# CANADA ENERGY PARTNERS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE PERIODS JULY 31, 2015 AND 2014

*(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 months ended July 31, 2015, 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)*

| | July 31, 2015 | April 30, 2015 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 16,528 | $ 52,008 |
| Accounts receivable | 3,602 | 3,369 |
| Prepaid and deposits | 28,704 | 27,768 |
| | 48,834 | 83,145 |
| **RECLAMATION DEPOSIT** (Note 3) | 2,161,810 | 2,161,810 |
| **OIL AND GAS INTERESTS** (Note 4) | 17,005,603 | 17,005,603 |
| | $ 19,216,247 | $ 19,250,558 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 196,592 | $ 88,264 |
| | 196,592 | 88,264 |
| **DECOMMISSIONING LIABILITY** (Note 5) | 2,167,542 | 2,156,707 |
| | 2,364,134 | 2,244,971 |
| **SHAREHOLDERS' EQUITY** | | |
| **SHARE CAPITAL** (Note 6) | 71,124,785 | 71,124,785 |
| **SHARE-BASED PAYMENT RESERVE** (Note 6) | 8,542,463 | 8,536,275 |
| **DEFICIT** | (62,815,135) | (62,655,473) |
| | 16,852,113 | 17,005,587 |
| | $ 19,216,247 | $ 19,250,558 |

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

Approved by the Board of Directors and authorized for issue on September 25, 2015.

*"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 July 31, 2015 | Three Months Ended July 31, 2014 |
|---|---|---|
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | |
| Accretion | $ 10,835 | $ 12,189 |
| Administrative and management services (Note 7) | 102,112 | 95,763 |
| Filing and regulatory | 683 | 2,975 |
| Impairment of oil and gas interests (Note 4) | 20,945 | 8,027 |
| Interest expense | - | 10,340 |
| Office and miscellaneous | 11,367 | 25,182 |
| Professional fees | (1,548) | 8,104 |
| Rent | 8,468 | 6,600 |
| Share-based compensation | 6,188 | 19,602 |
| Travel | 315 | 7,866 |
| | 159,365 | 196,648 |
| **OTHER ITEMS** | | |
| Foreign exchange loss | 297 | 9 |
| | 297 | 9 |
| **LOSS BEFORE INCOME TAXES** | (159,662) | (196,657) |
| **NET LOSS AND COMPREHENSIVE LOSS** | $ (159,662) | $ (196,657) |
| **LOSS PER SHARE - BASIC AND DILUTED** | $ (0.00) | $ (0.00) |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED** | 90,073,188 | 89,255,784 |

*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 |
|---|---|---|---|---|---|
| **Balance as at May 1, 2015** | 90,394,534 | $ 71,124,785 | $ 8,536,275 | $ (62,655,473) | $ 17,005,587 |
| Share-based compensation | - | - | 6,188 | - | 6,188 |
| Net loss for the peiod | - | - | - | (159,662) | (159,662) |
| **Balance as at July 31, 2015** | 90,394,534 | $ 71,124,785 | $ 8,542,463 | $ (62,815,135) | $ 16,852,113 |

| | Number of Issued and Outstanding Shares | Share Capital | Share-based Payment Reserve | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| **Balance as at May 1, 2014** | 89,255,784 | $ 82,953,215 | $ 8,558,240 | $ (51,311,028) | $ 40,200,427 |
| Share based compensation | - | - | 19,602 | - | 19,602 |
| Net loss for the period | - | - | - | (196,657) | (196,657) |
| **Balance as at July 31, 2014** | 89,255,784 | $ 82,953,215 | $ 8,577,842 | $ (51,507,685) | $ 40,023,372 |

*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)*

| | Three Months Ended July 31, 2015 | Three Months Ended July 31, 2014 |
|---|---|---|
| **CASH PROVIDED FROM (USED FOR)** | | |
| **OPERATING ACTIVITIES** | | |
| Loss for the period | $ (159,662) | $ (196,657) |
| Accretion | 10,835 | 12,189 |
| Interest expense | | 10,430 |
| Share-based compensation | 6,188 | 19,602 |
| Impairment of oil and gas interests | 20,945 | 8,027 |
| Changes in non-cash working capital balances: | | |
| Accounts receivable and prepaid and deposits | (1,170) | 2,321 |
| Accounts payable and accrued liabilities | 108,329 | 154,789 |
| | (14,535) | 10,701 |
| **INVESTING ACTIVITIES** | | |
| Oil and gas interests | (20,945) | (96,440) |
| Disposition of oil and gas interests (net) | - | 12,411,245 |
| | (20,945) | 12,314,805 |
| **INCREASE (DECREASE) IN CASH DURING THE YEAR** | (35,480) | 12,325,506 |
| CASH - BEGINNING OF THE PERIOD | 52,008 | 374,327 |
| **CASH - END OF THE PERIOD** | $ 16,528 | $ 12,699,833 |
| **SUPPLEMETAL CASHFLOW DISCLOSURE** | | |
| Accounts payable related to oil and gas interests | $ - | $ 226,693 |

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

## 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 existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the Company's prospects, the ability of the Company to obtain the necessary financing to complete its share of the development, and future profitable production.

### Going Concern

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

For the period ended July 31, 2015, the Company incurred a net loss of $159,662 (July 31, 2014: $196,657) and had working capital deficiency of $147,758 (April 30, 2015: $5,119). 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 development 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 consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.

## 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, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

### Basis of Consolidation

The 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 Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended April 30, 2015 and will adopt the following new standards:

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

## 3. RECLAMATION DEPOSIT

The Company has a reclamation deposit of $2,161,810 (April 30, 2015: $2,161,810) that is held by the British Columbia Oil and Gas Commission ("BCOGC") as a financial guarantee of the future abandonment costs for the Company's wells and gas processing plant.

*(Expressed in Canadian Dollars)*

## 4. OIL AND GAS INTERESTS

| For the period ended July 31, 2015 | Peace River Project | Monias Prospect | Moberly Prospect | Total |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Balance, beginning of period | $ 15,815,574 | $ - | $ - | $ 15,815,574 |
| Leases acquisitions and rental costs | 20,945 | - | - | 20,945 |
| Impairment of oil and gas interest | (20,945) | - | - | (20,945) |
| Balance, end of period | $ 15,815,574 | $ - | $ - | $ 15,815,574 |
| **Exploration costs** | | | | |
| Balance, beginning of period | $ - | $ - | $ - | $ - |
| Balance, end of year | $ - | $ - | $ - | $ - |
| **Development costs** | | | | |
| Balance, beginning of period | $ 1,190,029 | $ - | $ - | $ 1,190,029 |
| Balance, end of period | $ 1,190,029 | $ - | $ - | $ 1,190,029 |
| **Total oil and gas interests** | **$ 17,005,603** | **$ -** | **$ -** | **$ 17,005,603** |

| For the year ended April 30, 2015 | Peace River Project | Monias Prospect | Moberly Prospect | Total |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Balance, beginning of year | $ 25,915,043 | $ - | $ - | $ 25,915,043 |
| Leases acquisitions and rental costs | 132,457 | - | - | 132,457 |
| Impairment of oil and gas interest | (10,231,926) | - | - | (10,231,926) |
| Balance, end of year | $ 15,815,574 | $ - | $ - | $ 15,815,574 |
| **Exploration costs** | | | | |
| Balance, beginning of year | $ - | $ - | $ - | $ - |
| Asset retirement costs | 351,570 | - | - | 351,570 |
| Report and others | 28,212 | - | - | 28,212 |
| Impairment of oil and gas interest | (379,782) | - | - | (379,782) |
| Balance, end of year | $ - | $ - | $ - | $ - |
| **Development costs** | | | | |
| Balance, beginning of year | $ 1,190,029 | $ - | $ - | $ 1,190,029 |
| Balance, end of year | $ 1,190,029 | $ - | $ - | $ 1,190,029 |
| **Total oil and gas interests** | **$ 17,005,603** | **$ -** | **$ -** | **$ 17,005,603** |

*(Expressed in Canadian Dollars)*

## 4. OIL AND GAS INTERESTS (continued)

**Peace River Project, British Columbia**

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

***Shallow rights***

Shallow rights include the Peace River coalbed methane project and Moosebar Shale rights. The Company's interest in the Peace River Project and the Moosebar Shale rights is subject to Crown royalties and for certain acreage to overriding royalties of up to 0.05%.

***Deep rights***

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 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 the leasehold rights it sold.

***Other assets***

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

At April 30, 2015, the Company evaluated its Peace River Project for impairment, which consists of the shallow rights, gas processing plant, and a water disposal well, and recorded an impairment of $10,609,590 (2014: $34,443,642). The impairment was triggered when sufficient data indicated that the carrying amount of the oil and gas interest was unlikely to be recovered in full from successful development or by sale. The recoverable amount of the Peace River Project was estimated on a fair value less costs of disposal basis. Fair value less cost of disposal was estimated using a discounted cash flow methodology taking into account assumptions likely to be made by market participants. Cash flow projections are based on the most recent reserve report for the Peace River Project, which was prepared by an independent qualified reserve evaluator, Netherland, Sewell & Associates Inc. ("NSAI").

The projected cash flows in the NSAI Report reflect current market assessments of key assumptions, including long-term forecasts of commodity prices (Level 3 fair value inputs). Cash flow forecasts are also based on past experience, historical trends and NSAI's evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Production profiles, reserves volumes, operating costs, capital expenditures are consistent with the estimates approved by the Company. Future cash flow estimates are discounted using after-tax risk adjusted discount rates that reflect the risk specific to the assets in the Peace River Project. The after-tax discount rate applied in the impairment calculation as at April 30, 2015 was 10%.

Forecast future prices used in the impairment evaluation as at April 30, 2015 reflect benchmark Westcoast Energy (station 2) prices and are adjusted for energy content, transportation fees, and a regional price differential. Gas prices, before adjustments, along with escalation parameters are as follows:

| Period Ending | Gas Price (C$/MMBtu) | Period Ending | Gas Price (C$/MMBtu) |
|---|---|---|---|
| 6-30-2015 | 2.533 | 12-31-2021 | 4.658 |
| 9-30-2015 | 2.708 | 12-31-2022 | 4.788 |
| 12-31-2015 | 2.888 | 12-31-2023 | 4.913 |
| 12-31-2016 | 3.334 | 12-31-2024 | 4.968 |
| 12-31-2017 | 3.685 | 12-31-2025 | 5.024 |
| 12-31-2018 | 4.043 | | |
| 12-31-2019 | 4.388 | Thereafter, escalated 1.75 percent on January 1 of each year. | |
| 12-31-2020 | 4.523 | | |

*(Expressed in Canadian Dollars)*

## 4. OIL AND GAS INTERESTS (continued)

The recoverable amount is highly sensitive to the discount rate and forecast future commodity prices. If the discount rate applied to forecasted future net cash flows increased by 1%, the Company would have recognized an impairment of property, plant and equipment of approximately $13,082,551.

During the period ended July 31, 2015, the Company wrote down $20,945 of lease and rental costs related to the Peace River Project that were incurred during the period.

**Monias Prospect, British Columbia**

The Company owns a 100% working interest in the shallow rights in seven sections, a 70% working interest in two sections, and a 35% working interest in one section.

Deep rights associated with the Monias Prospect were sold in the same transaction, as were deep rights under the Peace River Project. Water disposal rights were retained under the deep rights sold.

The Monias Prospect was written down to $nil as at April 30, 2014 and the Company does not expect to incur any further expenditures on this property.

**Moberly Prospect, British Columbia**

The Company owns a 100% working interest in the shallow rights under three net sections under the Moberly Prospect.

The Company sold all its deep rights under the Moberly Prospect in the same transaction as the Peace River Prospect.

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.

The Moberly Prospect was written down to $nil as at April 30, 2014 and the Company does not expect to incur any further expenditures on this property.

## 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 total risk adjusted undiscounted amount of cash flows required to settle the decommissioning liability to be approximately $3,651,319 which will be incurred from 2034 to 2044. To calculate the net present value of its decommissioning liability, the Company used a risk free interest rate of 1.67% (2014: 2.58%). The following table summarizes the Company’s decommissioning liability:

| | Decommissioning Liability |
|---|---|
| Balance, as at April 30, 2014 | $ 1,761,462 |
| Change in estimate | 351,570 |
| Accretion expense | 43,675 |
| Balance, as at April 30, 2015 | 2,156,707 |
| Accretion expense | 10,835 |
| Balance, as at July 31, 2015 | $ 2,167,542 |

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)*

## 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 the period ended July 31, 2015 and the year ended April 30, 2015 is as follows:

| | Number of options | | Weighted Average Exercise |
|---|---|---|---|
| Balance, outstanding - April 30, 2014 | 5,208,750 | $ | 0.38 |
| Granted | 800,000 | $ | 0.10 |
| Exercised | (1,138,750) | $ | 0.10 |
| Cancelled | (2,430,000) | $ | 0.63 |
| Balance, outstanding - April 30, 2015 and July 31, 2015 | 2,440,000 | $ | 0.17 |

The following table summarizes information about share options outstanding and exercisable at July 31, 2015:

| | Options Outstanding | | Options Exercisable | |
|---|---|---|---|---|
| Exercise Price | Number of Options | Weighted Average Contractual Life (Years) | Number of Options | Weighted Average Contractual Life (Years) |
| $0.10 | 2,020,000 | 3.49 | 1,370,000 | 3.18 |
| $0.20 | 100,000 | 0.12 | - | - |
| $0.63 | 320,000 | 0.19 | 320,000 | 0.19 |
| | 2,440,000 | 3.01 | 1,690,000 | 2.61 |

No options were granted during the period ended July 31, 2015.

### Warrants

There were no warrants outstanding as at July 31, 2015.

*(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 July 31, 2015, administrative and management fees of $72,112 (July 31, 2014: $62,763) were charged by a company controlled by the Chief Executive Officer in connection with the Company's Baton Rouge, Louisiana office. At July 31, 2015, accounts payable and accrued liabilities due to the related entity included $95,815 (April 30, 2015: $36,652).

During the year ended July 31 2014, administrative and management fees of $33,000 were paid to a company controlled by the Chairman in connection with the Company's Vancouver head office. At July 31, 2015, accounts payable and accrued liabilities included $5,775 (April 30, 2015: $5,775) due to the related entity.

| | Three months ended July 31, 2015 | Three months ended July 31, 2014 |
|---|---|---|
| Administrative and management services | $ 72,112 | $ 95,763 |
| Share-based compensation | 5,318 | 13,717 |
| | $ 77,430 | $ 109,480 |

### Other related parties transactions

During the year ended July 31, 2015, rent of $8,468 (July 31, 2014: $6,600) was charged by a company controlled by the CEO of the Company for rent for the Company's office in Baton Rouge.