

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Canada Energy Partners Inc. (the "Company" or "Canada Energy") for the years ended April 30, 2011 and 2010, and related notes attached thereto, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "GAAP"). This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. Except as otherwise disclosed, all dollar figures in this report are stated in Canadian dollars. Additional information relevant to the Company can be found on the SEDAR website at www.sedar.com. This MD&A has been prepared as of August 10, 2011.

Company Overview

Canada Energy 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 acquiring interests in the Peace River Coalbed Methane ("CBM") Project and became an active explorer in northeast British Columbia.

Canada Energy has accumulated 107 gross sections or approximately 67,918 gross acres of drilling licenses in northeast British Columbia. The Company has three project areas: Peace River, Monias, and Moberly. Canada Energy's current focus is the development of the Montney formation on its Peace River Project with its joint venture partner Crew Energy Inc. ("Crew").

Significant Events

During the year ended April 30, 2011, and up to the date of this report, the Company:

- Drilled and completed the fracturing and production testing on its Portage 3-12-82-26. The Operator performed a 5-stage fracture treatment comprised of 25 perforated intervals over the 1826m lateral and placement of 1500 tonnes of sand. This is 2.2 times the volume of sand and 2.2 times the perforated intervals as were conducted on the first horizontal well at Peace River, the c-20-E. The Operator reduced the number of frac stages from the original design by expanding the treated interval per frac stage. Over a 16 day flow test period, the well had a peak flow-rate of 4.5 million cubic feet per day and an end rate of 1.2 million cubic feet per day. The Company believes that this end rate was adversely affected by persistent water and sand production and that improved long-term performance is possible;
- Re-tested results for the Portage 3-12 well, the second horizontal Montney well drilled at Peace River. The original completion and test of the 3-12 occurred in December 2010 with an end-of-test rate of 1.2 million cubic feet per day. The well was re-tested in March 2011 for 48 hours yielding a peak rate of 10 million cubic feet per day ("mmcf/d"), an average rate over the test period of 4.8 mmcf/d and a stabilized end rate of 2.4 mmcf/d. The Portage 3-12 was re-tested as follow-up to the successful re-test of the Portage c-20-E, as announced by the Company on December 13, 2010. These two re-tests appear to confirm the benefits of 'resting' a well for an extended period after initial completion, after which flow capacity improves;
- Extended testing of the Portage c-20-E well. The initial re-test of the Portage c-20-E was prematurely terminated due to safety concerns due to potential metal fatigue associated with the significant pressure drop at surface and extreme cooling. Subsequently, the necessary heating equipment was installed to allow testing of the well to continue with regard to safety. The well was re-opened for a two day flow period, during which the peak flow-rate was 9.7 million cubic feet per day. A stabilized flow rate of 4.4 million cubic feet per day was experienced at the end of the test, with the well performing at an average rate of 6.6 million cubic feet per day for the final two day period. The c-20-E re-test results of 1,100 mcf/d per frac treatment compares very favourably with the Talisman completions on their Farrell Project 5 miles to the north where the fracture treatments from the Upper Montney have averaged 540 mcf/d per fracture treatment. The c-20-E was drilled in the first quarter of 2010 and initially

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

completed in June 2010, testing between 1.7 and 2.7 million cubic feet per day during a ten day test. The lateral length was 1,000 meters and was fraced with four stages. This is approximately half the length and half the sand placement of a typical development well in the area;

- Reported the results of an interim reserve study of the Company's Montney lands, performed by GLJ Petroleum Consultants Ltd. ("GLJ"), effective December 31st, 2010 and updated to April 30, 2011. Recent successful drilling by the Company and its JV Partner at Peace River and by Shell adjacent to the Monias property has resulted in the attribution of significant reserves. GLJ ascribed Company interest reserves of 8.54 billion cubic feet equivalent ("BCFe") of proved reserves and proved plus probable reserves ("2P") of 26.22 BCFe on its Montney lands. Company interest reserves means the Company's working interest share before deduction of royalties and including any royalty interest of the Company. The undiscounted projected net cash flow is estimated to be \$21.60 million from the proved reserves and \$78.43 million from the 2P reserves. The present value discounted at 10% ("PV10") of the proved reserves is \$7.09 million and \$24.05 million for the 2P reserves. 81.1% of these 2P reserves were attributable to the Monias property and 18.9% to the Peace River property;
- At the Company's Annual General & Special Meeting, the Company's shareholders approved all matters including ratification of the Shareholder Rights Plan to protect shareholders of the Company from unfair, abusive or coercive take-over strategies, including the acquisition of control of the Company by a bidder in a transaction or series of transactions that does not treat all shareholders equally or fairly, or provide all shareholders an equal opportunity to share in the premium paid on an acquisition of control;
- Settled the legal dispute with Daylight Energy Ltd. ("Daylight") over the Seismic Option Agreement on the Company's Monias Prospect. Under the terms of the settlement, Daylight is deemed to have earned a 60% working interest in four sections and the 13-30-81-21 wellbore with the Company retaining a 40% working interest in the four sections and wellbore. Daylight will have no further earning rights in the Monias Prospect. Under the original terms of the Seismic Option Agreement, West Energy Ltd., a company acquired by Daylight in May 2010, had the option to earn a 65% interest in the eight sections comprising the Monias Prospect;
- Purchased, together with its Joint Venture Partner, 14 gross (7 net) sections of Deep Rights drilling licenses/leases in the Peace River Project area of Northeast British Columbia in the May and June 2010 lease sales. This comprises a 20% increase in the Company's Deep Rights land base. The lands purchased are in close proximity to the Company's first horizontal Montney well, the Portage c-20-E, which lies between the Peace River Project and the Talisman/Canbriam Farrell Project.

Outlook

The Company believes that the initial drilling program conducted by the Operator has confirmed a large in-place gas resource at Peace River and has significantly de-risked the play. The Company owns a 50% working interest in the Peace River CBM gas plant which can be adapted to Montney production with minor modifications. In 2011 and 2012, the Company will work on the engineering and feasibility of connecting the two Montney wells on Peace River Project to the gas plant as well as further development of its Monias property exploration. We will monitor gas prices and performance of the CBM Project and move forward if and when gas prices and performance are in proper alignment, and continue to seek additional exploration and acquisition opportunities in northeast BC.

The Company will have to recapitalize its balance sheet in order to finance the development of its properties. The Company will pursue this goal by seeking one or more of the following: a farmout, a joint venture, a partial asset sale, a merger, or the issuance of additional equity.

The Company is well positioned with staying power, having no effective debt, a positive cash balance, and long tenures on its leases. The Company has no firm work obligations to maintain its leases until 2014 and one well in 2014 will preserve 95% of the Company's deep rights leasehold until 2020. The Company believes that gas prices will strengthen in the intermediate term and, because of its unleveraged balance sheet, long lease terms, and lack of pressing capital expenditure obligations, can be patient in its effort to maximize shareholder value.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Projects Overview

Joint Venture with Crew Energy Inc.

In March 2008, the Company entered into a joint venture agreement with Crew Energy Inc. (TSX: CR; "Crew Energy" or "JV Partner") to explore the Montney/Doig Formation on Canada Energy's Peace River and Moberly prospects in northeast British Columbia. Crew Energy operates the project and has earned a 50% working interest in the subject lands. Crew has experienced significant success in the Montney formation in northeast British Columbia in their Septimus Project east of Peace River project, having tested the Montney at rates up to 17.6 MMCF/D. Canada Energy believes that Crew brings strategic expertise in the Montney to the Joint Venture.

Peace River Project

Crew has completed a 28.5 square mile three-dimensional seismic survey of the Peace River Project in 2008. One Montney well was drilled, cased, and tested in two zones during 2008-09 and is shut-in pending completion. Several prospective deep formations, including the Montney, have been identified in this well and on the three-dimensional seismic survey. Under the Joint Venture Agreement, the JV Partner has drilled and tested two horizontal wells: Portage c-20-E and Portage 3-12-82-26. Both wells are shut-in pending pipeline connections.

Portage c-20-E

The c-20-E was drilled in the first quarter of 2010 and initially completed in June 2010, testing between 1.7 and 2.7 million cubic feet per day during a ten day test. The lateral length was 1,000 meters and was fraced with four stages. This is approximately half the length and half the sand placement of a typical development well in the area.

The initial re-test of the Portage c-20-E was prematurely terminated due to safety concerns due to potential metal fatigue associated with the significant pressure drop at surface and extreme cooling. Subsequently, the necessary heating equipment was installed to allow testing of the well to continue with regard to safety. The well was re-opened for a two day flow period, during which the peak flow-rate was 9.7 million cubic feet per day. A stabilized flow rate of 4.4 million cubic feet per day was experienced at the end of the test, with the well performing at an average rate of 6.6 million cubic feet per day for the final two day period. The c-20-E re-test results of 1,100 mcf/d per frac treatment compares very favorably with the Talisman completions on their Farrell Project 5 miles to the north where the fracture treatments from the Upper Montney have averaged 540 mcf/d per fracture treatment.

Portage 3-12-82-26

The Operator performed a 5-stage fracture treatment comprised of 25 perforated intervals over the 1,826m lateral and placement of 1,500 tonnes of sand. This is 2.2 times the volume of sand and 2.2 times the perforated intervals as were conducted on the first horizontal well at Peace River, the c-20-E. The Operator reduced the number of frac stages from the original design by expanding the treated interval per frac stage. Over a 16 day flow test period, the well had a peak flow-rate of 4.5 million cubic feet per day and an end rate of 1.2 million cubic feet per day. The Company believes that this end rate was adversely affected by persistent water and sand production and that improved long-term performance is possible.

Due to the difference in results at c-20-E over time, the well was re-tested in March 2011 for 48 hours yielding a peak rate of 10 million cubic feet per day ("mmcf/d"), an average rate over the test period of 4.8 mmcf/d and a stabilized end rate of 2.4 mmcf/d. The Portage 3-12 was re-tested as follow-up to the successful re-test of the Portage c-20-E, as announced by the Company on December 13, 2010. These two re-tests appear to confirm the benefits of 'resting' a well for an extended period after initial completion, after which flow capacity improves.

The Company believes that the initial drilling program conducted by the Operator has confirmed a large in-place gas resource at Peace River and has significantly de-risked the play. The Company owns an interest in the Peace River CBM gas plant which can be adapted to Montney production with minor modifications. It is also notable that there remain

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

three untested formations (Doig Siltstone, Doig Phosphate, and Lower Montney) that have been deemed commercial by adjacent operators in the area with large confirmed in-place gas resources.

Area Activity

Talisman Energy Inc. continues to be very active in Montney exploration on their Farrell Project, which is on tectonic and depositional strike with (and immediately north of) the Company's Peace River Project. They have stated publicly that they expect to spend \$7.5 billion in Montney exploration and development over the next ten years. They executed a \$300 million capex development program in 2010 and are currently executing an \$800 million development program for 2011. They currently have 10 drilling rigs operating in the Farrell field.

On December 20, 2010, Talisman announced that it had paired with South African energy and mining giant Sasol Ltd. in a \$1.05-billion development agreement for its Farrell Project. Talisman announced that the play has been largely de-risked and production at Farrell Creek is expected to exit this year at between 40-60 mmcf/d. Talisman's processing facilities at Farrell Creek have been expanded to 120 mmcf/d and the company has secured over 500 mmcf/d of egress capacity from the region. As part of the agreement, the partners have agreed to conduct a feasibility study around the economic viability of a facility in western Canada to convert natural gas to liquid fuels, using Sasol's commercial Gas to Liquids (GTL) technology. This could provide a strategic alternative to traditional North American pipeline or LNG marketing. The outlook for GTL could be very positive if North American natural gas prices continue to decouple from oil prices. The GTL process produces premium, clean liquids fuels.

On March 8, 2011, Talisman announced a second \$1.05 billion joint venture with Sasol in its Montney properties and that they would apply a significant portion of that joint venture's funds to the Farrell Project.

Embedded in these announcements was Talisman's assessment of 116 BCF per section of potentially recoverable gas (7 BCF per well EUR) from the four Triassic shale formations that have been deemed commercial by Talisman.

Canbriam Energy is also active immediately north of the Company's Peace River Project having drilled 3 vertical Montney wells and four horizontal wells. Notably, they have announced excellent results in the Lower Montney of 1 million cubic feet per frac stage. Canbriam has recently announced a Lower Montney test at Farrell of 1 million cubic feet per day per frac stage, with 8 frac stages conducted.

Moberly Prospect

Crew drilled an initial well on the Moberly Prospect in early 2009. Several prospective deep formations including the Montney have been identified in this well. Casing has been set on the initial well and the well is shut-in pending completion testing.

Aduro drilled a vertical Montney test well one quarter mile east of the Company's Moberly block in Q3 2010 and ran casing on it. The well tested gas from the Belloy formation and is shut-in pending pipeline connection.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Joint Venture with GeoMet Inc.

Canada Energy is also developing the Peace River CBM Project with Hudson's Hope Gas Ltd., a subsidiary of GeoMet Inc. (NASDAQ: GMET). The 2008 Development Program included the drilling and completion of five (5) new production wells, the connection of three existing wells, construction and installation of gas treating and compression facilities, and a pipeline and connection to Spectra's (formerly Duke Energy's) transcontinental pipeline. Initial dewatering of the eight connected wells began in calendar Q3 & Q4 of 2008. 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 CBM Project has commercial potential and has put the Project on care and maintenance. The shut-in wells can be restarted in the future upon improvement in the gas prices and/or when the Montney wells are producing through the gas plant, thereby reducing the gas plant costs per well.

Joint Venture with Daylight Energy Ltd. (formerly West Energy Ltd.)

On April 1, 2008, the Company announced a joint venture with West Energy Ltd. (TSX:WTL) ("West") on the deep rights of the Company's Monias Prospect. The Company retained all shallow rights to the base of the Nikanassin formation.

Pursuant to the terms of the Agreement, West agreed to conduct an exploration program, the primary purpose of which is to test the potential of the Montney formation. According to the joint venture agreement, West operated the project. The initial program consisted of a three-dimensional seismic project over the majority of the Monias Prospect lands. West drilled and cased one well on the Monias Prospect. The Company had a legal dispute with West as to whether or not West has earned an interest in four sections. Daylight Energy Ltd. bought West Energy in Q2 2010.

During the year ended April 30, 2011, the Company and Daylight Energy Ltd. ("Daylight") mutually settled the legal dispute over the Seismic Option Agreement on the Company's Monias Prospect. Under the terms of the settlement, Daylight is deemed to have earned a 60% working interest in four sections and the 13-30-81-21 wellbore with the Company retaining a 40% working interest in these four sections and wellbore. Daylight will have no further earning rights in the Monias Prospect and the Company will retain a 100% interest in three remaining sections in the Monias Prospect. The Company also preserved a 35% interest in the eighth section at Monias, which was at risk of expiring, in a license grouping arrangement with Terra Energy.

Area Activity

The Company owns 5 net sections at Monias, three of which are owned 100% and are adjacent to the Shell acreage. Shell drilled a very successful vertical Montney test 1.5 miles from the Company's lease line in Q4 2009. Logs and cores on the 4-11 showed extraordinary reservoir thickness and quality. In the summer-fall 2010, Shell followed up the 4-11 with five horizontal wells drilled to within 150m - 800m of Canada Energy's lease line. Completion operations were performed on the wells in late 2010 and early 2011. The five wells were tested at restricted rates of between 6.0 and 8.1 mmcf/d. The Company has permitted a drilling location directly offsetting the Shell wells.

Reserves

The Company's Statement of Reserves Data and Other Oil and Gas Information is filed on Sedar website: www.sedar.com

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Selected Annual Financial Information

The following table provides a brief summary of the Company's financial operations for the past three years. For more detailed information, refer to the audited financial statements.

	Year ended April 30,		
	2011	2010	2009
	\$	\$	\$
Total assets	91,929,988	92,974,475	94,288,404
Oil and gas interests	88,257,438	85,533,420	82,743,778
Total current liabilities	(1,492,799)	(1,517,381)	(2,635,274)
Total long-term liabilities	(11,244,977)	(12,164,436)	(12,169,954)
Net loss and comprehensive loss for the year	(2,839,666)	(703,517)	(3,051,939)
Basic and diluted loss per share	(0.03)	(0.01)	(0.04)
Cash dividends	-	-	-

- Total assets decreased during 2011 by \$1,044,487 (2010 - \$1,313,929) primarily due to general and administrative expenditures (excluding non-cash items; stock-based compensation and accretion and depreciation expenses) of \$1,234,392 (2010 - \$1,215,396), share repurchase payments of \$165,108 (2010 - \$370,800) and decrease in accounts payable of \$24,582 (2010 - \$1,117,893) partially offset by the non-cash \$nil (2010 - \$616,000) fair value of shares issued for acquisition of overriding royalty interest on the Company's land base and \$nil (2010 - \$723,776) future income tax liability recorded as acquisition cost of oil and gas interests.
- Oil and gas interests deferred costs increased by \$2,724,018 in 2011 (2010 - \$2,789,642) mainly due to expenditures and acquisition costs on the Peace River Project of \$2,637,615 (2010 - \$2,672,137) and \$74,220 (2010 - \$115,523) exploration and acquisitions costs on Monias Prospect. During 2011, the revenue of \$1,337 (2010 - \$182,795) was netted against Peace River Project deferred costs.
- Current liabilities consist of accounts payable, accrued liabilities and bank loan. The decrease of \$24,582 in 2011 compared to 2010 is mainly due to the lower level of operating activity as compared to a year earlier. The 2010 decrease of \$1,117,893 was mainly due to the large Joint Interest Billing payables in relation to the Peace River development program.
- Long term liabilities consist of asset retirement obligation and future income tax liability. During 2011, the Company recorded a future income tax recovery from operations of \$959,150. During 2010, the Company recorded an income tax liability of \$723,776 related to a royalty acquisition, offset by future income tax recovery from operations of \$759,174. The royalty acquisition was by way of issuing 800,000 of the Company's shares valued at \$0.77 per share. As the tax value of the assets acquired was less than the fair market value of the shares issued, a future income tax liability was recorded by the Company.
- Net loss and comprehensive loss for 2011 increased by \$2,136,149 mainly due to a \$2,636,528 increase in stock-based compensation expense, offset by future income tax recovery from operations of \$959,150. Net loss and comprehensive loss for 2010 decreased by \$2,348,422 mainly due to a \$2,493,003 decrease in stock-based compensation expense as fewer stock options were granted and vested during the year.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Summary of Financial Results

For the year ended April 30, 2011, the Company reported a net loss of \$2,839,666 (2010 - \$703,517). Of this, \$2,904,328 (2010 - \$267,800) relates to stock-based compensation and \$1,234,392 (2010 - \$1,249,443) is other general and administrative expense. Also, there was a positive fair value adjustment of \$331,707 (2010 - \$54,794) and a recovery of \$959,150 (2010 - \$759,174) related to future income tax.

Results of Operations

The Company's share of natural gas sales from the Peace River Project in 2011 was \$1,337 (2010 - \$182,795). Revenue recognized during the development stage was presented as a reduction of related deferred development costs in accordance with the requirements of the CICA Handbook AcG-11, *Enterprises in the development stage*.

During 2011, the Company incurred \$4,159,317 (2010 - \$1,498,485) of general and administrative expenses. Significant expenditures were incurred in the following categories:

- Stock based compensation expense of \$2,904,328 (2010 - \$267,800) is non-cash and represents the estimated fair value of stock options vested during the year and additional stock-based compensation due to the repricing of 4,427,500 previously granted stock options. The stock-based compensation charge was higher in the current year due to the larger number of option granted by the Company as compared to 2010, the repricing of the stock options and the related values as calculated by the Black-Sholes valuation model;
- Administrative and management fees of \$498,024 (2010 - \$461,316) increased slightly and were mainly in connection with the Company's Vancouver head office \$265,900 (2010 - \$260,300) and Baton Rouge operational office \$232,124 (2010 - \$193,016). Please see additional discussion in the Related Party Transactions section;
- Corporate development expense of \$4,000 (2010 - \$88,235) declined significantly due to the decreased activity in this category during 2011;
- Rent of \$81,072 (2010 - \$101,665) includes rent of Company's offices in Vancouver \$59,038 (2010 - \$53,220), Baton Rouge \$22,034 (2010 - \$13,787), and Dallas \$nil (2010 - \$11,458); and
- Travel expenses rose to \$96,133 (2010 - \$45,528), mainly due to an increase in travel and sites visits to the Company's properties during 2011.

Other general and administrative expense categories were broadly similar during 2011 as compared to 2010.

- During the year ended April 30, 2011, the Company recorded a gain of \$331,707 related to the fair value adjustment of its asset-backed commercial paper investment. During the year ended April 30, 2010, the Company recorded a gain of \$54,794 related to the fair value adjustment of this investment.

During 2011, the Company capitalized \$2,637,615 (2010 - \$2,672,137), net of \$1,337 (2010 - \$182,795) gas production revenue, on the Peace River Project, \$74,220 (2010 - \$115,523) on the Monias Prospect, and \$12,183 (2010 - \$1,982) on the Moberly Prospect during 2011. There were no properties written off during 2011 or in prior years.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Summary of Quarterly Results and Fourth Quarter

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 Canadian GAAP:

	Fiscal 2011				Fiscal 2010			
	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$
Total assets	91,929,988	91,950,672	92,212,780	92,637,944	92,974,475	92,139,128	92,414,271	92,909,078
Long-term financial liabilities	-	-	-	-	-	-	-	-
Net income/(loss)	1,794,090	(370,184)	(4,026,247)	(237,325)	508,834	(263,455)	(396,833)	(552,063)
Net income/(loss) per common share basic and diluted	0.02	(0.00)	(0.05)	(0.00)	0.00	(0.00)	(0.00)	(0.01)

Total assets fluctuated only slightly over the past eight quarters, with movements generally attributable to effects of net income or loss (excluding non-cash charges) and to fluctuations in working capital. During Q4, 2010, the Company purchased certain royalty interests valued at \$616,000 by issuing common stock and recorded an oil and gas interest acquisition of \$616,000. The Company invested a total of \$5.1 million in oil and gas interests over the eight quarter period at a declining rate (mainly for cash) and repurchased its own common shares beginning in Q2 2010, peaking in Q3 2010 and finishing in Q2 2011 at a total cost of \$535,908.

The Company's long term liabilities consist of asset retirement obligations and future tax liabilities. There are no long term financial liabilities over the past eight quarters.

Net Income/(loss) has been generally consistent over the past eight quarters except as to large fluctuations in stock-based compensation due to significant option grants in Q2, 2011 and in Q1, 2010. In Q4, 2011, the Company recognized a \$331,707 fair value adjustment to its investment in asset backed commercial paper ("MAV II notes") as a liquid market in the MAV II notes developed and moved higher during 2011. A future income tax recovery of \$959,150 (2010 - \$759,174) and an adjustment to stock-based compensation of \$819,137 (2010 - \$nil) occurred in Q4, 2011 resulting in a positive net income for that quarter.

Liquidity and Capital Resources

As at April 30, 2011, the Company had cash of \$2,308,180 (2010 - \$6,386,141) and accounts receivable and prepaids of \$77,184 (2010 - \$99,435) available to cover the Company's current liabilities of \$1,492,799 (2010 - \$1,517,381). As at April 30, 2011, the Company had a positive working capital of \$892,565 compared to a positive working capital of \$4,986,195 as at April 30, 2010. As at the date of this MD&A, the Company has a positive working capital of approximately \$558,000, or \$1,782,000 inclusive of the Company's investment in MAV II notes which have a current value of approximately \$1,224,000 (2010 - \$955,479) (face value \$1,708,118).

During 2011, the Company generated revenue from Peace River CBM operations of \$1,337 (2010 - \$182,795). The Company funded its operations during 2011 mostly from its existing working capital. The Company is dependent on the equity markets as its major source of funds for future development and exploration activities.

The Company does not know of any 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 or in the foreseeable future. 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.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Operating Cash Flow

Net cash used in operating activities during the year ended April 30, 2011, was \$1,196,486 compared to net cash used in operating activities of \$1,100,228 during the year ended April 30, 2010. \$1,196,486 was expended primarily on general and administrative expenses excluding stock-based compensation and accretion and depreciation.

Financing Activities

Financing activities during 2011 consisted of the company repurchasing 291,500 (2010 - 609,000) of its common shares according to its issuer bid share repurchase for \$165,108 (2010 - \$370,800).

Investing Activities

The Company invested cash of \$2,716,367 during 2011 for oil and gas interests, compared to \$2,455,053 invested during 2010. This small increase in the Company's investing activities during 2011 was due to a higher exploration costs and lease acquisitions, partially offset by lower development expenditure.

Outstanding Share Data

As at the date of this MD&A, there were 82,255,784 common shares and 7,657,500 stock options outstanding.

In May 2009 the Company received approval from TSX Venture Exchange (the "Exchange") to repurchase up to 5% of its common shares, over the year to May 2010. On June 4, 2010, the Company received approval from the Exchange to commence a new normal course issuer bid (the "Bid") to purchase up to 4,121,664 (5%) of its common shares issued and outstanding as at May 28, 2010. The Bid ended on June 3, 2011. A total of 291,500 shares were acquired from the market in 2011 (2010 – 609,000) at a total cost of \$165,108 (2010 - \$370,800). The price paid by the Company for any acquired shares was the market price at the time of acquisition. All shares purchased under the Bid were cancelled. Funding for the Bid was from the Company's working capital.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

During the year ended April 30, 2011, \$288,700 (2010 – \$267,900) was paid to J. Proust & Associates Inc., a private company controlled by a director of the Company for management, administrative and accounting services rendered. The Company also paid \$232,126 (2010 – \$193,016) to Petra CBM Ventures Inc., a private company controlled by the CEO and the president of the company for management and administrative services rendered.

As at April 30, 2011, accounts receivable, prepaids, and deposits included \$nil (2010 - \$13,516) of advances made to a private company controlled by a Director of the Company.

The CEO (a Director) of the Company was the original geologist that staked certain leases comprising the Peace River Project, Monias and Moberly prospects in which the Company acquired interests. The Company's working interest in these lands is subject to overriding royalty interests, which range from 0.775% to 1%, payable to the CEO.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

The related party transactions incurred during the period were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed by the related parties.

Contractual Commitments

- a) The Company has committed to rent office space for the following annual amounts:

Location	Commencement Date	Term	\$/ month	Fiscal 2012
Vancouver, BC	March 1, 2010	April 30, 2011	4,231	51,852
Baton Rouge, Louisiana	April 1, 2010	March 31, 2013*	US\$1,800	US\$21,600

**The office lease agreement can be terminated by Lessee after April 1, 2011, and before March 31, 2013, with 120 day written notification to Lessor.*

- b) Mineral properties commitments are disclosed in Note 3 of the Company's audited financial statements for the year ended April 30, 2011.
- c) Asset retirement obligations are disclosed in Note 4 of the Company's audited financial statements for the year ended April 30, 2011.

Financial Instruments

The Company designated its financial instruments as follows:

- a) Cash and cash equivalents are classified as "*Held-for-trading*". The fair value of the Company's cash and cash equivalents are classified as Level 1 within the fair value hierarchy established by CICA section 3862.
- b) Accounts receivable are classified as "*Loans and Receivables*". The recorded values of receivables approximate their current fair value because of their nature and respective maturity dates or durations.
- c) Investments in Master Asset Vehicle II notes are discussed in Note 6 of the audited financial statements for the year ended April 30, 2010.
- d) Accounts payable and accrued liabilities are classified as "*Other Financial Liabilities*". The Company believes that the recorded values of accounts payable and accrued liabilities approximate their current fair value because of their nature and respective maturity dates or durations.
- e) The Company's non-revolving bridge loan is classified as "*Other Financial Liabilities*". The fair value of the loan equal to the principal amount drawn and is classified as Level 2 within the fair value hierarchy established by CICA section 3862.

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. A summary of financial risk factors related to the Company's business are provided in Note 10 of the April 30, 2011 audited financial statements. The additional risks to which the Company is exposed are described below.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Risk Factors

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, development, and production of CBM reserves in the future. If the Company's revenues or 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 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

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

- 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.

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 Project, 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, GeoMet as the operator of the Project 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 licences, leases and/or working interests in licences and leases may be adversely affected if the holder of the licence or lease fails to meet the specific requirements of a licence or lease. There can be no assurance that any of the obligations required to maintain such licences or leases will be met. The termination or expiration of such licences, leases or working interests in licences or leases may have a significant material adverse effect on the Company's results of operations and business.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Aboriginal Land Claims

Many lands in British Columbia are or could become subject to aboriginal lands claim 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 production at the Peace River Project is in its early stage, 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. If the Company's revenues from its reserves decrease as a result of lower gas prices or otherwise, 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.

Company Not the Operator of the Peace River, Moberly and Deep Rights on Monias Projects

The Company is not the operator of the Projects and will have limited or no control over the Projects. More specifically, the Company will have limited or no control over the following: the timing of the drilling and recompleting of wells; the timing and amounts of production; and the development and operating costs.

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.

International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of May 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011. The key elements, timing and status of the Company's changeover plan are outlined below:

1. The Company has developed internal knowledge to manage the changeover, design systems and produce IFRS reports. Senior accounting staff has upgraded their knowledge with respect to IFRS through courses, reading and discussion with advisor.
2. The Company has reviewed IFRS accounting policies, standard changes, and GAAP differences require or optional upon conversion, such as IFRS 1, and made choices where necessary. See below for further discussion.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

3. The Company assessed its internal and disclosure control processes and concluded no significant ongoing modifications are needed as a result of the conversion to IFRS. However the Company will implement additional controls to review changes to the Company's financial statement resulting from the conversion including an enhanced review by the Company's executive and outside advisors.
4. The Company has assessed the impact on data systems and has concluded there will be no significant changes required due to conversion to IFRS.

Accounting policies

IFRS employs a conceptual framework that is similar to Canadian GAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows of the Company, the adoption will result in changes to the reported financial position and results of operations of the Company. A summary of the significant accounting policy changes on transition to IFRS are provided below:

IFRS1 First-Time Adoption of International Financial Reporting Standards

Under IFRS1 'First-time Adoption of international Financial Reporting Standards', IFRS is applied retrospectively at the transition date except for the application of certain exemptions either required by IFRS 1 or elected by the Company under IFRS 1. Set forth below are the IFRS1 elected and mandatory exemptions that are expected to be applied by the Company on conversion.

Share-based payments

IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments that had not vested by the date of transition to IFRS. The Company has applied this exemption and will only apply IFRS 2 for equity instruments that had not vested by May 1, 2010.

Business Combinations

IFRS 1 permits the Company's to keep the original GAAP accounting treatment for business combinations that occurred prior to the date of transition to IFRS. The Company has applied this exemption and will not restate business combinations that occurred before May 1, 2010.

Estimates

IFRS 1 specifies that estimates made under prior GAAP are not to be changed on transition to IFRS unless they were in error. Information acquired after the date of the estimate is not to be applied retroactively.

Exploration and Evaluation

IFRS 6 – Exploration and Evaluation of Mineral Resources, which applies to all types of extracting activities, allows the Company the option to retain its Canadian GAAP policy of capitalizing exploration and evaluation expenses. The Company has concluded that it is appropriate to continue with this policy.

Income Tax, Deferred Tax Liability

Under Canadian GAAP deferred taxes on foreign assets and liabilities are calculated in the local tax currency and are converted to the functional currency on the balance sheet date at current exchange rates as discussed above. This method is not allowed under IFRS.

IAS 12 – Income Taxes, a deferred tax liability or asset is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction affects neither accounting profit nor taxable profit.

Under Canadian GAAP, a deferred tax liability or asset is recognized in these circumstances and the asset acquired, is adjusted for the amount of the deferred tax recognized.

As a result of the acquisition of Peace River Projects by the Company in 2010, a deferred tax liability was recorded under Canadian GAAP at that time. Under IFRS, the amount would not be recorded and has been eliminated from the opening IFRS Balance Sheet.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

Asset Retirement Obligation

At the year-end April 30, 2011, the Company recognized an asset retirement obligation which meets the recognition criteria of both IFRS and Canadian GAAP. However, a difference exists between IFRS and Canadian GAAP in the discount rate used to calculate present value. Under both methods, present value should be used where the effect of the value of money is material. Under IFRS, the Company would use a risk-free rate of 3.5% to calculate present value, however, under Canadian GAAP, the Company used a credit adjusted risk free-rate of 8%; and an inflation rate of 2%.

Reclassification within Equity Section

IFRS requires an entity to present each component of equity, a reconciliation between the carrying amount at the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its "contributed surplus" account and concluded that as at the Transition Date, the entire amount of \$5,422,838 related to "Equity settled employee benefit reserve". As a result, the Company believes that a reclassification would be necessary in the equity section between "Contributed surplus" and the "Equity settled employee benefit reserve" account.

Disclosure and Financial Statement Presentation

In addition to the above noted GAAP differences, IFRS will require more in depth disclosure. The Company is taking the necessary steps to adjust the systems requirements to ensure proper data collection for IFRS disclosure purposes.

The information provided here on expected GAAP differences are only management's estimates and actual impacts and election may differ once IFRS compliant financial statements are finalized. The full accounting effects of adopting IFRS has not yet been determined as some key accounting policy are still being evaluated. The Company expects to be IFRS compliant within the required timelines.

Investor Relations Activities

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

Change in Directors and Management

Eduard Epshtein resigned as CFO effective July 14, 2011. John Proust has been appointed as interim CFO until a permanent CFO can be found.

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) and on the Company's website at www.canadaenergypartners.com

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2011

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.