

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED APRIL 30, 2015**

*This Management’s Discussion and Analysis (“MD&A”), prepared as of August 26, 2015, should be read in conjunction with the audited consolidated financial statements of Canada Energy Partners Inc. (the “Company”) for the years ended April 30, 2015 and 2014, and related notes thereto, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). This MD&A contains “forward-looking statements” that are subject to risk factors set out in a cautionary note contained herein. All figures are stated in Canadian dollars unless otherwise indicated.*

Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.canadaenergypartners.com](http://www.canadaenergypartners.com).

**Company Overview**

Canada Energy Partners Inc. is an independent natural gas exploration and development company primarily focused on unconventional resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, and became a publicly listed entity under symbol “CE” on the TSX Venture Exchange on November 22, 2006. The Company was formed for the purpose of exploring for, acquiring and developing coalbed methane (“CBM”) reserves in the Peace River area of northeast British Columbia. The Company does not generate sufficient cash flow from operations to adequately fund its future activities and historically has relied upon issuance of securities to fund its exploration, development and administrative expenditures. The Company will require additional capital to fund its future acquisition, exploration and development activities, as well as administrative requirements, but there is material uncertainty about whether the Company will be able to obtain the required additional capital. These conditions raise significant doubt regarding the Company’s ability to continue as a going concern.

On July 31, 2014, the Company completed the sale of its Montney Shales lands to Crew Energy Inc. (“Crew”) 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 BC Oil and Gas Commission (“BCOGC”) and repayments of short-term loan and other liabilities to Crew. During the year ended April 30, 2015, the Company completed a distribution of an aggregate of \$12.02 million of net proceeds of the sales of the Company’s Montney rights as a reduction of the capital of the common shares on a pro rata basis to its shareholders.

The Company has three project areas: Peace River, Monias, and Moberly. The following table summarizes the gross acreage of the Company’s drilling licenses and leases in northeast British Columbia:

	<b>Shallow (above the base Nikanassin)</b>	
	<b>(acres)</b>	
	<b>Gross</b>	<b>Net</b>
<b>Peace River</b>	35,811	35,811
<b>Moberly</b>	2,609	1,957
<b>Monias</b>	6,521	5,705
<b>Total</b>	<b>44,941</b>	<b>43,473</b>
<b>In Sections (640 acres per section)</b>	<b>70.2</b>	<b>67.9</b>

**Significant Events**

During the year ended April 30, 2015 and up to the date of this report, there was no exploration or development activity on the Company’s lands.

On March 31, 2014, the Company and Crew entered into an option to purchase agreement (the “Option Agreement”) pursuant to which the Company granted to Crew an option (the “Option”) to purchase certain oil and gas rights of the Corporation located in northeastern British Columbia known as the Montney Shale lands and wells (the “Assets”) for a purchase price of \$16,070,000. The Option Agreement was subsequently amended in accordance with an amending

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agreement dated June 25, 2014 pursuant to which the purchase price for the Assets was reduced to \$15,720,000. Crew exercised the Option on June 25, 2014 and the sale of the Assets was completed on July 31, 2014.

On January 15, 2013, the Company transferred operations of its Peace River CBM Project to Crew, but retained the right to reassume its role as operator of the Peace River CBM Project at the Company's sole election. Concurrently, with the sale of the Assets to Crew on July 31, 2014, the Company reassumed operatorship of the Peace River CBM Project and repaid Crew all outstanding amounts owed by the Company.

During the year ended April 30, 2015, 1,138,750 stock options of the Company were exercised at an exercise price of \$0.10 per share.

**Outlook**

The Company has announced a new strategic initiative whereby it will attempt to use its internally developed cavitation tool as a means of extracting diamonds, potash, and coal and increasing the economics of CBM projects. The Company has filed for patent coverage of its technology.

For three years, the Company has been researching and designing a cavitation tool that can excavate cavities in subsurface coal seams for the dual purpose of producing commercial quantities of coal via a wellbore and stimulating the production of natural gas from coal seams.. This technology has not been tested in the field, but is predicated on component parts that are routinely used in industry.

The Company believes this technology can also be applied to the extraction of other precious minerals such as diamonds and potash, via either vertical or horizontal wellbores, and has the inherent advantage of being able to access minerals that due to size and/or depth are beyond the economic reach of conventional mining techniques. Due to the flexible application of this technology to other resources with stronger pricing, the Company intends to pursue business opportunities with companies who own proven mineral deposits.

Due to prolonged, depressed natural gas markets and concerns that these conditions will persist for the intermediate term, as a cost-cutting measure, the Company has decided to reduce over the next 12 months our core CBM land holdings at Peace River to approximately 25% of our current land position with the retained acreage centered under our greatest net coal thicknesses. The Company estimates that the retained lands hold 38% of the total CBM potential of the Company. The Company believes that its control of the 'sweet spot' of the CBM potential and the only mid-stream infrastructure currently in the area will enable it to reacquire former lands if and when market conditions justify development. The Company believes the gas plant also has potential utility for future Montney development in the area.

The Company's decision is predicated on prolonged and persistently low natural gas prices and a forward view that there is a probability of the continuance of those conditions. North American natural gas supply has remained stubbornly high in spite of dramatic cutbacks in natural gas directed drilling. Proposed LNG projects on the West Coast of North America continue to be pushed further into the future. Reduced exports to the US and import competition from the Marcellus Shale to eastern Canada continue to suppress Western Canadian gas prices. The Company has been attempting to monetize its water disposal assets and some portions of its gas plant equipment but current market conditions have adversely affected those efforts. The Company will continue those efforts.

The Company expects to test its cavitation completion technology in the Peace River CBM Project if and when gas prices recover. This would be subject to obtaining the capital to do so.

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**Projects Overview**

**Peace River CBM Project**

In 2008, the Peace River CBM Project development program included the drilling and completion of five new production wells, the connection of three existing wells, construction and installation of gas treating and compression facilities, and a pipeline and connection to the Spectra transcontinental pipeline. The gas plant/compressor station, pipeline connection, and gathering system were completed in December 2008, and production and gas sales began in January 2009. In April 2010, the eight producing CBM wells were shut-in.

The decision to shut the wells in was based upon continued monthly operating losses due to low gas prices and a longer than expected dewatering time to obtain gas production rates necessary to generate a positive cash flow. The Company continues to believe that the Peace River CBM Project has commercial potential and has maintained the Peace River CBM Project. The shut-in CBM wells can be restarted in the future upon improvement in the gas prices and/or the application of enhanced internally developed completion technologies. The Company is the operator at the Peace River CBM Project.

The Company has an on-going investigation into several innovative drilling and completion technologies (see outlook) which may lead to improved flow-rates and reduced costs.

**Monias Project**

On December 17, 2007, the Company announced a joint venture with West Energy Ltd. ("West") with respect to the deep rights underlying the Company's Monias Project. Pursuant to the terms of the joint venture, West agreed to conduct a three-dimensional seismic project over the majority of the Monias Project lands and drill and case one well on the Monias Project in order to earn a 60% interest in four sections of the Monias Project. Daylight Energy Ltd. subsequently acquired West in Q2 2010 and, in turn, was subsequently acquired by Sinopec in December 2011. In June 2012, Aduro Resources Inc. ("Aduro") acquired Sinopec's interest in the Monias Project. In addition to the lands held in common by the Company and Aduro, the Company owns 100% of three additional sections, 70% in two sections, and 35% of another section in the Monias Project area. The Company sold the deep rights under its Monias lands as part of the previously referenced sale and likewise retained water disposal rights in the rights sold.

**Reserves**

The Company's Statement of Reserves Data and Other Oil and Gas Information is filed on the Sedar website at [www.sedar.com](http://www.sedar.com).

**Selected Summary Financial Information**

The following table provides a brief summary of the Company's financial operations for the years ended April 30, 2015, 2014 and 2013. The information has been prepared in accordance with IFRS. For more detailed information, refer to the related financial statements.

	<b>April 30, 2015</b>	April 30, 2014	April 30, 2013
	\$	\$	\$
Total assets	<b>19,250,558</b>	43,207,054	76,416,541
Oil and gas interests	<b>17,005,603</b>	27,105,072	76,219,804
Total current liabilities	<b>(88,264)</b>	(1,245,165)	(55,110)
Total long term financial liabilities	-	-	(75,657)
Total long-term liabilities (1)	<b>(2,156,707)</b>	(1,761,462)	(8,514,777)
Net loss and comprehensive loss for the year	<b>(11,344,445)</b>	(28,248,223)	(571,347)
Basic and diluted loss per share	<b>(0.13)</b>	(0.32)	(0.01)
Cash dividends	-	-	-

(1) Long term liabilities include decommissioning liability and deferred income tax liability.

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**Summary of Financial Results**

**Year ended April 30, 2015 compared to year ended April 30, 2014**

During the year ended April 30, 2015, the Company incurred a loss of \$11,344,445 (April 30, 2014 - \$28,248,223). Significant expenses were incurred in the following categories:

- Impairment of oil and gas interests of \$10,609,590 (April 30, 2014 - \$34,443,642) was recorded during the year ended April 30, 2015 to reflect the change in recoverable value of the Company's oil and gas interest.
- Administrative and management fees of \$403,724 (April 30, 2014 - \$379,331) were related to the operations of the Company's Vancouver head office of \$132,000 (April 30, 2014 - \$132,000) and Baton Rouge operational office of \$271,724 (April 30, 2014 - \$247,331). Please see additional discussion in the Related Party Disclosure section.
- Share based compensation of \$58,203 (April 30, 2014 - \$112,230) was incurred during the year ended April 30, 2015. These expenses were as a result of the vesting of stock options previously granted.
- Legal fees of \$33,293 (April 30, 2014 - \$104,490) decreased due to lower levels of corporate activity during the year ended April 30, 2015.
- A deferred tax recovery of \$nil (April 30, 2014 - \$7,074,281) was recorded in the year ended April 30, 2015.

**Three months ended April 30, 2015 compared to three months ended April 30, 2014**

During the three months ended April 30, 2015, the Company incurred a loss of \$10,808,818 (April 30, 2014 - \$27,437,524). Significant expenses were incurred in the following categories:

- Impairment of oil and gas interests of \$10,617,252 (2014 - \$34,443,642) was recorded during the three months period ended April 30, 2014 to reflect the change in recoverable value of the Company's oil and gas interest.
- Administrative and management fees of \$107,768 (April 30, 2014 - \$97,801) were related to the operation of the Company's Vancouver head office of \$33,000 (April 30, 2014 - \$33,000) and Baton Rouge operations office of \$74,768 (April 30, 2014 - \$64,801). Please see additional discussion in the Related Party Disclosure section.
- Share based compensation of \$9,564 (April 30, 2014 - \$10,157) was incurred during the three months ended April 30, 2015. These expenses were as a result of the vesting of stock options previously granted.
- Legal fees of \$16,606 (April 30, 2014 - \$16,711) during the three months ended April 30, 2015 was consistent to the three months ended April 30, 2014 to reflect the same level of corporate activities during both periods.

**Summary of Selected Quarterly Results**

The following is a summary of the Company's selected financial results for the eight most recently completed quarters. The information has been prepared in accordance with IFRS.

	Fiscal 2015				Fiscal 2014			
	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$
Total assets	19,250,588	30,177,566	29,827,705	42,235,981	43,207,054	76,457,128	76,646,485	76,379,632
Long-term financial liabilities	-	-	-	-	-	-	(216,593)	(129,450)
Net loss	(10,808,818)	(175,062)	(163,908)	(196,657)	(27,437,524)	(186,413)	(484,060)	(140,226)
Net loss per common share basic and diluted	(0.12)	(0.00)	(0.00)	(0.00)	(0.31)	(0.00)	(0.01)	(0.00)

(1) The Company had no revenue and paid no dividends during the above periods.

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Total assets fluctuated only slightly over the past eight quarters except for Q4, 2014 and Q2 2015. Fluctuations in total assets in Q4 2014 related to the impairments of oil and gas interests and changes in working capital. Fluctuations in Q2 2015 related to a distribution of an aggregate of \$12.02 million of net proceeds of the sales of the Company's Montney rights as a reduction of the capital of the common shares on a pro rata basis to its shareholders.

Net loss fluctuated over the past eight quarters due to effects of impairment loss and movement of deferred income tax expenses or recovery recognized in each of the period. In Q2, 2014 the Company recognized a deferred income tax expense of \$216,319. In Q3, 2014 the Company recognized a deferred income tax recovery of \$49,486. In Q4, 2015 the Company wrote down its oil and gas interest by \$10,609,590. In Q4, 2014 the Company wrote down its oil and gas interest by \$34,443,642 and at the same time recognized a deferred income tax recovery of \$7,199,536.

General and administrative expenses have been generally consistent over the past eight quarters.

**Liquidity and Capital Resources**

As at April 30, 2015, the Company had cash of \$52,008 (April 30, 2014 - \$374,327) and accounts receivable and prepaid and deposits of \$31,137 (April 30, 2014 - \$41,697). During the year ended April 30, 2015, the Company completed the sale of its Montney Shale lands to Crew for \$15,720,000 and received net proceeds of \$12,492,995, after adjustments including a \$2.2 million reclamation deposit paid to the BCOGC and repayments of a short-term loan and other liabilities to Crew. On August 20, 2014, the Company completed a distribution of \$12,022,473 to the shareholders of the Company and was treated as a reduction of capital of the common shares on a pro rata basis.

As at April 30, 2015, the Company had a working capital deficiency \$5,119. As at the date of this MD&A, the Company has working capital deficiency of approximately \$130,000.

The Company funded its operation during fiscal 2015 from its existing working capital. The Company is dependent on the equity markets to fund the majority of its future development and exploration activities and general and administrative costs. The Company does not know of any other trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present.

Material increases or decreases in liquidity are substantially determined by the success or failure of the development and exploration programs and by the Company's access to suitable financing.

**Operating Cash Flow**

Net cash used in operating activities during the year ended April 30, 2015 was \$809,568 compared to net cash used in operating activities of \$740,601 during the year ended April 30, 2014.

**Financing Activities**

During the year ended April 30, 2015, the Company received \$113,875 (April 30, 2014 - \$489,766) as a result of the issuance of shares. On August 20, 2014, the Company completed a distribution of \$12,022,473 to the shareholders of the Company and was treated as a reduction of capital of the common shares on a pro rata basis.

**Investing Activities**

The Company spent \$97,148 during the year ended April 30, 2015 on oil and gas interests, compared to \$26,276 during the year ended April 30, 2014. During the period ended April 30, 2015, the Company received net proceeds of \$12,492,995 (April 30, 2014 - \$nil) from the sale of its deeps rights, after adjustments including a \$2.2 million reclamation deposit paid to the BCOGC and repayments of a short-term loan and other liabilities to Crew.

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**Outstanding Share Data**

As at the date of this MD&A, there were 90,394,534 common shares and 2,440,000 stock options outstanding.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**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.

**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 instructions may be less than the carrying value due to the liquidity risk.

***Fair value hierarchy***

IFRS requires disclosure about fair market value measurements for financial instruments and 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

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Level 3 - Inputs that are not based on observable market data.

*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 large financial institutions. Receivables are amounts receivable from the Canadian federal government for the refundable HST/GST amounts. The credit risk on these amounts is minimal.

*Liquidity risk*

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

As at April 30, 2015, the Company had a cash balance of \$52,008 (April 30, 2014 - \$374,327) to settle current liabilities of \$88,264 (April 30, 2014 - \$1,245,165).

*Market risk*

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

*Foreign exchange risk*

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

**Other Risk and Uncertainties**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company's risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. Additional risks to which the Company is exposed are described below.

The Company's operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding exploration, additional financing, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, and regulatory requirements, environmental regulations risks. Exploration for gas and CBM resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess.

*Substantial capital requirements*

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration and development of CBM and other reserves in the future and for British Columbia Oil and Gas Commission bonding requirements. If the Company's reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may

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require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

*Environmental risks*

All phases of the gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of gas, water or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

*Water disposal*

The coal beds from which CBM gas is produced frequently contain water that may hamper the Company's ability to produce gas in commercial quantities or affect the Company's profitability.

Unlike conventional natural gas production, coal beds frequently contain water that must be removed in order for the gas to desorb from the coal and flow to the well bore. The Company's ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not the Company can produce gas in commercial quantities. The cost of water disposal may affect the Company's profitability.

Where water produced from the Project fails to meet the quality requirements of applicable regulatory agencies or wells produce water in excess of the applicable volumetric permit limit, the Company may have to shut in wells, reduce drilling activities, or upgrade facilities. The costs to dispose of this produced water may increase if any of the following occur:

- the Company cannot obtain future permits from applicable regulatory agencies;
- water of lesser quality is produced;
- wells produce excess water; or
- new laws and regulations require water to be disposed of in a different manner.

*Reliance on operators and key employees*

The Company is not the operator on all of its prospects and may not be the operator of certain gas properties in which it acquires an interest. To the extent the Company is not the operator of its gas properties; the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. The operator may incur liability for liens related to its subcontractors. If subcontractors fail to timely pay for materials and services, the assets of the operator could be subject to materialmen's and workmen's liens. In that event, the operator could incur excess costs in discharging such liens.

In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.



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*Conflicts of interest*

Certain of the directors and officers of the Company are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the Business Corporations Act.

*Permits, licenses and government regulations*

Governmental permits and approvals for drilling operations must be obtained for the Company's oil and gas interests, which can be a costly and time consuming process and result in restrictions on operations.

Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. For example, as the operator of the Project the Company will often be required to prepare and present to federal, provincial or local authorities data pertaining to the effect or impact that proposed exploration for or production of gas may have on the environment. Further, the public may comment on and otherwise engage in the permitting process, including through intervention in the courts. Accordingly, the permits that are needed may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements that restrict the ability to conduct the operations on the Project or to do so profitably.

Oil and gas exploration is subject to significant regulation. Changes in these regulations may have a material adverse impact on the Company's operations.

*Title matters*

Although title reviews on the Company's property interests will be done or have been done to the satisfaction of management of the Company, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the interests of the Company. Such defects in title could result in a reduction of the possible revenue to be received by the Company. In addition, the Company's properties which are held in the form of licenses, leases and/or working interests in licenses and leases may be adversely affected if the holder of the license or lease fails to meet the specific requirements of a license or lease. There can be no assurance that any of the obligations required to maintain such licenses or leases will be met. The termination or expiration of such licenses, leases or working interests in licenses or leases may have a significant material adverse effect on the Company's results of operations and business.

*Aboriginal land claims*

Many lands in British Columbia are or could become subject to aboriginal land claims to title, which could adversely affect the Company's title to its properties. While the Company actively consults with all groups which may be adversely affected by the Company's activities, including aboriginal groups, there can be no assurance that satisfactory agreements can be reached.

*Additional funding requirements*

Since the Peace River Project is in its early stage and is currently not in production due to low gas prices, the Company is still dependant on the equity markets as its major source of operating working capital. From time to time, the Company may require additional financing in order to carry out its acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. As the Company's revenues have ceased as a result of lower gas prices, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. There can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favorable terms.

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*Issuance of debt*

From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The Company's Articles do not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

*Availability of drilling equipment and access restrictions*

CBM exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

**Critical judgments and sources of estimation uncertainty**

The preparation of the 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 of audited consolidated financial statements of the Company.

- 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.
- 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,

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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 - \$1,761,462).

- 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).

***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.

**Investor Relations Activities**

Mr. John Proust, a Director of the Company, coordinates investor relations activities.

**Additional Information and Continuous Disclosure**

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.canadaenergypartners.com](http://www.canadaenergypartners.com).

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**Cautionary Note Regarding Forward-Looking Statements**

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates", "plans", "budget", "scheduled", "continue", "estimates", "forecasts", "expect", "is expected", "project", "propose", "potential", "targeting", "intends", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur" or "be achieved" or the negative connotation thereof. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by readers, as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company and its joint venture partners on its properties and work plans to be conducted. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving well permits in British Columbia;
- the impact of increasing competition in the shale gas business;
- unpredictable changes to the market prices for natural gas;
- exploration and developments costs for its properties;
- availability of additional financing or joint-venture partners;
- anticipated results of exploration and development activities; and
- the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A: volatility in the market price for natural gas; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in natural gas extraction operations; unanticipated reclamation expenses; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; title disputes or claims; limitations on insurance coverage; lack of availability of additional financing and/or joint venture partners and unpredictable weather conditions. Although Canada Energy has attempted to identify important factors that could cause results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Forward looking statements are made as of the date hereof and accordingly are subject to change after such date. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.