CANADA ENERGY PARTNERS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED APRIL 30, 2015 AND 2014
(Expressed in Canadian Dollars)

August 26, 2015

Independent Auditor's Report

To the Shareholders of Canada Energy Partners Inc.

We have audited the accompanying consolidated financial statements of Canada Energy Partners Inc. (the "Company"), which comprise the consolidated statement of financial position as at April 30, 2015 and April 30, 2014 and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Energy Partners Inc. as at April 30, 2015 and April 30, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of matter

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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

	April 30, 2015	April 30, 2014
ASSETS		
CURRENT ASSETS		
Cash	$ 52,008	$ 374,327
Accounts receivable	3,369	6,877
Prepaid and deposits	27,768	34,820
Assets held for sale (Note 3)	-	15,685,958
	83,145	16,101,982
RECLAMATION DEPOSIT (Note 4)	2,161,810	-
OIL AND GAS INTERESTS (Note 5)	17,005,603	27,105,072
	$ 19,250,558	$ 43,207,054
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 88,264	$ 521,388
Short-term loan (Note 6)	-	501,359
Decommissioning liability - held for sale (Note 3)	-	222,418
	88,264	1,245,165
DECOMMISSIONING LIABILITY (Note 7)	2,156,707	1,761,462
	2,244,971	3,006,627
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 9)	71,124,785	82,953,215
SHARE-BASED PAYMENT RESERVE (Note 9)	8,536,275	8,558,240
DEFICIT	(62,655,473)	(51,311,028)
	17,005,587	40,200,427
	$ 19,250,558	$ 43,207,054

Nature of operations and going concern (Note 1)

Approved by the Board of Directors and authorized for issue on August 26, 2015.

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

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

CANADA ENERGY PARTNERS INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

	Year ended April 30, 2015	Year ended April 30, 2014
GENERAL AND ADMINISTRATIVE EXPENSES		
Accretion	$ 43,675	$ 30,726
Administrative and management services (Note 10)	403,724	379,331
Audit and accounting	30,680	31,839
Filing and regulatory	29,631	21,280
General exploration	5,185	10,636
Impairment of oil and gas interests (Note 5)	10,609,590	34,443,642
Interest expense	10,340	14,370
Office and miscellaneous	70,393	84,173
Professional fees	51,606	151,679
Rent	27,548	27,709
Share based compensation	58,203	112,230
Travel	10,700	15,150
	11,351,275	35,322,765
OTHER ITEMS		
Foreign exchange gain	(673)	(231)
Interest income	(6,157)	(30)
	(6,830)	(261)
LOSS BEFORE INCOME TAXES	(11,344,445)	(35,322,504)
DEFERRED INCOME TAXES RECOVERY (Note 8)	-	7,074,281
NET LOSS AND COMPREHENSIVE LOSS	$ (11,344,445)	$ (28,248,223)
LOSS PER SHARE - BASIC AND DILUTED	$ (0.13)	$ (0.32)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	90,073,188	87,844,825

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

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

	Number of Issued and Outstanding Shares	Share Capital	Share-based Payment Reserve	Deficit	Total Shareholders' Equity
Balance as at May 1, 2014	89,255,784	$ 82,953,215	$ 8,558,240	$ (51,311,028)	$ 40,200,427
Share issued - options exercised	1,138,750	113,875	-	-	113,875
Fair value of options exercised	-	80,168	(80,168)	-	-
Distribution of capital to shareholders	-	(12,022,473)	-	-	(12,022,473)
Share-based compensation	-	-	58,203	-	58,203
Net loss for the year	-	-	-	(11,344,445)	(11,344,445)
Balance as at April 30, 2015	90,394,534	$ 71,124,785	$ 8,536,275	$ (62,655,473)	$ 17,005,587

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

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

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

	Year ended April 30, 2015	Year ended April 30, 2014
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Loss for the year	$ (11,344,445)	$ (28,248,223)
Accretion	43,675	30,726
Interest expense	10,340	14,370
Deferred income taxes recovery	-	(7,074,281)
Share based compensation	58,203	112,230
Impairment of oil and gas interests	10,609,590	34,443,641
Changes in non-cash working capital balances:		
Accounts receivable and prepaid and deposits	10,560	3,602
Accounts payable and accrued liabilities	(197,491)	(22,666)
	(809,568)	(740,601)
INVESTING ACTIVITIES		
Oil and gas interests	(97,148)	(26,276)
Disposition of oil and gas interests (net)	12,492,995	-
	12,395,847	(26,276)
FINANCING ACTIVITIES		
Issuance of shares (net of share issuance costs)	113,875	489,766
Distribution of capital to shareholders	(12,022,473)	-
Short-term loan	-	500,000
	(11,908,598)	989,766
INCREASE (DECREASE) IN CASH DURING THE YEAR	(322,319)	222,889
CASH - BEGINNING OF THE YEAR	374,327	151,438
CASH - END OF THE YEAR	$ 52,008	$ 374,327
SUPPLEMETAL CASHFLOW DISCLOSURE		
Accounts payable related to oil and gas interests	$ -	$ 226,693

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Canada Energy Partners Inc. ("the Company") is an independent natural gas exploration and development company primarily focused on resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, by Certificate of Incorporation and Notice of Articles pursuant to the provisions of the Business Corporations Act (British Columbia). The Company's principal and executive office is located at Suite 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 year ended April 30, 2015, the Company incurred a net loss of $11,344,445(April 30, 2014- $28,248,223) and had working capital deficiency of $5,119 (April 30, 2014 – working capital of $14,856,817). 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, and 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 consolidated financial statements have been prepared in accordance with IFRS by the IASB and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical judgments and sources of estimation uncertainty

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Hudson's Hope Gas, Ltd. ("HHG"). Control exists when the Company has the power over its subsidiaries, exposure or right, to variable returns from its involvement with the subsidiary, and the ability to use its power over the subsidiary to affet 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 estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments

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

- Management is required to assess the Company's oil and gas interests for indicators of impairment at each reporting date. In making the assessment, management is required to make judgments regarding the recoverable amount of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

  Management has determined impairment indicators were present in respect of its Peace River Project, and as a result an impairment test was performed. Refer to Note 5.

- Considerable judgment is required to identify the point in the progress of a research and development project at which a new or improved product or process is determined to be technologically feasible, marketable, or useful and therefore determining when research and development costs should be capitalized.

Estimation uncertainty

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

- The assessment of any impairment of oil and gas properties is dependent upon the recoverable amount that take into account factors as such as reserves, economic and market conditions and the useful lives of assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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, 2015 is $2,156,707 (2014 - $1,983,880).

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

Oil and gas interests

All costs directly associated with the acquisition and development of 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, 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 impairment expenses.

- Plant and equipment

All costs directly associated with the development of plants and equipment are initially capitalized. These costs include property acquisition, development drillings, completion of wells, gathering facilities and infrastructure, asset retirement costs, and transfer from exploration and evaluation assets where technical feasibility and commercial viability has been determined.

The net carrying value of plant and equipment is depreciated using the unit-of-production method by reference the ratio of production in the year to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to bring those reserves into production.

Assets held for sale

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

Impairment of non-financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Decommissioning liabilities

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

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

Research and development costs

Expenditures during the research phase are expensed as incurred, because during this phase, the Company cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Upon a determination that the criteria to capitalize development expenditures, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its untended use. Other development expenditures will be expensed as incurred.

To date, no development costs have been capitalized.

Income taxes

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

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

Share-based payment transactions

The Company's stock option plan allows 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Loss per share

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

Foreign currency transactions

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

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

Fair value hierarchy

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

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

Financial instruments

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

<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 and financial assets and liabilities designated at fair value through profit or loss on initial recognition. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

New Accounting Standards and recent pronouncements

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

(Expressed in Canadian Dollars)

3. ASSETS HELD FOR SALE

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

The sale to Crew was completed on July 31, 2014 (the "Closing Date") and the Company received net proceeds of $12,492,995, after adjustments including a $2.2 million reclamation deposit paid to BCOGC and repayments of short-term loan and other liabilities to Crew. The Company also incurred additional transaction costs of $8,027 and recorded this amount as impairment of oil and gas interests during the year ended April 30, 2015.

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

	April 30, 2015	April 30, 2014
Oil and gas interests	$ -	$ 15,685,958
Total	$ -	$ 15,685,958

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

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

	April 30, 2015	April 30, 2014
Decommissioning liabilities	$ -	$ 222,418
Total	$ -	$ 222,418

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

4. RECLAMATION DEPOSIT

The Company has a reclamation deposit of $2,161,810 (April 30, 2014: $nil) 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)

5. OIL AND GAS INTERESTS

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**

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

5. OIL AND GAS INTERESTS (continued)

Peace River Project, British Columbia

The Company has working interests in the oil and gas leases located in the Peace River area near Hudson's Hope in northeast British Columbia. Peace River Project consists of shallow rights (from the surface to the base of Gething formation) and 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 CBM Project and Moosebar Shale rights. The Company's interest in the Peace River CBM Project and the Moosebar Shale rights is subject to Crown royalties and for certain acreage to overriding royalties of up to 0.05%.

Deep rights

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 of short-term loan and other liabilities to Crew. 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, which consists of the Shallow rights, gas processing plant, and a water disposal well, for impairment 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 is 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:

(Expressed in Canadian Dollars)

5. OIL AND GAS INTERESTS (continued)

Period Ending	Gas Price (C$/MMBtu)
6-30-2015	2.533
9-30-2015	2.708
12-31-2015	2.888
12-31-2016	3.334
12-31-2017	3.685
12-31-2018	4.043
12-31-2019	4.388
12-31-2020	4.523

Period Ending	Gas Price (C$/MMBtu)
12-31-2021	4.658
12-31-2022	4.788
12-31-2023	4.913
12-31-2024	4.968
12-31-2025	5.024

Thereafter, escalated 1.75 percent on January 1 of each year.

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 PP&E of approximately $13,082,551.

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 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.

(Expressed in Canadian Dollars)

6. SHORT TERM LOAN

On March 31, 2014, the Company received a $500,000 loan from Crew. Interest on the loan was accrued monthly at an annual rate of interest of the prime rate plus four percent, from March 31, 2014 to the date of repayment. On July 31, 2014, the Company closed the PSA and repaid the principal amount of loan plus interest in full as a deduction from the proceeds from the sale of the Montney Rights.

7. DECOMMISSIONING LIABILITY

Total future decommissioning liability was estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim, and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company estimated the total risk adjusted undiscounted amount of cash flows required to settle the decommissioning liability to be approximately $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 rate of 1.67% (2014 – 2.76%). The following table summarizes the Company's decommissioning liability:

		Decommissioning Liability
Balance, as at April 30, 2013	$	1,364,839
Change in estimate		365,897
Accretion expense		30,726
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

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)

8. INCOME TAXES

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

		April 30, 2015		April 30, 2014
Loss before income taxes	$	(11,344,445)	$	(35,322,504)
Expected income tax recovery		(2,949,556)		(9,183,851)
Item not deductible for income tax purposes		2,717,911		8,994,831
Change in statutory tax rate		-		282,971
Change in differred income tax assets		(2,605,065)		(8,913,829)
Unrecognized tax benefits		2,836,710		1,745,597
Deferred income tax recovery	$	-	$	(7,074,281)

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

		April 30, 2015		April 30, 2014
Deferred income tax assets				
Investment	$	67,235	$	67,235
Share issuance costs		1,596		2,129
Property and equipment		1,886,184		1,886,184
Closure cost obligations		560,744		343,604
Non-capital losses		2,994,535		2,762,446
Unrecognized deferred tax assets		(4,582,307)		(1,745,598)
Deferred income tax recovery	$	927,987	$	3,316,000
Deferred income tax liabilities				
Oil and gas interests		(927,987)		(3,316,000)
Net deferred income tax liabilities	$	-	$	-

The Company has Canadian non-capital loss carry forwards of approximately $11,500,000 which expire in 2027 through to 2035, and approximately $20,600,000 in certain resource related and capital asset deductions which may be available to offset future taxable income. The Company through, HHG, has additional Canadian non-capital loss carry forwards of approximately $27,000 which expire in 2027 through to 2035, and approximately $11,700,000 in certain resource related assets deductions which may be available to offset future taxable income.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE

During the period ended April 30, 2015, 1,138,750 stock options of the Company were exercised at an exercise price of $0.10 per share. The weighted average share price at the date of the exercise was $0.14 per share.

The Company completed the distribution of an aggregate of approximately $12.02 million as a reduction of the capital of the common shares on a pro rata basis to the holders of common shares of the Company of record at the close of business on August 20, 2014. Each shareholder of record received $0.133 per share.

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

Share options and share-based compensation

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

A continuity table of share options for the year ended April 30, 2015 is as follows:

	Number of options		Weighted Average Exercise
Balance, outstanding - April 30, 2013	6,795,000	$	0.63
Granted	2,815,000		0.10
Cancelled	(2,544,000)		0.63
Forfeited	(1,857,250)		0.53
Balance, outstanding - April 30, 2014	5,208,750	$	0.38
Granted	800,000	$	0.10
Exercised	(1,138,750)	$	0.10
Cancelled	(2,430,000)	$	0.63
Balance, outstanding - April 30, 2015	2,440,000	$	0.38

During the period ended April 30, 2015 the Company granted 800,000 share options with an exercise price of $0.10 to two directors of the Company.

(Expressed in Canadian Dollars)

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

The following table summarizes information about share options outstanding and exercisable at April 30, 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	3.74	785,000	3.56
$0.20	100,000	3.37	-	-
$0.63	320,000	0.44	320,000	0.44
	2,440,000	3.29	1,105,000	2.66

The weighted average fair value of options granted during the period, determined using the Black-Scholes option pricing model was $0.02. The following are the weighted average of the significant inputs into the model:

	2015	2014
Risk-free interest rate	1.52%	1.69%
Expected volatility	136.38%	111.23%
Expected life	5 years	5 years
Expected dividend yield	Nil	Nil

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

Warrants

There were no warrants outstanding as at April 30, 2015.

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

Key management and personnel compensation

During the year ended April 30, 2015, administrative and management fees of $132,000 (April 30, 2014 - $132,000) were paid to a company controlled by the Chairman in connection with the Company's Vancouver head office. At April 30, 2015, accounts payable and accrued liabilities include $5,775 (2014 - $nil) due to the related entity. Administrative and management fees of $271,724 (April 30, 2014 - $247,331) were paid to a company controlled by the Chief Executive Officer in connection with the Company's Baton Rouge office. At April 30, 2015, accounts payable and accrued liabilities include $36,652 (2014 - $nil) due to the related entity.

	For the year ended April 30, 2015	For the year ended April 30, 2014
Administrative and management services	$ 403,724	$ 379,331
Share based compensation	51,830	98,973
	$ 455,554	$ 478,304

Other related parties transactions

During the year ended April 30, 2015, the Company paid $27,548 (April 30, 2014 - $27,708) to a company controlled by the CEO of the Company for rent for the Company's office in Baton Rouge, Louisiana.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

The fair value of the Company's financial instruments is approximated by their carrying value as at April 30, 2015 due to their short term nature. The fair value of the Company's financial instruments may be less than the carrying value due to the liquidity risk.

Credit risk

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

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

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

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

As at April 30, 2015, the Company had a cash balance of $52,008 (2014 - $374,327) to settle current financial liabilities of $88,264 (2014 - $1,022,747).

The following are the contractual maturities of financial liabilities at April 30, 2015:

	Less than 1 year	2 – 5 years	Thereafter	Total
Accounts payable and accrued liabilities	$ 88,264	$ -	$ -	$ 88,264
Total	$ 88,264	$ -	$ -	$ 88,264

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

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

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed only to the interest rate risk to the extent that the cash maintained at the financial institutions and short-term loan are subject to floating rate of interest. The interest rate risk on the Company's cash is minimal. Sensitivity to a 1% change (plus or minus) in interest rate would affect the reported loss by approximately $nil ($5,000 at April 30, 2014).

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.