expense	14,370	1,319
Legal	104,490	45,742
Office and miscellaneous	84,173	111,905
Professional fees	47,189	20,227
Rent	27,709	26,029
Share based compensation	112,230	-
Travel	15,150	45,811
	<u>35,322,765</u>	<u>791,108</u>
OTHER ITEMS		
Foreign exchange (gain) loss	(231)	15
Interest income	(30)	(4,564)
	<u>(261)</u>	<u>(4,549)</u>
LOSS BEFORE INCOME TAXES	(35,322,504)	(786,559)
DEFERRED INCOME TAXES RECOVERY (Note 8)	7,074,281	215,212
NET LOSS AND COMPREHENSIVE LOSS	<u>\$ (28,248,223)</u>	<u>\$ (571,347)</u>
LOSS PER SHARE - BASIC AND DILUTED	<u>\$ (0.32)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	<u>87,844,825</u>	<u>83,948,935</u>

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

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

	Number of Issued and Outstanding Shares	Share Capital	Share-based Payment Reserve	Deficit	Total Shareholders' Equity
Balance as at May 1, 2013	84,255,784	\$ 82,463,449	\$ 8,446,010	\$ (23,062,805)	\$ 67,846,654
Share issued for private placement	5,000,000	500,000	-	-	500,000
Share issuance costs	-	(10,234)	-	-	(10,234)
Share-based compensation	-	-	112,230	-	112,230
Net loss for the year	-	-	-	(28,248,223)	(28,248,223)
Balance as at April 30, 2014	89,255,784	\$ 82,953,215	\$ 8,558,240	\$ (51,311,028)	\$ 40,200,427
	Number of Issued and Outstanding Shares	Share Capital	Share-based Payment Reserve	Deficit	Total Shareholders' 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 acquisition of Hudson's Hope Gas Ltd.	2,000,000	280,000	-	-	280,000
Net loss for the year	-	-	-	(571,347)	(571,347)
Balance as at April 30, 2013	84,255,784	\$ 82,463,449	\$ 8,446,010	\$ (23,062,805)	\$ 67,846,654

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

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

	Year ended April 30, 2014	Year ended April 30, 2013
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Loss for the year	\$ (28,248,223)	\$ (571,347)
Accretion	30,726	29,232
Interest expense	14,370	1,319
Deferred income taxes recovery	(7,074,281)	(215,212)
Share based compensation	112,230	-
Impairment of oil and gas interests	34,443,641	-
Changes in non-cash working capital balances:		
Accounts receivable and prepaid and deposits	3,602	33,784
Accounts payable and accrued liabilities	(22,666)	(8,003)
	(740,601)	(730,227)
INVESTING ACTIVITIES		
Oil and gas interests	(26,276)	(305,437)
Reclamation bond released	-	171,070
Proceeds for releasing third party development obligations	-	210,000
	(26,276)	75,633
FINANCING ACTIVITIES		
Short-term loan	500,000	-
Issuance of shares (net of share issuance costs)	489,766	-
	989,766	-
INCREASE (DECREASE) IN CASH DURING THE YEAR	222,889	(654,594)
CASH - BEGINNING OF THE YEAR	151,438	806,032
CASH - END OF THE YEAR	\$ 374,327	\$ 151,438

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

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(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 resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, by Certificate of Incorporation and Notice of Articles pursuant to the provisions of the Business Corporations Act (British Columbia). The Company’s principal and executive office is located at Suite 1680, 200 Burrard Street, Vancouver, BC, Canada V6C 3L6.

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

Going concern

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

For the year ended April 30, 2014, the Company incurred a net loss of \$28,248,223 (April 30, 2013-\$571,347) and had working capital of \$14,856,817 (April 30, 2013 -\$141,627). 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. Subsequent to the year ended April 30, 2014, the Company announced that it intends to make a distribution of capital of an aggregate of approximately \$12.02 million as a reduction of capital of the common shares on a pro rata basis to its shareholders (See Note 13). These conditions raise significant doubt regarding the Company’s ability to continue as a going concern.

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

These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 over its subsidiaries, exposure or right, to variable returns from its involvement with the subsidiary, and the ability to use its power over the subsidiary to affect the amount of the subsidiaries return. 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.

Critical judgments and sources of estimation uncertainty

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- 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. Refer to Note 5.

Estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- The assessment of any impairment of oil and gas properties is dependent upon the recoverable amount that take into account factors as such as reserves, economic and market conditions and the useful lives of assets. As a result of this assessment, management has carried out an impairment test on the Company's Peace River Project, Monias Prospect and Moberly Prospect. Refer to Note 5.
- The Company has recognized a provision for a decommissioning liability associated with its oil and gas interests. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to restore property to its original condition and the expected timing of those costs. The carrying amount of the liability at April 30, 2014 is \$1,983,880 (2013 - \$1,364,839).

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversal of temporary differences, and estimating the realizability of deferred income tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).

Oil and gas interests

All costs directly associated with oil and gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include costs to acquire acreage and exploration rights, geological and geophysical costs, decommissioning liabilities, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as general exploration expense.

When an area is determined to be technically feasible and commercially viable through the granting of a permit, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings as general exploration expenses.

Assets held for sale

The Company's assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The Company's assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Impairment of non-financial assets

Impairment tests for non-financial assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the non-financial asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the non-financial asset to its recoverable amount.

Joint operations

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

Decommissioning liabilities

Decommissioning liabilities include present obligations where the Company will be required to retire tangible non-financial assets such as producing well sites and facilities. The decommissioning liabilities are measured at the present value of the expenditure expected to be incurred using a risk-free discount rate. The associated asset retirement obligation is capitalized as part of the cost of the related non-financial assets. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liabilities and the related decommissioning cost.

Increase in decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liabilities in the statement of comprehensive loss. Actual expenditures incurred are charged against the decommissioning liabilities as incurred.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Share-based payment transactions

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value for employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

Loss per share

The Company presents basic loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In reporting periods when a loss is incurred, potential issuance of shares would be anti-dilutive and therefore, basic and diluted loss per share are the same.

Foreign currency transactions

Items included in the financial statements of each of the Company and its subsidiary are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional and reporting currency of the Company is the Canadian dollar.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the statement of financial position date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Revenues and expenses are translated into Canadian dollars at the exchange rate in effect on the transaction date. Foreign exchange gains and losses are included in earnings.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value hierarchy

IFRS requires disclosure about fair market value measurements for financial instruments measured at fair value using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Financial instruments

On initial recognition, all financial assets and financial liabilities are recorded at fair value plus directly attributable transaction costs, other than financial assets and liabilities classified as at fair value through profit or loss. The directly attributable transaction costs of financial assets and liabilities classified as at fair value through profit or loss are expensed in the period they are incurred.

Subsequent measurement

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term and financial assets and liabilities designated at fair value through profit or loss on initial recognition. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Cash and accounts receivable are classified as loans and receivables.

Held-to-maturity - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the asset, including impairment losses, are recognized in the statement of operations and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities: This category includes accounts payables and accrued liabilities and the long-term payable, all of which are recognized at amortized cost at the settlement date using the effective interest method of amortization.

New Accounting Standards and recent pronouncements

- The final version of IFRS 9, *Financial instruments*, was issued by the IASB in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Company is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

The following new standards 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. This standard is effective for annual periods beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 11 – Joint Arrangement. In May 2011, the IASB issued IFRS 11, which replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form, as is currently the case. The standard distinguishes between joint operations, where the joint operator accounts for the assets, liabilities, revenues, and expenses relating to its involvement, and joint ventures, which must be accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.
- IFRS 12 – Disclosure of interest in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated 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. IFRS 13 is applicable for fiscal years beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.

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

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

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

The purchase consideration was 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 HHG’s assets acquired and liabilities assumed as at the acquisition date were as follows:

Purchase price allocation	
Oil and gas interests	\$ 854,416
Accounts receivable	856
Decommissioning liabilities	(534,255)
	\$ 321,017

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

4. ASSETS HELD FOR SALE

On March 31, 2014, the Company and Crew Energy Inc. (“Crew”) entered into an option to purchase agreement (the “Option Agreement”) pursuant to which the Company granted to Crew an option to purchase certain oil and gas rights of the Company located in northeastern British Columbia known as the Montney Shale lands and wells (the “Assets”) for a purchase price of \$16,070,000. On June 25, 2014, Crew exercised the Option Agreement. The Option Agreement was subsequently amended on June 25, 2014 pursuant to which the purchase price for the Assets was reduced to \$15,720,000.

On June 25, 2014, Crew exercised its option and the Company entered into an Agreement of Purchase and Sale (the “PSA”) with Crew.

The sale to Crew was completed on July 31, 2014 (the “Closing Date”) and the Company received full payment of \$15,720,000 in cash less adjustments.

Assets related to the PSA have been presented as held for sale as follows.

	2014	2013
Oil and gas interests	\$ 15,685,958	\$ -
Total	\$ 15,685,958	\$ -

The Company’s assets held for sale is measured at the lower of carrying amount and fair value less costs to sell. Refer to Note 5.

Liabilities related to the Sale Transaction have been presented as held for sale as follows.

	2014	2013
Decommissioning liabilities	\$ 222,418	\$ -
Total	\$ 222,418	\$ -

The value of the company’s assets held for sale is based on Level 2 inputs of the fair value hierarchy.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

5. OIL AND GAS INTERESTS

For the year ended April 30, 2014	Peace River Project	Monias Prospect	Moberly Prospect	Total
Acquisition costs				
Balance, beginning of year	\$ 45,951,769	\$ 1,905,865	\$ 713,467	\$ 48,571,101
Leases acquisitions and rental costs	175,826	-	-	175,826
Impairment of oil and gas interest	(4,526,594)	(1,905,865)	(713,467)	(7,145,926)
Transferred to assets held for sale	(15,685,958)	-	-	(15,685,958)
Balance, end of year	\$ 25,915,043	\$ -	\$ -	\$ 25,915,043
Exploration costs				
Balance, beginning of year	\$ 10,632,747	\$ 4,602,279	\$ 63,121	\$ 15,298,147
Redemption of reclamation bond	(20,000)	-	-	(20,000)
Asset retirement costs	590,347	-	-	590,347
Report and others	266,972	1,723	-	268,695
Impairment of oil and gas interest	(11,470,066)	(4,604,002)	(63,121)	(16,137,189)
Balance, end of year	\$ -	\$ -	\$ -	\$ -
Development costs				
Balance, beginning of year	\$ 12,350,556	\$ -	\$ -	\$ 12,350,556
Impairment of oil and gas interest	(11,160,527)	-	-	(11,160,527)
Balance, end of year	\$ 1,190,029	\$ -	\$ -	\$ 1,190,029
Total oil and gas interests	\$ 27,105,072	\$ -	\$ -	\$ 27,105,072

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

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

5. OIL AND GAS INTERESTS (continued)

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 the 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 the acquisition of all of the outstanding shares of HHG, the other 50% owner and operator of the CBM Project, from GeoMet, Inc., for consideration of 2,000,000 common shares of the Company. The Company's interest in the Peace River CBM Project and the Moosebar Shale rights is subject to Crown royalties and for certain acreage to overriding royalties of up to 0.05%.

Deep rights

The Company owns a 50% working interest, subject to a joint venture agreement with 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 an 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.

Effective January 15, 2013, the Company released Crew from certain oil and gas development obligations in exchange for \$210,000 cash; the establishment of a line of credit of up to \$540,000 at an interest rate of Prime + 4% for the period up to the Closing Date of the PSA to cover certain land related expenses; and for Crew to assume operations of the Company's Peace River CBM Project thereby relieving the Company of the P&A bond commitment to the British Columbia and Gas Commission ("BCOGC") until at least December 31, 2014. The balance of the line of credit drawn at April 30, 2014 was \$474,614 (2013 \$75,657). The balance of the line of credit drawn was included in the Company's account payables in 2014 and long-term payable in 2013. The Company's previous \$171,070 BCOGC bonding commitment was released back to the Company in January 2013.

The Company has transferred operations of its Peace River CBM Project to Crew, but the Company retains the right during the two year period to reassume its role as operator at the Company's election. After two years, the Company is required to reassume the role of operator of the Peace River CBM Project and to repay the outstanding amounts. The Company has provided a fixed charge security over its Monias lands in support of its performance obligations under these agreements. Subsequent to the year ended April 30, 2014, operatorship was transferred back to the Company as a result of the sale of Montney Assets.

On March 31, 2014, the Company and Crew entered into an option to purchase agreement pursuant to which the Company granted to Crew an option to purchase certain oil and gas rights of the Corporation located in northeastern British Columbia known as the Montney Shale lands and wells (the "Assets") for a purchase price of \$16,070,000. The Option Agreement was subsequently amended in accordance with an amending agreement dated June 25, 2014 pursuant to which the purchase price for the Assets was reduced to \$15,720,000. The sale was completed on July 31, 2014.

Other Assets

The Company owns 100% of a gas processing plant located in Peace River, British Columbia. The Company also owns a water disposal well.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

5. OIL AND GAS INTERESTS (continued)

At April 30, 2014, the Company evaluated its Peace River Project for impairment and recorded an impairment of \$27,157,187 (2013 – \$nil). The impairment indicator was triggered when sufficient data indicated that the carry amount of the oil and gas interest is unlikely to be recovered in full from successful development or by sale.

The recoverable value of the shallow rights in the Peace River Project was determined using a fair value less costs to sell with the expected cash flows based on 2014 year-end reserves information and a post-tax discount rate of 10%.

The following estimates were used in determining the impairment to the carrying value of the Company's shallow rights at April 30, 2014:

	Average Gas Price \$/MCF (1)	Gross Gas Reverse million \$	Capital Cost million \$	Operating expenses million \$
2014	-	-	1,538.0	-
2015	3.590	159.0	6,152.0	125.5
2016	3.655	1,785.7	4,614.0	630.3
2017	4.090	6,477.3	4,614.0	802.5
2018	4.287	12,386.6	-	917.1
2019	4.413	14,770.7	-	894.8
2020	4.480	15,169.6	-	856.7
2021	4.538	13,473.8	-	813.3
2022	4.595	11,596.1	-	768.2
2023	4.657	9,864.9	-	728.8
2024	4.718	8,390.5	-	695.5
2025	4.771	7,125.8	-	674.9
2026	4.855	6,090.3	-	663.5
2027	4.940	5,205.7	-	655.2
2028	5.026	4,450.8	-	648.8
Remainder	5.437	21,464.2	-	6,782.2

(1) MCF = thousand cubic feet

A one per cent increase in the assumed discount rate would result in an additional impairment of \$1.94 million.

The recoverable value of the deep rights in the Peace River Projected is determined using a fair value less costs to sell in an arm's length transactions, as required for assets that qualify as held for sale. The estimated fair value of the deep rights is the purchase price of the assets in the Option Agreement with Crew of \$15,720,000 less any incremental costs directly attributable to the sale of the Assets. Incremental costs directly attributable to the disposal of the Assets include a 0.55% finder fees of \$86,460, fairness opinion of \$150,000, and estimated legal fees of \$20,000. The Company reclassified \$15,685,958 as assets held for sale, as a result of the expected value upon completion of the Sale Transaction. Refer to Note 4.

The recoverable value of the Company's gas plant in the Peace River Project was determined using fair value less costs to sell methodology. Gunning Investment Recovery Services Inc. ("Gunning"), independent promoter for new and used oil and gas related processing and production equipment prepared an appraisal report for the estimated salvage value of the Company's gas plant.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

5. OIL AND GAS INTERESTS (continued)

The recoverable value of the Company's water disposal well was determined using a fair value less costs of sell methodology, with expected cash flow based on management estimated and a post-tax discount rate of 10%.

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.

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

At April 30, 2014, the Company evaluated the Monias Prospect for impairment and recorded an impairment of \$6,509,867 (2013 - \$nil). The Monias Prospect was written down to \$nil as the Company does not expect to incur any further expenditures on this property.

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.

At April 30, 2014, the Company evaluated the Moberly Prospect for impairment and recorded an impairment of \$776,588 (2013 - \$nil). The Moberly Prospect was written down to \$nil as the Company does not expect to incur any further expenditures on this property.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

6. SHORT TERM LOAN

On March 31, 2014, the Company received a \$500,000 loan from Crew. Interest on the loan is accrued monthly at an annual rate of interest of the prime rate plus four percent, from March 31, 2014 to the date of repayment. Pursuant to the terms of the PSA with Crew for which the Company and Crew have entered into subsequently, the due date of this loan is amended to the Closing Date of the PSA. On July 31, 2014, the Company has closed the PSA and repaid the principal amount of loan plus interest in full to Crew. As at April 30, 2014, the Company recorded accrued interest of \$1,359.

7. 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 \$4,254,326 which will be incurred from 2034 to 2044. To calculate the net present value of its decommissioning liability, the Company used a risk free rate of 2.76%. The following table summarizes the Company's decommissioning liability:

	Decommissioning Liability
Balance, as at April 30, 2012	\$ 740,269
Liabilities incurred	534,255
Change in estimate	61,083
Accretion expense	29,232
Balance, as at April 30, 2013	1,364,839
Change in estimate	588,315
Accretion expense	30,726
Balance, as at April 30, 2014	\$ 1,983,880
Decommissioning liability related to deep rights (Note 4)	\$ 222,418
Decommissioning liability related to shallow rights and facilities	1,761,462
	\$ 1,983,880

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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

8. INCOME TAXES

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

	April 30, 2014	April 30, 2013
Loss before income taxes	\$ (35,322,504)	\$ (786,559)
Expected income tax recovery	(9,183,851)	(196,640)
Item not deductible for income tax purposes	8,994,831	(62,340)
Change in statutory tax rate	282,971	-
Change in deferred income tax assets	(8,913,829)	43,768
Unrecognized tax benefits	1,745,597	-
Deferred income tax recovery	\$ (7,074,281)	\$ (215,212)

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

	April 30, 2014	April 30, 2013
Deferred income tax assets		
Investment	\$ 67,235	\$ 64,649
Share issuance costs	2,129	-
Property and equipment	1,886,184	1,813,639
Closure cost obligations	343,604	197,897
Non-capital losses	2,762,446	2,475,620
Unrecognized deferred tax assets	(1,745,598)	-
	\$ 3,316,000	\$ 4,551,805
Deferred income tax liabilities		
Oil and gas interests	(3,316,000)	(11,626,086)
Net deferred income tax liabilities	\$ -	\$ (7,074,281)

The Company has Canadian non-capital loss carry forwards of approximately \$10,600,000 which expire in 2027 through to 2034, 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 \$13,000 which expire in 2027 through to 2034, and approximately \$11,400,000 in certain resource related assets deductions which may be available to offset future taxable income.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE

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

On August 12, 2013, the Company completed a non-brokered private placement for \$500,000 by the issuance of 5,000,000 common shares at a price of \$0.10 per share.

Share options and share-based compensation

The Company grants stock options in accordance with the requirements of the TSX Venture Exchange. Under the Company's stock option 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 options, including the vesting terms and the exercise price are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's stock on the date of grant. The stock options granted are exercisable for a period of five years.

A continuity table of share options for the period ended April 30, 2014 is as follows:

	Number of options	Weighted Average Exercise Price
Balance, outstanding - April 30, 2012	6,857,500	\$ 0.63
Expired	(62,500)	0.63
Balance, outstanding - April 30, 2013	6,795,000	0.63
Granted	2,815,000	0.10
Cancelled	(2,544,000)	0.63
Forfeited	(1,857,250)	0.53
Balance, outstanding - April 30, 2014	5,208,750	\$ 0.38

The following table summarizes information about share options outstanding and exercisable at April 30, 2014:

Exercise Price	Options Outstanding		Options Exercisable	
	Number of Options	Weighted Average Contractual Life (Years)	Number of Options	Weighted Average Contractual Life (Years)
\$0.10	2,358,750	4.23	553,750	4.10
\$0.20	100,000	4.37	-	-
\$0.63	2,750,000	1.44	2,750,000	1.44
	5,208,750	2.76	3,303,750	1.89

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE (continued)

The following table summarizes information on share options outstanding and exercisable at April 30, 2013:

Options Outstanding and Exercisable		
Exercise Price	Number of Options	Weighted Average Contractual Life (Years)
\$0.63	6,795,000	2.44
	6,795,000	2.44

The following are the weighted average assumptions employed to estimate the fair value of options granted using the Black-Scholes option pricing model:

	2014	2013
Risk-free interest rate	1.69%	N/A
Expected volatility	111.23%	N/A
Expected life	5 years	N/A
Expected dividend yield	Nil	N/A

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

Warrants

There were no warrants outstanding as at April 30, 2014. There were no warrants issued, exercised or expired during the year ended April 30, 2013 or the period ended April 30, 2014.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

10. 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

Administrative and management fees of \$132,000 (2013 - \$132,000) were paid to a company controlled by the Chairman in connection with the Company's Vancouver head office. Administrative and management fees of \$247,331 (2013 - \$240,135) were paid to a company controlled by the Chief Executive Officer in connection with the Company's Baton Rouge office.

	For the year ended April 30, 2014	For the year ended April 30, 2013
Administrative and management services	\$ 379,331	\$ 372,135
Share based compensation	98,973	-
	<u>\$ 478,304</u>	<u>\$ 372,135</u>

Other related parties transactions

During the year ended April 30, 2014, the Company paid \$27,708 (April 30, 2013 - \$21,841) to a company controlled by the CEO of the Company for rent for the Company's office in Baton Rouge, Louisiana.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

The fair value of the Company's financial instruments is approximated by their carrying value as at April 30, 2014 due to their short term nature. The fair value of the Company's financial instructions may be less than the carrying value due to the liquidity risk.

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 carrying value of the financial assets.

The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. The credit risk on these amounts is minimal.

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. See also Note 1.

As at April 30, 2014, the Company had a cash balance of \$374,327 (2013 - \$151,438) to settle current financial liabilities of \$1,022,747 (2013 - \$55,110).

The following are the contractual maturities of financial liabilities at April 30, 2014:

	Less than 1 year	2 – 5 years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 521,388	\$ -	\$ -	\$ 521,388
Short-term loans	501,359	-	-	501,359
Total	<u>\$ 1,022,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,022,747</u>

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

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

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 and short-term loan are subject to floating rate of interest. The interest rate risk on the Company's cash is minimal. Sensitivity to a 1% change (plus or minus) in interest rate would affect the reported loss by approximately \$5,000 (\$nil at April 30, 2013).

CANADA ENERGY PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2014
(Expressed in Canadian Dollars)

12. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of oil and gas properties and to maintain a flexible capital structure. The capital structure of the Company consists of equity attributable to common shareholders comprised of issued capital, share-based payment reserve, and deficit. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company currently does not produce any revenue and has relied on equity issuance and advances from related parties to fund its operations and expects continued financial support through the next twelve months.

The Company is currently not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year ended April 30, 2014.

13. EVENTS AFTER THE REPORTING PERIOD

- i) Subsequent to the year end, the Company completed the sale of its Montney rights for \$15,720,000 and received net proceeds of \$12,492,995, after the adjustments of a \$2.2 million reclamation deposit to the BCOGC and repayments of short-term loan and other liabilities to Crew.

The Company also announced that it intends to make a distribution of an aggregate of approximately \$12.02 million of net proceeds of the sales of the Company's Montney rights as a reduction of the capital of the common shares on a pro rata basis to the holders of common shares of the Company of record at the close of business on August 20, 2014. Each shareholder of record will receive \$0.133 per share. The distribution is expected to take place on September 3, 2014.

- ii) Subsequent to the year end, 1,138,750 stock options of the Company were exercised at an exercise price of \$0.10 per share.