

**CANADA ENERGY PARTNERS INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE PERIODS ENDED OCTOBER 31, 2018 AND 2017

*(Unaudited - Expressed in Canadian Dollars)*

**CANADA ENERGY PARTNERS INC.  
NOTICE OF NO AUDITOR REVIEW OF THESE  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Canada Energy Partners Inc. (the “Company”) for the three and six months ended October 31, 2018, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

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

	October 31, 2018	April 30, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 3,923	\$ 17,890
Prepaid and deposits	9,731	10,454
Reclamation deposit - current (Note 3)	40,583	40,583
	54,237	68,927
<b>RECLAMATION DEPOSIT</b> (Note 3)	225,350	225,350
	\$ 279,587	\$ 294,277
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 563,795	\$ 606,279
Loans (Note 7)	65,414	62,908
Current portion of decommissioning liability (Note 5)	25,000	25,000
	654,209	694,187
<b>DECOMMISSIONING LIABILITY</b> (Note 5)	220,267	217,845
	874,476	912,032
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 6)	71,124,785	71,124,785
<b>SHARE-BASED PAYMENT RESERVE</b> (Note 6)	8,549,366	8,549,366
<b>DEFICIT</b>	(80,269,040)	(80,291,906)
	(594,889)	(617,755)
	\$ 279,587	\$ 294,277

**NATURE OF OPERATIONS AND GOING CONCERN** (Note 1)

Approved by the Board of Directors and authorized for issuance on December 17, 2018.

“*John Proust*” \_\_\_\_\_, Director      “*Ben Jones*” \_\_\_\_\_, Director

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

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

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Six Months Ended October 31, 2018	Six Months Ended October 31, 2017
<b>Operating expenses</b>				
Administrative and management services (Note 7)	\$ 15,000	\$ 74,566	\$ 30,000	\$ 153,440
Audit and accounting	5,000	8,100	11,250	13,100
Filing and regulatory	2,057	4,907	5,772	7,559
General exploration	(3,134)	6,929	12,888	24,963
Research	-	15,418	-	24,943
Well maintenance	6,493	3,631	6,493	17,619
Legal	2,891	1,167	4,044	3,064
Office and miscellaneous	5,321	7,841	10,663	16,033
Consulting fees	-	3,126	-	3,674
Rent	-	3,166	-	6,429
Travel	477	-	477	963
	<u>(34,105)</u>	<u>(128,851)</u>	<u>(81,587)</u>	<u>(271,787)</u>
<b>Other items</b>				
Gain on sale of assets	4,000	-	4,000	2,300
Write-off on accounts payable (Note 7)	-	-	113,813	-
Accretion	(1,230)	(1,022)	(2,422)	(1,689)
Interest expense	(5,718)	(5,303)	(11,023)	(11,942)
Foreign exchange gain (loss)	44	887	85	(984)
	<u>(2,904)</u>	<u>(5,438)</u>	<u>104,453</u>	<u>(12,315)</u>
<b>Net income (loss) and comprehensive income (loss)</b>	<u>\$ (37,009)</u>	<u>\$ (134,289)</u>	<u>\$ 22,866</u>	<u>\$ (284,102)</u>
<b>Income (loss) per share - Basic and Diluted</b>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ (0.00)</u>
<b>Weighted Average Number of Common Shares Outstanding</b>	<u>90,394,532</u>	<u>90,394,533</u>	<u>90,394,534</u>	<u>90,394,534</u>

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

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

	Number of Issued and Outstanding Shares	Share Capital	Share-based Payment Reserve	Deficit	Total Shareholders' Equity
<b>Balance as at May 1, 2017</b>	90,394,534	\$ 71,124,785	\$ 8,549,366	\$ (79,760,972)	\$ (86,821)
Net loss for the period	-	-	-	(284,102)	\$ (284,102)
<b>Balance as at October 31, 2017</b>	90,394,534	\$ 71,124,785	\$ 8,549,366	\$ (80,045,074)	\$ (370,923)

	Number of Issued and Outstanding Shares	Share Capital	Share-based Payment Reserve	Deficit	Total Shareholders' Equity
<b>Balance as at May 1, 2018</b>	90,394,534	\$ 71,124,785	\$ 8,549,366	\$ (80,291,906)	\$ (617,755)
Net income for the period	-	-	-	22,866	22,866
<b>Balance as at October 31, 2018</b>	90,394,534	\$ 71,124,785	\$ 8,549,366	\$ (80,269,040)	\$ (594,889)

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

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

	<u>Six months</u>	<u>Six months</u>
	<u>Ended October</u>	<u>Ended October</u>
	<u>31, 2018</u>	<u>31, 2017</u>
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Income (loss) for the period	\$ 22,866	\$ (284,102)
Accretion	2,422	1,689
Interest expense	11,036	11,942
Write-off on accounts payable	(113,813)	-
Gain on sale of assets	(4,000)	(2,300)
Changes in non-cash working capital balances		
Accounts receivable and prepaid and deposits	722	(8,163)
Accounts payable and accrued liabilities	62,800	(37,980)
	<u>(17,967)</u>	<u>(318,914)</u>
<b>INVESTING ACTIVITIES</b>		
Redemption of reclamation deposit	-	140,174
Proceeds from sale of assets	4,000	-
	<u>4,000</u>	<u>140,174</u>
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	<b>(13,967)</b>	<b>(178,740)</b>
CASH - BEGINNING OF THE PERIOD	17,890	272,261
<b>CASH - END OF THE PERIOD</b>	<b>\$ 3,923</b>	<b>\$ 93,521</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Accounts payable related to oil and gas interests	\$ -	\$ -
Interest expense paid	\$ -	\$ -

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

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED OCTOBER 31, 2018**  
*(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 focused primarily 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 650, 669 Howe Street, Vancouver, BC, Canada V6C 0B4.

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 ability of the Company to obtain the necessary financing to complete its share of the development, and future profitable production.

**Going Concern**

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

For the period ended October 31, 2018, the Company recorded a net income of \$22,866 (October 31, 2017: net loss of \$284,102) and had working capital deficiency of \$599,972 (April 30, 2018: \$625,260). 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.

The Company continues to pursue a number of options to increase its financial capacity, including cash flow from its water disposal well (through operation or sale), sale of a portion of its oil and gas interests, raising equity financing, debt agreements, and the commercialization of its cavitation tool. The Company’s ability to improve its financial capacity from the cash flow generated from operations cannot be assured.

The Company will require additional capital to fund its future property acquisitions and its exploration and research programs as well as for administrative purposes. There is material uncertainty about whether the Company will be able to obtain additional capital, which casts significant doubt on the Company’s ability to continue as a going concern. If management is unable to obtain new funding, the Company may be unable to continue its operations, realize its assets and discharge its liabilities in the normal course of business.

These condensed consolidated interim 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. Such adjustments could be material.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED OCTOBER 31, 2018**  
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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended April 30, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

**Basis of Consolidation**

The condensed consolidated interim 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.

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 judgements and the related estimates and assumptions. 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.

**New Accounting Standards and Recent Pronouncements**

The following is an overview of accounting standard change that the Company will be required to adopt in future years. The Company continues to evaluate the impact of these standards on its financial statements.

- IFRS 16 – Leases. This IFRS, which supersedes IAS 17 – Leases, specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied.

**3. RECLAMATION DEPOSIT**

The Company has reclamation deposits totaling \$265,933 (April 30, 2018: \$265,933) that is held by the British Columbia Oil and Gas Commission (“BCOGC”) as a financial guarantee of the abandonment costs for the Company’s wells and gas processing plant and its water disposal well. Out of this amount \$40,583 is related to the plug and abandonment program that is near completion (April 30, 2018: \$40,583) and \$225,350 (April 30, 2018: \$225,300) is related to future abandonment costs for the water disposal well. During the period ended October 31, 2018, the Company redeemed \$Nil of its reclamation deposit.



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**4. OIL AND GAS INTERESTS**

**Water Disposal Well**

On November 17, 2016, the Company entered into an agreement with a major operator (“Disposer”) in northeast British Columbia to dispose of produced water with the Company’s water disposal well at Peace River. The agreement was for a one year term. The Disposer was responsible for delivery of the water to the Company’s disposal facility. Disposal was on a “best efforts” basis with no penalty for failure to dispose. Disposal operations started in January 2017. During the year ended April 30, 2017, the Company capitalized \$326,496 in improvements related to the water disposal well.

On March 16, 2017, the Company received a General Order from the British Columbia Oil and Gas Commission (“BCOGC” or the “Commission”) ordering a suspension of all disposal activities at the water disposal well. The order was to remain in effect until amended or terminated in whole or in part by the Commission and was pending a review of additional technical information. The Company immediately ceased disposing and secured the well at that time. The Company made a submission under the appeal procedures to the Oil & Gas Appeal Tribunal of British Columbia and received a decision on August 21, 2017, which dismissed the Company’s appeal.

As at April 30, 2017, the Company evaluated the carrying amount recorded for the water disposal well. Due to the uncertainty of future operations or other forms of realizing value from the water disposal well, the Company determined that impairment indicators are present and, as such, wrote down the carry value of the water disposal well to \$Nil by recording an impairment charge of \$1,773,266. In the event that the Company does receive a positive outcome from its water disposal well appeal the Company will determine whether a recovery of the impairment to the water disposal well can be recorded in the Statement of Comprehensive Loss.

On December 6, 2017, the Company announced that it has received a decision from the BCOGC that will allow resumption of water disposal if certain conditions are met. The additional conditions are: (1) daily disposal volumes are limited to 200 cubic meters per day; (2) installation of seismic detection and accelerometer equipment with regular reporting of gathered data; and (3) a requirement to cease disposal if BC Hydro’s safety factor at the Peace Canyon Dam falls below an acceptable level.

These conditions are required to be met under the BCOGC supervision and monitoring in order to recommence activities at the water disposal well. At this time, these conditions have not been met and there is uncertainty around the ability to meet the conditions, therefore no reversal of impairment was identified related to recommencing operations.

On July 12, 2018, the Company announced that it has signed a non-binding Letter of Intent to sell the water disposal well to an undisclosed third party for \$1,050,000, with \$450,000 cash at closing and a \$600,000 note bearing 5% interest, payable in equal monthly payments over 18 months. The sale includes disposal rights to 3 sections. The Company retains the disposal rights to 45 sections of land. On September 20, 2018, the Company announced that the agreement to sell the Portage a-20-D water disposal well has been terminated by the prospective Buyer. The prospective Buyer conducted a series of integrity tests on the well which reaffirmed the integrity and capacity of the disposal well. Despite the positive test results, the prospective Buyer elected not to go forward.

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**5. DECOMMISSIONING LIABILITY**

Total future decommissioning liability was estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim, and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company estimated the remaining risk adjusted undiscounted amount of cash flows required to settle the decommissioning liability to be \$225,350 which is related to the water disposal well and is expected to be incurred within the next six years. To calculate the net present value of its decommissioning liability, the Company used a risk free interest rate of 2.45% (2018: 2.19%). The following table summarizes the Company's decommissioning liability:

	Decommissioning Liability
Balance, as at April 30, 2017	\$ 229,932
Gain on change in fair value of decommissioning liability	\$ (15,944)
Accretion expense	3,857
Balance, as at April 30, 2018	\$ 217,845
Accretion expense	2,422
Balance, as at October 31, 2018	\$ 220,267

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.

During the year ended April 30, 2018, the Company incurred \$13,691 related to its plug and abandonment program.

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**6. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE**

**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 period ended October 31, 2018 and year ended April 30, 2018 is as follows:

	Number of options		Weighted Average Exercise Price
Balance, outstanding - April 30, 2018	2,082,500	\$	0.10
Expired	(1,132,500)	\$	0.10
Balance, outstanding - October 31, 2018	950,000	\$	0.10

The following table summarizes information about share options outstanding and exercisable as at October 31, 2018:

Exercise Price	Options Outstanding		Options Exercisable	
	Number of Options	Weighted Average Contractual Life (Years)	Number of Options	Weighted Average Contractual Life (Years)
\$0.10	950,000	0.80	950,000	0.80
	950,000	0.80	950,000	0.80

There were no options granted during the period ended October 31, 2018 and year ended April 30, 2018.

**Warrants**

There were no warrants outstanding as at October 31, 2018 and April 30, 2018.

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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**7. 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**

During the period ended October 31, 2018, administrative and management fees of \$Nil (October 31, 2017: \$123,440) were charged by a company controlled by the Chief Executive Officer in connection with the Company's Baton Rouge, Louisiana office. As at October 31, 2018 accounts payable and accrued liabilities included \$271,065 (April 30, 2018: \$380,880) payable to the related entity. During the period ended October 31, 2018, the Company wrote off \$113,813 (October 31, 2017: \$Nil) in accounts payable previously accrued for this entity. The Company began to accrue interest on the balance owed to this party effective April 3, 2016 at a rate of 3% per annum. As at October 31, 2018, the balance owed to this party includes an accrued interest amount of \$19,820 (April 30, 2018: \$27,870).

During the period ended October 31, 2018, administrative and management fees of \$30,000 were charged to a company controlled by the Chairman in connection with the Company's Vancouver head office (October 31, 2018: \$30,000). As at October 31, 2018 accounts payable and accrued liabilities included \$156,375 (April 30, 2018: \$120,343) payable to the related entity. The Company began to accrue interest on the balance owed to this party effective April 3, 2016 at a rate of 3% per annum. As at April 30, 2018, the balance owed to this party includes an accrued interest amount of \$11,907 (April 30, 2018: \$7,375).

	Period ended October 31, 2018	Period ended October 31, 2017
Administrative and management services	\$ 30,000	\$ 153,440

**Loans**

On September 1, 2015, the Company received loans totaling \$29,714 from three directors, of which one is an officer of the Company. These loans bear an interest rate of 10% and are payable within 30 days upon demand. As at October 31, 2018, total interest expense of \$9,262 was accrued on this loan.

On September 3, 2015, the Company received a \$10,000 loan from an officer and director of the Company. This loan bears an interest rate of 10% and is payable within 30 days upon demand. As at October 31, 2018, total interest expense of \$3,162 was accrued on this loan.

On September 18, 2015, the Company received a \$10,000 loan from a director of the Company. This loan bears an interest rate of 10% and is payable within 30 days upon demand. As at October 31, 2018, total interest expense of \$3,120 was accrued on this loan.

**Other related parties transactions**

During the period ended October 31, 2018, \$Nil (October 31, 2017, 2017: \$6,429) was charged by a company controlled by the CEO of the Company for rent for the office in Baton Rouge.

During the period ended October 31, 2018, the Company recorded interest expense of \$11,023 (October 31, 2017: \$11,942) on loans and balances owed to the directors of the Company.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED OCTOBER 31, 2018**  
*(Expressed in Canadian Dollars)*

**8. SEGMENTED INFORMATION**

A reporting segment is defined as a component of the Company that:

- Engages in business activities from which it may earn revenues and incur expenses
- Operating results are reviewed regularly by the entity's chief operating decision maker; and
- Discrete financial information is available

The Company has determined that it operates its business in two operating segments by providing water disposal services from the Company's water disposal well located in Peace River, Canada and the development of the jet cavitation tool. Substantially, all of the Company's operations are located in Canada.

**9. 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.