CANADA ENERGY PARTNERS INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Canada Energy Partners Inc.

We have audited the accompanying financial statements of Canada Energy Partners Inc. which comprise the statements of financial position as at April 30, 2012, April 30, 2011 and May 1, 2010, and the statements of operations and comprehensive loss, statements of changes in equity and statements of cash flows for the years ended April 30, 2012 and April 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada Energy Partners Inc. as at April 30, 2012, April 30, 2011 and May 1, 2010, and its financial performance and its cash flows for the years ended April 30, 2012 and April 30, 2011 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 describes matters and conditions that indicate the existence of a material uncertainty that casts significant doubt about Canada Energy Partners Inc.'s ability to continue as a going concern.

"D&H Group LLP"

Vancouver, B.C.
August 27, 2012

Chartered Accountants

CANADA ENERGY PARTNERS INC.

STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

	April 30, 2012 $	April 30, 2011 $	May 1, 2010 $
		(Note 13)	(Note 13)
ASSETS			
CURRENT ASSETS			
Cash	806,032	2,308,180	6,386,141
Accounts receivable	29,833	28,715	41,230
Prepaid & deposits	49,250	48,469	58,205
	885,115	2,385,364	6,485,576
INVESTMENT (Note 6)	-	1,287,186	955,479
OIL AND GAS INTERESTS (Note 3)	75,360,372	74,916,054	72,182,299
	76,245,487	78,588,604	79,623,354
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	77,724	116,673	141,255
Bank loan (Note 6)	-	1,376,126	1,376,126
	77,724	1,492,799	1,517,381
DECOMMISSIONING LIABILITY (Note 4)	740,269	597,012	547,311
DEFERRED INCOME TAX LIABILITY (Note 8)	7,289,493	7,529,985	7,794,069
	8,107,486	9,619,796	9,858,761
SHAREHOLDERS' EQUITY			
SHARE CAPITAL (Note 5)	82,183,449	82,183,449	82,467,401
SHARE-BASED PAYMENT RESERVE (Note 5)	8,446,010	8,446,010	5,422,838
DEFICIT	(22,491,458)	(21,660,651)	(18,125,646)
	68,138,001	68,968,808	69,784,593
	76,245,487	78,588,604	79,623,354

Nature of operations and going concern (Note 1)
Commitments (Note 9)
Event after the reporting period (Note 14)

Approved by the Board of Directors and authorized for issue on August 27, 2012.

"John Proust", Director *"Ben Jones"*, Director

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

CANADA ENERGY PARTNERS INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED APRIL 30, 2012 and 2011

(Expressed in Canadian Dollars)

	2012 $	2011 $ (Note 13)
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative and management services (Note 7)	465,009	498,024
Accretion (Note 4)	21,933	20,870
Advertising	-	22,434
Audit and accounting (Note 7)	61,385	70,948
Corporate development	19,745	4,000
Filing and regulatory	14,075	53,463
General exploration	117,137	105,975
Legal	64,088	69,329
Office and miscellaneous	122,820	157,262
Professional fees	25,126	75,752
Rent	52,199	81,072
Share-based compensation (Note 5 and Note 7)	-	2,904,328
Travel	36,279	96,133
LOSS BEFORE OTHER ITEMS	(999,796)	(4,159,590)
OTHER ITEMS		
Fair value adjustment to investment	(87,999)	331,707
Foreign exchange	222	(23)
Interest	16,274	28,817
	(71,503)	360,501
LOSS BEFORE INCOME TAXES	(1,071,299)	(3,799,089)
DEFERRED INCOME TAXES RECOVERED (Note 8)	240,492	264,084
NET LOSS AND COMPREHENSIVE LOSS	(830,807)	(3,535,005)
LOSS PER SHARE - BASIC AND DILUTED	(0.01)	(0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	82,255,784	82,326,057

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

CANADA ENERGY PARTNERS INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED APRIL 30, 2012 and 2011
(Expressed in Canadian Dollars)

	Number of Issued and Outstanding Shares	Share Capital $	Share-based Payment Reserve $	Deficit $	Shareholders' Equity $
Balance as at April 30 , 2011 (Note 13)	82,255,784	82,183,449	8,446,010	(21,660,651)	68,968,808
Net loss for the year	-	-	-	(830,807)	(830,807)
Balance as at April 30, 2012	82,255,784	82,183,449	8,446,010	(22,491,458)	68,138,001

	Number of Issued and Outstanding Shares	Share Capital $	Share-based Payment Reserve $	Deficit $	Shareholders' Equity $
Balance as at May 1, 2010 (Note 13)	82,547,284	82,467,401	5,422,838	(18,125,646)	69,764,593
Issuer bid share repurchase	(291,500)	(283,952)	118,844	-	(165,108)
Share-based compensation	-	-	2,904,328	-	2,904,328
Net loss for the year	-	-	-	(3,535,005)	(3,535,005)
Balance as at April 30, 2011 (Note 13)	82,255,784	82,183,449	8,446,010	(21,660,651)	68,968,808

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

CANADA ENERGY PARTNERS INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED APRIL 30, 2012 and 2011

(Expressed in Canadian Dollars)

	2012 $	2011 $
		(Note 13)
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(830,807)	(3,535,005)
Items not affecting cash:		
Share-based compensation	-	2,904,328
Accretion	21,933	20,870
Fair value adjustment to investment	87,999	(331,707)
Deferred income taxes recovered	(240,492)	(264,084)
Changes in non-cash working capital balances:		
Accounts receivable, prepaids and deposits	(1,899)	(4,132)
Accounts payable and accrued liabilities	(36,705)	13,244
	(999,971)	(1,196,486)
FINANCING ACTIVITIES		
Issuer bid share repurchase	-	(165,108)
Loan repayment	(1,376,126)	-
	(1,376,126)	(165,108)
INVESTING ACTIVITIES		
Sale of investments	1,199,187	-
Oil and gas interests	(325,238)	(2,716,367)
	873,949	(2,716,367)
DECREASE IN CASH DURING THE YEAR	(1,502,148)	(4,077,961)
CASH - BEGINNING OF THE YEAR	2,308,180	6,386,141
CASH - END OF THE YEAR	806,032	2,308,180

Supplemental disclosure with respect to cash flows (Note 10)

1. NATURE OF OPERATIONS AND GOING CONCERN

Canada Energy Partners Inc. ("the Company") is an independent natural gas exploration and development company primarily focused on unconventional resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, by Certificate of Incorporation and Notice of Articles pursuant to the provisions of the Business Corporations Act (British Columbia). The Company's principal and executive office is located at Suite 1500, 885 West Georgia Street, Vancouver, BC, Canada, V6C 3E8.

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

Going concern

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

For the year ended April 30, 2012, the Company incurred a net loss of $830,807 (April 30, 2011 - $3,535,005) and had working capital of $807,391 (April 30, 2011 - $892,565). 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. Also see Note 9. 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 the management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Adoption of IFRS and statement of compliance

These are the company's first annual financial statements prepared in accordance with IFRS in effect at April 30, 2012. These financial statements have been prepared in accordance with *IAS 1, Presentation of Financial Statements and IFRS 1, First Time Adoption of International Financial Reporting Standards* and the impact of the transition from previous Canadian GAAP to IFRS is explained in Note 13, including the effects of the transition to IFRS on the Company's financial position, equity, comprehensive loss and cash flows.

Subject to the application of the transition elections described in Note 13, the accounting policies applied in these financial statements and described below, have been applied consistently to all periods presented, including the opening statement of financial position as at May 1, 2010 (the company's "transition date"),

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

except where the Company applied certain exemptions upon transition to IFRS.

Basis of presentation

These financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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 financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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 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.

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:

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

- 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, 2012 is $740,269 (2011: $597,012).

  If the estimated pre-tax discount rate used in the calculation was decreased by 1%, the carrying amount of the provision would have been approximately $144,000 lower. If the estimated pre-tax discount rate used in the calculation was increased by1%, the carrying amount of the provision would have been approximately $117,000 higher.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 income tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (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 disclosed in Note 11.

Oil and gas interests

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

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

Impairment of non-financial assets

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

Joint operations

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

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 operations and comprehensive loss. Actual expenditures incurred are charged against the decommissioning liabilities as incurred.

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 Corporation does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Share-based payment transactions

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

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

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

Loss per share

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

Flow-through shares

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the statement of financial position date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Revenues and expenses are translated into Canadian dollars at the exchange rate in effect on the transaction date. Foreign exchange gains and losses are included in earnings.

Financial instruments

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

<u>Subsequent measurement</u>

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

The Company classifies its financial liabilities into one of two 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 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 bank loan, all of which are recognized at amortized cost at the settlement date using the effective interest method of amortization.

New Accounting Standards and recent pronouncements

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its financial statements.

- IFRS 9 - Financial Instruments. This standard partially replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2015. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.
- IFRS 11. In May 2011, the IASB issued IFRS 11 – Joint Arrangements. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form, as is currently the case. The standard distinguishes between joint operations, where the joint operator accounts for the assets, liabilities, revenues, and expenses relating to its involvement, and joint ventures, which must be accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted, if IFRS 10, IFRS 12, and consequential amendments to IAS 28 Investments in Associates and Joint Ventures are applied at the same time.
- IFRS 12, In May 2011, the IASB issued IFRS 12 - Disclosure of Interests in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- IFRS 13 - Fair Value Measurement. IFRS 13 is a new standard that applies to both financial and non-financial items measured at fair value. It defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. Previously, a variety of fair value techniques and disclosures were possible under the requirements of separate applicable IFRSs. IFRS 13 is applicable for fiscal years beginning on or after January 1, 2013. The standard, which may be early adopted, will apply prospectively from the beginning of the annual period in which it is adopted.

(Expressed in Canadian Dollars)

3. OIL AND GAS INTERESTS

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

For the year ended April 30, 2011	Peace River Project $	Monias Prospect $	Moberly Prospect $	Total $
Acquisition costs				
Leases, acquisitions and rental costs	1,962,744	27,732	10,347	2,000,823
Balance, beginning of year	42,961,729	1,849,696	693,274	45,504,699
Balance, end of the year	44,924,473	1,877,428	703,621	47,505,522
Exploration costs				
Drilling and completion	432,155	300	-	432,455
Geological and consulting	44,927	40,052	-	84,979
Reports and other	42,021	6,136	1,836	49,993
	519,103	46,488	1,836	567,427
Balance, beginning of year	9,901,774	4,536,513	54,263	14,492,550
Balance, end of year	10,420,877	4,583,001	56,099	15,059,977
Development costs				
Drilling and completion	142,184	-	-	142,184
Gas plant	24,658	-	-	24,658
Less: net revenue received in development stage	(1,337)	-	-	(1,337)
	165,505	-	-	165,505
Balance, beginning of year	12,185,050	-	-	12,185,050
Balance, end of year	12,350,555	-	-	12,350,555
Total deferred oil and gas interests	67,695,905	6,460,429	759,720	74,916,054

3. OIL AND GAS INTERESTS (continued)

Included in acquisition costs is a $139,035 term deposit pledged in support of the letter of credit issued by the Company's bank in favour of the British Columbia Oil and Gas Commission ("BCOGC") to ensure that the Company can complete its reclamation obligations, including shut-down, closure, and post-closure. The security will be released back to the Company once the reclamation has been completed according to the plan agreed with the BCOGC and the site is returned to an acceptable state.

Peace River Project, British Columbia

The Company has working interests in the oil and gas leases located in the Peace River area near Hudson's Hope in northeast British Columbia. Peace River Project consists of shallow rights (from the surface to the base of Gething formation) and deep rights (from the base of Gething to the basement).

<u>Shallow rights</u>

Shallow rights include Peace River coalbed methane "CBM" Project and Moosebar Shale rights. The Company owns 50% working interest and an additional 3.71% after payout working interest in the Peace River CBM Project. The operator of the Peace River CBM Project is GeoMet, Inc. The Company's interest in the Peace River CBM Project is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 0.05%.

In November 2008 Canada Energy entered into a farm-in agreement (the "Agreement") with GeoMet, Inc. for Moosebar Shale shallow rights on its Peace River Project. The Company drilled an initial Moosebar horizontal test well and has earned an 87.5% interest in 2 sections (approximately 2 square miles). The Company's interest in the Moosebar Shale is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 0.05%.

<u>Deep rights</u>

The Company owns 50% working interest, subject to a joint venture agreement with Crew Energy Inc. ("Crew"). According to the joint venture agreement, Crew operates the project and has earned a 50% working interest in the subject lands upon paying 100% of the costs of the exploration program. The Company's interest in the deep rights of the Peace River Project will be subject to Crown royalties, geological overriding royalties of up to 0.85% and back-in interest of 6.6% after project payout plus $2,000,000 on approximately 3,500 acres. During fiscal year 2011, the Company and Crew acquired an additional 14 sections of deep rights in Peace River. (See also Event After the Reporting Period, Note 14).

Monias Prospect, British Columbia

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

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

(Expressed in Canadian Dollars)

3. OIL AND GAS INTERESTS (continued)

interest in the eighth section at Monias Prospect, in a license grouping arrangement with Terra Energy.

The Company's interest in the deep rights of the Monias Prospect will be subject to Crown royalties, geological overriding royalties of up to 1% and back-in interest of 12.5% after project payout plus $2,000,000. The Company's interest in the shallow rights of the Monias Prospect will be subject to Crown royalties, one section is subject to a 10% royalty on gas, a 5% - 10% royalty on oil production and two sections are subject to a back-in interest of 4.375% after project payout plus $2,000,000.

Moberly Prospect, British Columbia

The Company owns 100% working interest subject to a joint venture agreement with Crew. According to the joint venture agreement, Crew operates the prospect and will earn a 50% working interest in two sections upon completion of the initial test well. The initial program consisted of the drilling of one exploratory well (drilled).

The Company's interest in the Moberly Prospect will be subject to Crown royalties, geological overriding royalties of 0.93% and back-in interest of 10.5% after project payout plus $1,000,000.

4. 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 $1,175,867 which will be incurred from 2019 to 2033. To calculate the net present value of its asset retirement obligations, the Company used a risk free rate of 1.73 to 2.61%. The following table summarizes the Company's decommissioning liability:

	$
Balance, as at May 1, 2010	547,311
Liabilities incurred	28,831
Accretion expense	20,870
Balance, as at April 30, 2011	597,012
Liabilities incurred	-
Adjustment due to change in discount rate	121,324
Accretion expense	21,933
Balance, as at April 30, 2012	740,269

The present value of the reclamation liability may be subject to change in future periods. Such changes will be recorded in the accounts of the Company as they occur.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE

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

During the year ended April 30, 2011, the Company:

a) received approval from the TSX Venture Exchange (the "Exchange") to commence a normal course issuer bid (the "Bid") to purchase up to 4,121,664 of its common shares ("Shares"), representing 5% of the Company's 82,433,284 issued and outstanding Shares, as at May 28, 2010. The Bid commenced on June 4, 2010, and ended on June 3, 2011.

b) purchased 291,500 common shares for $165,108 under the Bid. The price paid by the Company for the acquired shares was the market price at the time of acquisitions. All shares purchased under the Bid were cancelled. The difference between the average equity cost of the Company's shares on the repurchase date and the repurchase price was recorded as an increase to share-based payment reserve.

Share options and share-based compensation

The Company grants stock options in accordance with the requirements of the Exchange. Under the plan up to 10% of outstanding Common Shares are reserved for the issuance of stock options to directors, officers, employees and consultants. The terms of the option, including the vesting terms and the option price are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's stock on the date of grant. The stock options granted are exercisable for a period of five years.

The following summarizes information about stock options that are outstanding at April 30, 2012:

	Number of Options	Weighted Average Exercise Price, $
Balance, outstanding – May 1, 2010	5,337,500	1.08 (1)
Granted	3,230,000	0.63
Expired	(900,000)	0.70
Balance, outstanding – April 30, 2011	7,667,500	0.63
Expired	(810,000)	0.63
Balance, outstanding – April 30, 2012	6,857,500	0.63

(1) During the year ended April 30, 2011, the Company modified 4,437,500 previously granted stock options (which had exercise prices ranging from $1.00 to $1.66 per share and were set to expire between fiscal year 2011 and 2014) to an exercise price of $0.63 per share for a period of five years.

There were no share options granted during the year ended April 30, 2012. During the year ended April 30, 2011, the Company granted incentive stock options for the purchase of up to 3,230,000 common shares of the Company at a price of $0.63 per share for a five year period to certain directors, employees and consultants of the Company. The share-based compensation of $2,904,328 was charged to operations and credited to shareholder's equity to reflect the fair value of stock options granted, modified and vested during the period.

The fair value of stock options granted is estimated on the dates of grants using the Black-Scholes option:

	2012	2011
Risk-free interest rate	N/A	1.66%
Expected life	N/A	5 years
Annualized volatility	N/A	105%
Dividend rate	N/A	0.00%
Expected forfeiture rate	N/A	-

(Expressed in Canadian Dollars)

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

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

Stock options outstanding and exercisable as at April 30, 2012 are as follows:

Number of Options Outstanding and Exercisable	Weighted Average Exercise Price, $	Expiry Date
6,857,500	0.63	October 8, 2015

Warrants

There are no warrants outstanding as at April 30, 2012 and 2011. There were no warrants exercised or expired during the years ended April 30, 2012 and 2011.

6. INVESTMENT AND BANK LOAN

At April 30, 2011, long-term investments included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") held by the Company. When the ABCP matured but was not redeemed in 2007, it became the subject of a restructuring process that replaced the ABCP with long-term asset backed securities. These investments were designated as fair value through profit and loss and were accounted for at their fair value.

	April 30, 2012		April 30, 2011		May 1, 2010		
Notes	Face value $	Fair value $	Face Value $	Fair Value $	Face Value $	Fair Value $	Expected maturity (1)
MAV II Class A-1	-	-	1,437,261	1,149,809	1,437,261	1,015,005	July 15, 2056
MAV II Class C	-	-	44,594	12,932	44,594	4,459	July 15, 2056
MAV II Class 13 (Ineligible Asset Tracking Notes)	-	-	226,263	124,445	226,263	22,626	March 20, 2014
Interest received						(86,611)	
Total	-	-	1,708,118	1,287,186	1,708,118	955,479	

(1) Maturity date reflects legal maturity date.

The Company secured a $1,376,126 demand non-revolving bridge loan from its bank pending a long-term solution to liquidity issues affecting the Company's investment in ABCP. The bridge loan was secured by the Company's investment in ABCP, cash, credit balances and deposit instruments. Interest on direct advances was paid at the Bank's prime rate. The Company paid $23,195 (2011 - $17,242) in interest and stamping fees during the year ended April 30, 2012.

In early November, 2011, the Company sold all of its MAV notes for net proceeds of $1,199,187 and used these funds and other available cash to repay the bank loan of $1,376,126.

(Expressed in Canadian Dollars)

7. RELATED PARTY DISCLOSURES

Key management and personnel compensation

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

Key management personnel compensation	Year ended April 30, 2012	Year ended April 30, 2011
Salary and management fees	$ 465,009	$ 520,826
Share based compensation	$ -	$ 2,904,325

As at April 30, 2012, $nil remained unpaid and was included in accounts payable and accrued liabilities (April 30, 2011 - $nil).

The above transactions occurred in the normal course of operations and recorded at the consideration established and agreed to by the related parties.

8. INCOME TAXES

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

	2012 $	2011 $
Loss before income taxes	(1,071,299)	(3,799,089)
Expected income tax recovery	278,538	1,057,413
Item not deductible for income tax purposes	53,310	(544,023)
Tax rate reduction	(12,763)	(52,261)
Previous unrecognized benefits	(78,593)	(197,045)
Future income tax recovery	240,492	264,084

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

	2012 $	2011 $
Deferred income tax assets		
Financing costs	84,006	192,233
Investment	64,649	53,649
Property and equipment	1,813,639	1,813,639
Closure cost obligations	154,736	149,253
Non-capital losses	2,219,681	1,900,596
	4,336,711	4,109,370
Deferred income tax liabilities		
Oil and gas interests	(11,626,204)	(11,639,355)
	(7,289,493)	(7,529,985)

The Company has Canadian non-capital loss carry forwards of approximately $8,880,000, which expire in 2028 through to 2032, and approximately $36,000,000 in certain resource related deductions which may be available to offset future taxable income.

9. COMMITMENTS

Under a new British Columbia Oil & Gas Commission ("OGC") policy, Hudson's Hope Gas Ltd. ("HHG") the 50% owner and operator of the Company's 50% owned Peace River CBM property, will have to post an $826,500 bond in November 2012 and an additional $826,500 in September 2013 unless at least one of the following events occur:

1) HHG achieves commercial activity deemed by the OGC to be equal or greater than $1.6 million;

2) HHG transfers operatorship of the property to another Company whose commercial oil and gas activity in the province exempts it from the bonding obligation; or

3) HHG moves forward with the abandonment of the CBM project.

On June 26, 2012 the Company acquired all of the shares in HHG to increase its ownership of the Peace River CBM property to 100%. (See also Event After the Reporting Period, Note 14)

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the years ended April 30, 2012 and 2011, the Company had the following significant non-cash transactions:

a) allocated $nil (2011 - $118,844) to share based payment reserve for the shares repurchased for cancellation under the normal course issuer bid;

b) included in investing activities $15,930 (2011 - $18,174) of accounts payable related to the oil and gas interest expenditures;

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, 2012 due to their short term nature.

Fair value hierarchy

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

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

The fair value of cash is based on Level 1 inputs and the fair value of the investment was based on Level 2 inputs of the fair value hierarchy.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

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

Liquidity risk

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

As at April 30, 2012, the Company had a cash balance of $806,032 (2011 - $2,308,180) to settle current liabilities of $77,724 (2011 - $1,492,799).

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed only to the interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risk on the Company's cash is minimal. The Company is exposed to market risk as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

Foreign exchange risk

The Company incurs operating expenses and capital expenditures mostly in Canadian dollars. The Company's exposure to assets and liabilities denominated in foreign currencies is minimal. Accordingly, the Company does not have a significant exposure to losses arising from fluctuations in exchange rates.

Interest rate risk

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

12. CAPITAL DISCLOSURE

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

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

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

There were no changes in the Company's approach to capital management during the year ended April 30, 2012.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these are the Company's first annual financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied as follows:

- In preparing the financial statements for the year ended April 30, 2012;
- The comparative information for the year ended April 30, 2011
- the statement of financial position as at April 30, 2011; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, May 1, 2010.

In preparing the opening IFRS statement of financial position, comparative information for the year ended April 30, 2012 and the financial statements for the year ended April 30, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with CAGAAP. An explanation of how the transition from CAGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following table.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. In preparing these financial statements, the Company has elected to apply the following transitional arrangements:

(a) IFRS 2 – Share-based payment transactions

IFRS 2 *Share-based Payment* has not been applied to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before May 1, 2010.

IFRS 2, similar to CAGAAP, requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, under IFRS 2, the recognition of such expense must be done with a "graded vesting" methodology as opposed to the straight-line vesting method allowed under CAGAAP. In addition, under IFRS, forfeitures estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods; while under CAGAAP, forfeitures of awards are recognized as they occur. There is no adjustment required to the May 1, 2010's statement of financial position on the Transition Date.

(Expressed in Canadian Dollars)

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(b) Reclassification within equity section

IFRS requires an entity to present for each component of equity, reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its "contributed surplus" account and concluded that as at the Transition Date, the entire amount of $5,422,838 (as at April 30, 2011 - $8,446,010) relates to "share-based payment reserve". As a result, the Company believes that a reclassification would be necessary in the equity section between "Contributed surplus" and the "Share-based payment reserve" account.

(c) Exploration and evaluation assets

Under CAGAAP, the Company followed the full cost method of accounting for its oil and gas properties, whereby all costs relating to the acquisition, exploration and development of oil and gas properties are capitalized in one cost centre.

Under IFRS, pre-exploration, exploration and evaluation, and development and production expenditures are accounted for separately. The Company utilized the IFRS 1 deemed cost exemption that allowed the Company to measure its exploration and evaluation and development and production assets at the amount determined under CAGAAP.

Financial Statement Impact on Transition to IFRS

IFRS employs a conceptual framework that is similar to CAGAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows of the Company, it resulted in changes to the Company's Statement of Financial Position, and Statement of Comprehensive Loss as set out below.

(d) Deferred income taxes

Conversion to IFRS affects deferred tax balances due to the initial recognition exemption for asset acquisitions and the calculation of temporary base differences on non-monetary items.

Initial recognition exemption

Under CAGAAP, the Company, on acquisition of oil and gas interests recognized an accumulated deferred income tax liability amounting to $13,631,928, based on the difference between the accounting and tax basis of the oil and gas interest. Under IFRS, as the acquisition did not arise from a business combination or at the time of the transaction, affect accounting or taxable income, a deferred tax liability, for the initial temporary difference is prohibited from being recognized.

The effect of the IFRS differences for deferred income tax calculations on the transitional – April 30, 2011and May 1, 2010 financial statements is as follows:

Impact on Statements of Financial Position	April 30, 2011	May 1, 2010
	$	$
Oil and gas interests	(13,631,928)	(13,631,928)
Deferred income tax liability	3,417,833	4,112,899
Deficit	10,214,095	9,519,029

Impact on Statements of Operation and Comprehensive Loss	April 30, 2011
	$
Deferred income taxes recovered	695,066
Comprehensive loss	695,066

(Expressed in Canadian Dollars)

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(e) Flow-through shares

The treatment of the tax effect of flow-through shares differs under CAGAAP and IFRS.

Under CAGAAP, share capital is credited with the net proceeds of the financing with no amount allocated to the sale of tax benefits. Upon renunciation of the exploration expenditures to investors for tax purposes, a future income tax liability is recorded in the amount of the estimated future tax savings given up and the offset is charged to share capital.

Under IFRS there is no direct guidance on this issue. Acceptable accounting under the IFRS framework would require an allocation of the flow-through share purchase price between the shares acquired and the tax benefit. The Company has adopted a policy, for these transactions, that allocates the market value of the shares to the flow-through shares and any premium over the market value to the tax benefit purchased. The tax benefit amount is recorded as a liability at the time of the financing. In future periods, when the exploration expenditures have been made that qualify the transfer of tax benefits and renunciation of the benefit to the investor has been filed or is likely to be filed, the liability is settled and an offset is recorded to deferred income tax expense. At the time of the exploration expenditure, as the Company's policy is to capitalize exploration expenditures, a deferred tax liability will be created as the expenditures will have no tax basis.

As there is no exemption under IFRS for retrospective application of this difference, the effect of flow-through share financings from inception on the transitional – April 30, 2011 and May 1, 2010 financial statements is as follows:

Impact on Statements of Financial Position	April 30, 2011	May 1, 2010
	$	$
Share capital	(2,469,811)	(2,469,811)
Deficit	2,469,811	2,469,811

Impact on Statements of Operations and Comprehensive Loss	April 30, 2011
	$
Comprehensive loss	No Impact

(f) Decommissioning liability

The Company recognized a decommissioning liability, which met the recognition criteria of both IFRS and CAGAAP. However, a difference exists between IFRS and CAGAAP in the discount rate used to calculate present value. Under both methods, present value should be used where the effect of the time value of money is material. Under IFRS, the Company would use a risk-free rate of 3.92% to calculate present value; however, under CAGAAP, the Company used a credit adjusted risk free-rate of 8.00%.

The effect of the IFRS differences for decommissioning liability on the transitional – April 30, 2011 and May 1, 2010 financial statements is as follows:

Impact on Statements of Financial Position	April 30, 2011	May 1, 2010
	$	$
Oil and gas interests	290,544	280,808
Decommissioning liability	(299,853)	(289,843)
Deficit	9,309	9,035

Impact on Statements of Operations and Comprehensive Loss	April 30, 2011
	$
Comprehensive loss	273

(Expressed in Canadian Dollars)

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliations of Canadian GAAP to IFRS

A reconciliation of the above noted changes is included in the following statements of financial position and statements of operations and comprehensive loss for the dates noted below. The changes to the financial statements as noted below have resulted in reclassifications of various amounts, within operating activities, on the statements of cash flows; however, as there have been no adjustments to net cash flows, no reconciliation of the statement of cash flows has been presented.

The May 1, 2010 CAGAAP balance sheet has been reconciled to IFRS as follows:

		May 1, 2010		
	Note	**Canadian GAAP $**	**Effect of transition to IFRS**	**IFRS $**
A S S E T S				
CURRENT ASSETS				
Cash		6,386,141	-	6,386,141
Accounts receivable, prepaids and deposits		99,435	-	99,435
		6,485,576	-	6,485,576
INVESTMENT		955,479	-	955,479
OIL AND GAS INTERESTS	13(d,f)	85,533,420	(13,351,121)	72,182,299
		92,974,475	(13,351,121)	79,623,354
L I A B I L I T I E S				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		141,255	-	141,255
Bank loan		1,376,126	-	1,376,126
		1,517,381	-	1,517,381
ASSET RETIREMENT OBLIGATION	13(f)	257,468	289,843	547,311
DEFERRED INCOME TAX LIABILITY	13(d)	11,906,968	(4,112,899)	7,794,069
		13,681,817	(3,823,056)	9,858,761
S H A R E H O L D E R S' E Q U I T Y				
SHARE CAPITAL	13(e)	79,997,590	2,469,811	82,467,401
CONTRIBUTED SURPLUS	13(b)	5,422,838	(5,422,838)	-
SHARE-BASED PAYMENT RESERVE	13(b)	-	5,422,838	5,422,838
DEFICIT	13(d,e,f)	(6,127,770)	(11,997,876)	(18,125,646)
		79,292,658	(9,528,065)	69,764,593
		92,974,475	(13,351,121)	79,623,354

(Expressed in Canadian Dollars)

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The April 30, 2011 CAGAAP balance sheet has been reconciled to IFRS as follows:

		April 30, 2011		
	Note	Canadian GAAP $	Effect of transition to IFRS	IFRS $
A S S E T S				
CURRENT ASSETS				
Cash		2,308,180	-	2,308,180
Accounts receivable, prepaids and deposits		77,184	-	77,184
		2,385,364	-	2,385,364
INVESTMENT		1,287,186	-	1,287,186
OIL AND GAS INTERESTS	13(d,f)	88,257,438	(13,341,384)	74,916,054
		91,929,988	(13,341,384)	78,588,604
L I A B I L I T I E S				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		116,673	-	116,673
Bank loan		1,376,126	-	1,376,126
		1,492,799	-	1,492,799
ASSET RETIREMENT OBLIGATION	13(f)	297,159	299,853	597,012
DEFERRED INCOME TAX LIABILITY	13(d)	10,947,818	(3,417,833)	7,529,985
		12,737,776	(3,117,980)	9,619,796
S H A R E H O L D E R S' E Q U I T Y				
SHARE CAPITAL	13(e)	79,713,638	2,469,811	82,183,449
CONTRIBUTED SURPLUS	13(b)	8,446,010	(8,446,010)	-
SHARE-BASED PAYMENT RESERVE	13(b)	-	8,446,010	8,446,010
DEFICIT	13(d,e,f)	(8,967,436)	(12,693,215)	(21,660,651)
		79,192,212	(10,223,404)	68,968,808
		91,929,988	(13,341,384)	78,588,604

(Expressed in Canadian Dollars)

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The CAGAAP statement of operations and comprehensive loss for the year ended April 30, 2011 has been reconciled to IFRS as follows:

	Note	Year ended April 30, 2011		
		Canadian GAAP $	**Effect of transition to IFRS**	**IFRS $**
GENERAL AND ADMINISTRATIVE EXPENSES				
Administrative and management services		498,024	-	498,024
Accretion	13(f)	20,597	273	20,870
Advertising		22,434	-	22,434
Audit and accounting		70,948	-	70,948
Corporate development		4,000	-	4,000
Filing and regulatory		53,463	-	53,463
General exploration		105,975	-	105,975
Legal		69,329	-	69,329
Office and miscellaneous		157,262	-	157,262
Professional fees		75,752	-	75,752
Rent		81,072	-	81,072
Share based compensation		2,904,328	-	2,904,328
Travel		96,133	-	96,133
		4,159,317	273	4,159,590
LOSS BEFORE OTHER ITEMS		(4,159,317)	(273)	(4,159,590)
OTHER ITEMS				
Fair value adjustment to investment		331,707	-	331,707
Foreign exchange		(23)	-	(23)
Interest		28,817	-	28,817
LOSS BEFORE INCOME TAXES		(3,798,816)	(273)	(3,799,089)
DEFERRED INCOME TAXES RECOVERED	13(d)	959,150	(695,066)	264,084
NET LOSS AND COMPREHENSIVE LOSS		(2,839,666)	(695,339)	(3,535,005)

14. EVENT AFTER THE REPORTING PERIOD

On June 26, 2012 the Company announced the acquisition of all of the outstanding shares of Hudson's Hope Gas Ltd. ("HHG" – the 50% owner and the operator of the Company's Peace River coal-bed methane ("CBM") project) from GeoMet Inc. for consideration of 2 million common shares of the Company. The 2 million Company shares are subject to a 12 month hold period.