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**CANADA ENERGY PARTNERS INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2016 AND 2015

*(Expressed in Canadian Dollars)*

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# **CANADA ENERGY PARTNERS INC.**

## **NOTICE OF NO AUDITOR REVIEW OF THESE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Canada Energy Partners Inc. (the “Company”) for the six months ended October 31, 2016, 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, 2016	April 30, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 572,196	\$ 345,727
Accounts receivable	24,991	-
Prepaid and deposits	14,840	2,289
Reclamation deposit - current (Note 3)	657,700	1,936,460
	1,269,727	2,284,476
<b>RECLAMATION DEPOSIT</b> (Note 3)	225,350	225,350
<b>OIL AND GAS INTERESTS</b> (Note 4)	1,559,065	1,546,350
	\$ 3,054,142	\$ 4,056,176
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 5)	\$ 702,755	\$ 373,784
Loans (Note 7)	55,472	52,965
Current portion of decommissioning liability (Note 5)	22,678	1,081,954
	780,905	1,508,703
<b>DECOMMISSIONING LIABILITY</b> (Note 5)	233,001	230,068
	1,013,906	1,738,771
<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	8,548,325
<b>DEFICIT</b>	(77,633,915)	(77,355,705)
	2,040,236	2,317,405
	\$ 3,054,142	\$ 4,056,176

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

**SUBSEQUENT EVENT** (Note 8)

Approved by the Board of Directors and authorized for issuance on December 16, 2016.

“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, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Accretion	\$ 450	\$ 12,408	\$ 1,140	\$ 23,243
Administrative and management services (Note 7)	79,665	105,226	158,706	207,338
Audit and accounting	11,000	5,000	11,000	1,000
Filing and regulatory	3,560	3,418	4,186	4,101
General exploration	13,463	34,791	49,618	55,736
Research	7,547	-	42,248	-
Interest expense	3,494	773	6,936	773
Legal	651	11,228	6,256	13,680
Office and miscellaneous	12,266	11,325	23,365	22,692
Professional fees	131	-	131	-
Rent	3,137	1,779	6,413	10,247
Share-based compensation	-	2,710	1,041	8,898
Travel	6,496	3,466	9,197	3,781
	(141,860)	(192,124)	(320,237)	(351,489)
<b>OTHER ITEMS</b>				
Gain on sale of assets	42,027	-	42,027	-
Foreign exchange gain (loss)	-	79	-	(218)
	42,027	79	42,027	(218)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (99,833)</b>	<b>\$ (192,045)</b>	<b>\$ (278,210)</b>	<b>\$ (351,707)</b>
<b>LOSS PER SHARE - BASIC AND DILUTED</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED</b>	<b>90,394,534</b>	<b>90,394,534</b>	<b>90,394,534</b>	<b>90,394,534</b>

*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, 2016</b>	90,394,534	\$ 71,124,785	\$ 8,548,325	\$ (77,355,705)	\$ 2,317,405
Share-based compensation	-	-	1,041	-	1,041
Net loss for the period	-	-	-	(278,210)	(278,210)
<b>Balance as at October 31, 2016</b>	90,394,534	\$ 71,124,785	\$ 8,549,366	\$ (77,633,915)	\$ 2,040,236

	Number of Issued and Outstanding Shares	Share Capital	Share-based Payment Reserve	Deficit	Total Shareholders' Equity
<b>Balance as at May 1, 2015</b>	90,394,534	\$ 71,124,785	\$ 8,536,275	\$ (62,655,473)	17,005,587
Share-based compensation	-	-	8,898	-	8,898
Net loss for the period	-	-	-	(351,707)	(351,707)
<b>Balance as at October 31, 2015</b>	90,394,534	\$ 71,124,785	\$ 8,545,173	\$ (63,007,180)	\$ 16,662,778

*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)*

	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (278,210)	\$ (351,707)
Accretion	1,140	23,243
Interest expense	6,936	773
Share-based compensation	1,041	8,898
Gain on sale of assets	(42,027)	-
Changes in non-cash working capital balances		
Redemption of reclamation deposit	1,278,760	-
Accounts receivable and prepaid and deposits	(37,542)	602
Accounts payable and accrued liabilities	(734,734)	243,652
	195,364	(74,539)
<b>INVESTING ACTIVITIES</b>		
Oil and gas interests	(10,922)	-
Proceeds from sale of assets	42,027	-
	31,105	-
<b>FINANCING ACTIVITIES</b>		
Proceeds from loans	-	49,714
	-	49,714
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	226,469	(24,825)
CASH - BEGINNING OF THE PERIOD	345,727	52,008
<b>CASH - END OF THE PERIOD</b>	\$ 572,196	\$ 27,183
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Accounts payable related to oil and gas interests	\$ -	\$ (19,058)
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, 2016**  
*(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 3123, 595 Burrard Street, Vancouver, BC, Canada V7X 1J1.

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, 2016, the Company incurred a net loss of \$278,210 (October 31, 2015: \$351,707) and had working capital of \$488,822 (April 30, 2016: \$775,773). 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 the sale of a portion of its oil and gas interests, raising equity financing, debt agreements, and the commercialization of its cavitation tool.

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, 2016**  
*(Expressed in Canadian Dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended April 30, 2016, 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.

**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 9 - Financial Instruments. This IFRS introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 - Financial Instruments: Recognition and measurement, derecognition of financial assets and financial liabilities. The required adoption date for IFRS 9 is January 1, 2018.
- IFRS 15 - Revenue from Contracts with Customers. This IFRS establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- 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.



**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED OCTOBER 31, 2016**  
*(Expressed in Canadian Dollars)*

**3. RECLAMATION DEPOSIT**

The Company has reclamation deposits totaling \$883,050 (April 30, 2016: \$2,161,810) 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 \$657,700 is related to the plug and abandonment program that is currently underway (April 30, 2016: \$1,936,460) and \$225,350 (April 30, 2016: \$225,300) is related to future abandonment costs for the water disposal well. During the period ended October 31, 2016, the Company redeemed \$1,278,760 (April 30, 2016: \$Nil) of its reclamation deposit to fund its plug and abandonment program.

**4. OIL AND GAS INTERESTS**

<b>For the period ended October 31, 2016</b>	<b>Total</b>
<b>Acquisition costs</b>	
Balance, beginning of period	\$ 1,546,350
Additions	10,922
Change in estimate	1,793
Balance, end of period	\$ 1,559,065
<b>Total oil and gas interests</b>	<b>\$ 1,559,065</b>

<b>For the year ended April 30, 2016</b>	<b>Total</b>
<b>Acquisition costs</b>	
Balance, beginning of year	\$ 15,815,574
Impairment of oil and gas interest	(11,026,762)
Change in estimate	(1,071,089)
Gas plant sold	(2,171,373)
Balance, end of year	\$ 1,546,350
<b>Development costs</b>	
Balance, beginning of year	\$ 1,190,029
Impairment of development costs	\$ (1,190,029)
Balance, end of year	\$ -
<b>Total oil and gas interests</b>	<b>\$ 1,546,350</b>

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**FOR THE PERIOD ENDED OCTOBER 31, 2016**  
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**4. OIL AND GAS INTERESTS** (continued)

**Peace River Project, British Columbia**

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

***Shallow rights***

Shallow rights include the Peace River coalbed methane project and Moosebar Shale rights. As at October 31, 2016, the Company holds one section within the shallow rights which surround its water disposal well. The Company's interest in the shallow rights is subject to Crown royalties and, for certain acreage, to overriding royalties of up to 0.05%.

***Deep rights***

On July 31, 2014, the Company completed the sale of its Montney rights for \$15,720,000 and received net proceeds of \$12,492,995 after adjustments, including a \$2.2 million reclamation deposit paid directly by Crew Energy Inc. ("Crew") on behalf of the Company to the BCOGC and repayments to Crew of a short-term loan and other liabilities. As part of the sale, the Company retained water disposal rights in all of the leasehold rights it sold which allows the Company contractual rights to drill additional water disposal wells under 48 additional sections adjacent to the Company's current water disposal well. As at October 31, 2016, the cost capitalized for the water disposal well is \$1,559,065 (April 30, 2016: \$1,546,350).

***Impairment***

The Peace River Project consisted of the shallow rights and a water disposal well. As at April 30, 2016, the Company evaluated its Peace River Project and determined that the carrying amount of the oil and gas interest for the shallow rights was unlikely to be recovered in full from successful development or by sale. As a result, during the year ended April 30, 2016, the Company recorded an impairment of \$12,216,791. During the period ended October 31, 2016, the Company started a plug and abandonment program on its shallow rights project. No additional impairment was recorded during the period ended October 31, 2016.

The Company also evaluated the carrying amount recorded for the water disposal well by using an assessment of net present value. Based on discounted cash flows using future revenue less cost to sell of 1% and a discount rate of 10%, the Company determined the net present value of the water disposal well to be higher than the current carrying value. As a result, the Company did not trigger an impairment to the water disposal well.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED OCTOBER 31, 2016**  
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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 \$248,028. Out of this amount, \$22,678 is expected to be incurred within the next twelve months as the Company has started a plug and abandonment program on its shallow rights project. As a result, the decommissioning liability related to the shallow rights has been reclassified as current. The remaining undiscounted balance of \$225,350 relating to the water disposal well is expected to be incurred within the next seven years. To calculate the net present value of its decommissioning liability, the Company used a risk free interest rate of 0.98% (2016: 1.2%). The following table summarizes the Company's decommissioning liability:

Balance, as at April 30, 2015		2,156,707
Moved to current portion of decommissioning liability		(1,081,954)
Change in estimate		(885,007)
Accretion expense		40,322
Balance, as at April 30, 2016	\$	230,068
Change in estimate		1,793
Accretion expense		1,140
Balance, as at October 31, 2016	\$	233,001

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 period ended October 31, 2016, the Company incurred \$1,059,276 (October 31, 2015: \$Nil) on costs related to its plug and abandonment program. As at October 31, 2016, accounts payable and accrued liabilities included \$425,371 (April 30, 2016: \$Nil) of these costs.

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**FOR THE PERIOD ENDED OCTOBER 31, 2016**  
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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, 2016 and year ended April 30, 2016 is as follows:

	Number of options	Weighted Average Exercise Price
Balance, outstanding - April 30, 2015	2,440,000	\$ 0.17
Expired	(357,500)	\$ 0.57
Balance, outstanding - April 30, 2016	2,082,500	\$ 0.10
Balance, outstanding - October 31, 2016	2,082,500	\$ 0.10

The following table summarizes information about share options outstanding and exercisable as at October 31, 2016:

Options Outstanding			Options Exercisable	
Exercise Price	Number of Options	Weighted Average Contractual Life (Years)	Number of Options	Weighted Average Contractual Life (Years)
\$0.10	1,982,500	2.24	1,782,500	2.16
\$0.20	100,000	1.86	-	-
	2,082,500	2.22	1,782,500	2.16

There were no options granted during the period ended October 31, 2016.

**Warrants**

There were no warrants outstanding as at October 31, 2016.

**CANADA ENERGY PARTNERS INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED OCTOBER 31, 2016**  
*(Expressed in Canadian Dollars)*

**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, 2016, administrative and management fees of \$128,706 (October 31, 2015: \$141,338) were charged by a company controlled by the Chief Executive Officer in connection with the Company's Baton Rouge, Louisiana office. At October 31, 2016, accounts payable and accrued liabilities included \$143,331 (April 30, 2016: \$184,709) 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 October 31, 2016, the balance owed to this party includes an accrued interest amount of \$3,939 (April 30, 2016: \$381).

During the period ended October 31, 2016, 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, 2015: \$66,000). At October 31, 2016, accounts payable and accrued liabilities included \$58,889 (April 30, 2016: \$79,483) 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 October 31, 2016, the balance owed to this party includes an accrued interest amount of \$1,047 (April 30, 2016: \$176).

	Six months ended October 31, 2016	Six months ended October 31, 2015
Administrative and management services	\$ 158,706	\$ 207,338
Share-based compensation	481	6,024
	<u>\$ 159,187</u>	<u>\$ 213,362</u>

**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, 2016, total interest expense of \$3,476 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, 2016, total interest expense of \$1,162 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, 2016, total interest expense of \$1,121 was accrued on this loan.

**Other related parties transactions**

During the period ended October 31, 2016, rent of \$6,413 (October 31, 2015: \$10,247) 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, 2016, the Company recorded interest expense of \$6,936 (October 31, 2015: \$773) 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, 2016**  
*(Expressed in Canadian Dollars)*

**8. SUBSEQUENT EVENT**

Subsequent to the period ended October 31, 2016, the Company entered into an agreement with a major operator (“Disposer”) in northeast British Columbia to dispose of produced water. The agreement is for a one year term. The Disposer is responsible for delivery of the water to the Company’s disposal facility. Disposal is on a “best efforts” basis with no penalty for failure to dispose. Disposal operations are expected to begin in January 2017.