

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED APRIL 30, 2010**

**Background**

The following management discussion and analysis and financial review, prepared as at August 24, 2010, should be read in conjunction with the Company's audited financial statements for the years ended April 30, 2010 and 2009, and related notes attached thereto. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). 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](http://www.sedar.com).

**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. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. 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 investors 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 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;
- 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; 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; lack of availability of additional financing and/or joint venture partners and unpredictable weather conditions.

Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

## Company Overview

Canada Energy Partners Inc. (“the Company” or “Canada Energy” or “CE”) 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, 2010, and up to the date of this report, the Company:

- completed the Portage c-20-E on its Peace River Project with four fracture stimulations over a 1000 meter horizontal section. The well tested over an eleven-day test at 1.7 to 2.7 million cubic feet per day with 579-1450 psi flowing casing pressure, which is approximately 420 mcf/d per frac treatment. 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. Sproule Associates Limited have estimated 171 BCF per section total-gas-initially-in-place (“TGIIIP”) in the Upper Montney and Doig formations combined in the c-20-E well and 207 BCF per section in the Company’s Portage 9-23-81-26 well previously drilled;
- started drilling operations on the Portage 3-12-82-26, the second horizontal Montney well located on its Peace River Project in northeast British Columbia, approximately 2 miles east of the c-20-e well location. The 3-12 well is planned for a minimum of 1400 meters horizontal displacement in the Montney Formation. This well will also evaluate the Doig siltstone and the Doig phosphate;
- together with its Joint Venture Partner, purchased 14 gross (7 net) sections of Deep Rights drilling licences/leases in the Peace River Project area located in the 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;
- acquired an aggregate 1.5% overriding royalty interest on certain portions of the Company’s land based in northeast British Columbia from two arm’s-length parties in consideration for the issuance of 800,000 common shares of the Company. The shares are subject to regulatory holding period of four months. The overriding royalty covered the majority of the Company’s deep and shallow rights.
- In April 2010, the Operator of the Peace River CBM Project has shut-in the eight producing CBM wells. The gas flow rate from the eight wells has been increasing steadily while dewatering since the start of production in January 2009. 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 will put the Project on care and maintenance. The shut-in wells can be restarted in the future upon improvement in the gas prices. Netherland Sewell’s 2010 51-101 update on the Company’s estimated CBM resources actually increased by 3% over 2009 estimate, in spite of the shut-in.

## **Outlook**

By the end of 2010, the Company will participate in the drilling and completion of one more Montney horizontal well at no cost to Canada Energy. 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.

## **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 will earn a 50% working interest in the subject lands upon completion, at its sole expense, of the remaining exploration program estimated to cost \$11 million. 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. CE 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 and cased during 2008 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 completed the first horizontal well and started drilling of the second horizontal well. The Company has a \$2.5 million Letter of Credit provided by the JV Partner, which would be called should the JV partner fail to fulfill the commitment.

Talisman Energy Inc. is active in Montney exploration on their Farrell Project, immediately north of the CE’s Peace River Project. Talisman has drilled nine Montney wells on the Farrell Project, which is on tectonic and depositional strike with CE’s Peace River Project. Talisman has initiated production from several wells, has five drilling rigs concurrently operating on the Farrell Project, and has 44 approved well permits. They have publicly announced that they have spent \$300 million acquiring leases in the Montney trend and expect to spend \$7.5 billion in Montney exploration and development over the next ten years.

The British Columbia Provincial lease sale of October 21, 2009, saw the purchase of 4 drilling licenses comprising 50,302 acres for \$279 million (\$5,546 per acre) in the Farrell-Altare-Kobes-Cypress area on depositional and tectonic strike with CE’s Peace River Project.

### **Moberly Prospect**

Crew has 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.

**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 will put the Project on care and maintenance. The shut-in wells can be restarted in the future upon improvement in the gas prices.

**Joint Venture with West Energy Ltd. (acquired by Daylight 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. Subsequently, West Energy relinquished back to CE the right to earn in 4 sections of deep rights on the Monias Prospect.

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 has a legal dispute with West as to whether or not West has earned an interest in four sections.

Shell recently drilled a Montney test well 1.5 miles southeast of CE's southeast corner of the Monias Prospect. They followed this up with one horizontal well, are currently drilling a second horizontal and have three more horizontal drilling permits from the same surface location. All of these horizontal wells are being drilled to within 150-250 meters of the Company's Monias lease line.

**Contingency**

The Company has commenced legal proceedings in the Court of Queen's Bench of Alberta against West for a declaration that West has failed to earn a 65% interest and has no interest in the petroleum and natural gas rights below the Nikanassin formation (deep rights) on the four sections (2,608 acres) located within the Company's Monias Prospect pursuant to a seismic option agreement. West filed a statement of defense and counterclaim. The outcome of this legal action is not determinable and the estimate of the contingent gain/loss cannot be made as of the date of this report.

**Reserves**

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

## 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,		
	2010	2009	2008
	\$	\$	\$
Total assets	92,974,475	94,288,404	71,724,841
Oil and gas interests	85,533,420	82,743,778	66,318,692
Total current liabilities	(1,517,381)	(2,635,274)	(1,940,164)
Total long-term liabilities	(12,164,436)	(12,169,954)	(12,321,635)
Net loss and comprehensive loss for the year	(703,517)	(3,051,939)	(185,686)
General and administrative expenses	(1,498,485)	(4,284,995)	(1,806,582)
Basic and diluted loss per share	(0.01)	(0.04)	(0.00)
Cash dividends	-	-	-

- Total assets decreased by \$1,313,929 during 2010 primarily due to general and administrative expenditures of \$1,215,396 (excluding non-cash stock-based compensation and accretion and depreciation expenses), share - repurchase payments of 370,800, and decrease in accounts payable of \$1,117,893 offset by the non-cash \$616,000 fair value of shares issued for acquisition of overriding royalty interest on the Company's land base and \$723,776 future income tax liability recorded as acquisition cost of oil and gas interests.
- Oil and gas interests deferred costs increased by \$2,789,642 in 2010 (2009 - \$16,425,086) mainly due to expenditures and acquisition costs on the Peace River Project of \$2,672,137 (2009 - \$12,710,615) and \$115,523 (2009 - \$3,689,173) exploration and acquisitions costs on Monias Prospect. During 2010, the revenue of \$182,795 (2009 - \$44,565) was recorded against Peace River Project deferred costs.
- Current liabilities consist of accounts payable, accrued liabilities and bank loan. The decrease of \$1,117,893 in 2010 compared to 2009 is mainly due to the large Joint Interest Billing payables in relation to the Peace River development program in 2009. 2009 increase of \$695,110 is mainly due to timing of the drilling activities.
- Long-term liabilities include asset retirement obligation and future income tax liability. During 2010 the Company recorded an income tax liability of \$723,776 arising from the current year's royalty acquisition offset by future income tax recovery resulted from current year operations of \$759,174. The royalty acquisition was done by the way of issuing 800,000 of the Company's shares with an estimated fair value of \$0.77 per share. The tax value of the assets acquired was lesser than the fair market value of the shares issued, resulting in the future income tax liability for the Company.
- Net loss and comprehensive loss for 2010 decreased by \$2,348,422 mainly due to the following non-cash items: \$2,493,003 decrease in stock-based compensation expense due to fewer stock options granted and vested during 2010. 2009 net loss decreased by \$2,866,253 mainly due to the \$2,198,438 increase in stock-based compensation expense for the stock options granted and vested during 2009.
- General and administrative expenses decreased in 2010 by \$2,786,510 mainly due to decrease of \$2,493,003 in stock-based compensation expense and decrease in other expense categories discussed below under the results of operations. Increase in 2009 of \$2,478,413 in general and administrative expenses was mainly due to the increase of \$2,198,438 in stock-based compensation expense.

## Summary of Financial Results

For the year ended April 30, 2010, the Company reported a net loss of \$703,517 (2009 - \$3,051,939) of which loss of \$1,498,485 (2009 - \$4,284,995) can be attributed to general and administrative expenses, an income of \$35,794 (2009 – loss of \$212,585) to other items, and an income of \$759,174 (\$2009 - \$1,445,641) to future income tax recovery.

## Results of Operations

The Company's share of natural gas sales from the Peace River Project was \$182,795 (2009 - \$44,565). 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 2010, the Company incurred \$1,498,485 (2009 - \$4,284,995) of general and administrative expenses. Significant expenditures were incurred in the following categories:

- Administrative and management fees of \$461,316 (2009 – \$499,225) incurred mainly in connection with the Company's Vancouver head office (\$260,300) and Baton Rouge operational office (\$193,016) management and staff salaries and are further discussed in the Related Party Transactions;
- Corporate development expense of \$88,235 (2009 - \$215,763) consists mainly of fees and expenses paid to business development consultants. The decrease in this expense category is due to the decrease in activities during 2010;
- Travel expenses of \$45,528 (2009 - \$138,600) decreased mainly due to the decrease in travel and the sites visits to the Company's properties in 2010;
- Stock based compensation expense of \$267,800 (2009 - \$2,760,803) is non-cash and represents the estimated fair value of stock options vested during the periods. The stock-based compensation charge was lower in the current year due to the lesser number of option granted by the Company in 2010 and the lesser value calculated by the Black-Sholes valuation model than in 2009;
- Office and miscellaneous expense of \$144,783 (2009 - \$127,208) includes bank charges, interest on bank loan, office supplies, telephone, insurance, office maintenance, professional fees and dues;
- Rent of \$101,665 (2009 - \$113,636) includes rent of Company's offices in Vancouver (\$53,220), Calgary (\$23,200 and only up to September 2009 at which time the lease was terminated), Baton Rouge (\$13,787), and Dallas (\$11,458);
- Legal expenses of \$67,039 (2009 - \$90,223) include corporate and West litigation costs;
- General exploration of \$99,408 (2009 - \$32,489) increased mainly due to the Company's efforts on the search for new opportunities in northeast of BC;
- Audit and accounting of \$85,229 (2009 - \$82,340) includes audit, accounting and tax related fees.
- Professional fees of \$74,678 (2009 - \$133,455) were paid in connection with corporate activities and professional fees in relation to the Peace River CBM Project joint interest billing.

During the year ended April 30, 2010, the Company recorded a gain of \$54,794 related to the fair value adjustment of its asset-backed commercial paper investment. During the year ended April 30, 2009, the Company recognized an impairment charge in the amount of \$470,934 to its asset-backed commercial paper investment.

2010 net loss included interest expense of \$17,908 (2009 – income of \$340,717) mainly due to the interest earned on the Company’s cash and cash equivalents. The decrease in interest income compared to prior year is due to the low interest rates offered by the banks on the Company’s deposits.

The Company capitalized \$2,672,137 (2009 - \$12,710,615), net of \$182,795 (2009 - \$44,565) gas production revenue, on the Peace River Project, \$115,523 (2009 - \$3,689,173) on the Monias Prospect, and \$1,982 (2009 - \$25,298) on the Moberly Prospect during 2010. There were no properties written off during 2010 or in prior years.

### 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 2010				Fiscal 2009			
	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$
Total assets	92,974,475	92,139,128	92,414,271	92,909,078	94,288,404	95,809,728	95,718,223	94,297,032
Long-term financial liabilities	-	-	-	-	-	-	-	-
General and administrative expenses	309,400	267,780	365,810	555,495	438,049	343,351	984,732	2,518,863
Net income/(loss)	508,834	(263,455)	(396,833)	(552,063)	582,790	(356,518)	(838,709)	(2,439,502)
Net income/(loss) per common share basic and diluted	0.00	(0.00)	(0.00)	(0.01)	0.00	(0.00)	(0.01)	(0.03)

### Total assets

- increased by \$835,347 during Q4 2010 mainly due to the shares issued for the acquisition of overriding royalty interest with a fair value of \$616,000 and future income tax liability arising from current year acquisitions of \$723,776 recorded as acquisition cost of oil and gas interests, offset by the increase in general and administrative expenditures of \$310,382 (excluding non-cash items), share repurchases under the issuer Bid of \$97,755, and decrease in accounts payable of \$172,559.
- decreased by \$275,143 during Q3 2010 due to general and administrative expenditures of 262,357 (excluding non-cash items), share repurchase payments of \$211,750 offset by increase in accounts payable of \$195,511.
- decreased by \$494,807 during Q2 2010 due to general and administrative expenditures of \$355,934 (excluding non-cash items), share-repurchase payments of \$45,445, and decrease in accounts payable of \$98,280.
- decreased by \$1,379,326 during Q1 2010 due to general and administrative expenditures of \$328,895 excluding non-cash stock based compensation and decrease in accounts payables of \$1,042,564;
- decreased by \$1,521,324 during Q4 2009 due to general and administrative expenditures of \$438,049, decrease in accounts payables of \$882,215, write-off in the fair value of ABCP of \$529,961, offset by \$209,568 asset retirement obligation and interest income of \$40,104 from the Company’s short-term investments;
- there were no significant fluctuations in total assets in Q3, 2009;
- increased by \$1,421,191 during Q2 2009 due to the expenditures on the Peace River Project included in accounts payable as at October 31, 2008, offset with general and administrative expenditures;

## **General and administrative expenses**

- there were no significant fluctuation in individual expenses categories during Q4 2010.
- decrease of \$98,030 in Q3 2010 compared to Q2 2010 is mainly due to \$41,200 decrease in non-cash stock based compensation as there were no stock options vested during Q3 2010.
- decrease of \$189,688 in Q2 2010 compared to Q1 2010 is mainly due to decrease of \$226,600 in non-cash stock based compensation for the stock options vested during Q2 2010.
- increase of \$117,446 in Q1 2010 compared to Q4 2009 is mainly due to \$220,384 increase in stock based compensation for the stock options granted during the Q1 2010 offset with \$61,483 decrease in professional fees due to decrease in corporate activities;
- increase of \$94,698 in Q4 2009 compared to Q3 2009 is mainly due to \$41,570 increase in professional fees due to increase in corporate activities and \$27,084 increase in legal expenses due to the Company's legal proceedings.
- decrease of \$641,381 in Q3 2009 compared to Q2 2009 is mainly due to decrease of \$629,005 in non-cash stock based compensation for the stock options vested during Q3 2009. There were no other significant fluctuations in individual expenses categories during Q3 2009.
- there were no significant fluctuation in individual expenses categories during Q2 2009 except for \$66,500 non-cash stock based compensation for the stock options granted during the Q2 2009 for the 50,000 stock options granted during the Q2 2009 and \$540,000 non-cash stock based compensation for the stock options granted during the Q1 2009 and recognized during the Q2 2009 (2,000,000 stock options were granted during the Q1 2009);

## **Net loss**

- Q4 2010 net loss included non-cash future income tax recovery of \$759,174 and \$54,794 gain recognized due to the change in fair value of the Company's asset-backed commercial papers in addition to general and administrative expenses discussed above.
- There were no significant fluctuations in individual expense categories during Q2 and Q3 2010 except those described in General and Administrative expenses section of this report.
- Q4 2009 net loss included non-cash future income tax recovery of \$1,445,641 due to the tax rate reduction effect on the Company's future income tax liability and \$470,934 loss recognized on the a further impairment charge of the Company's asset-backed commercial paper investment in addition to general and administrative expenses discussed above.
- there were no significant fluctuations in individual expense categories during Q3 2009 except for \$109,004 part XII.6 tax in respect of a 2007 flow-through financing renounced to the subscribers under the look-back rule in January 2008. This Part XII.6 tax expense was calculated by multiplying the unspent qualified Canadian exploration expenditures ("CEE") at the end of each month (starting with February 2008) by the prescribed monthly interest rate set by Revenue Canada.
- there were no significant fluctuation in individual expense categories during Q2 2009 except stock-based compensation discussed in the above offset with \$62,642 increase in interest income from the short-term investments.

## **Liquidity and Capital Resources**

As at April 30, 2010, the Company had a positive working capital of \$4,986,195 compared to a positive working capital of \$7,976,464 as at April 30, 2009.

As at the date of this MD&A, the Company has a positive working capital of approximately \$4,000,000. The working capital does not include the Company's investment in ABCP fair valued at \$955,479 (face value \$1,708,118).

As at April 30, 2010, the Company had cash and cash equivalents of 6,386,141, accounts receivable and prepaids of \$99,435 being available to cover the Company's short-term liabilities of \$1,517,381.

During 2010, the Company generated revenue from Peace River CBM operations of \$182,795 (2009 - \$44,565) and recorded interest income of \$18,839 (2009 - \$340,717) from its short-term investments. The Company funded its operations during 2010 mostly from its existing working capital. The Company is dependent on the equity markets as its major source of 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.

## **Operating Cash Flow**

Net cash used in operating activities during the year ended April 30, 2010, was \$1,068,025 compared to net cash of \$1,812,758 used during the year ended April 30, 2009.

## **Financing Activities**

Financing activities required cash of \$371,374 (2009 – cash inflow of \$23,377,643). During 2010 the company repurchased 609,000 of its common shares according to its issuer bid share repurchase for \$370,800. In 2009 the Company received \$25,057,772 from the private placement and exercise of agent's warrants less share issue costs of \$1,680,129.

## **Investing Activities**

Investing activities required cash of \$2,455,053 during 2010, compared to \$15,101,243 used during 2009. Significant increase in the Company's investing activities during 2009 was due to the development program on the Company's Peace River CBM Project and drilling activities on the Monias Prospect.

## **Outstanding Share Data**

As at the date of this MD&A, there were 82,433,284 common shares and 5,337,500 stock options outstanding.

The Company received approval from the TSX Venture Exchange (the "Exchange") to commence a normal course issuer bid (the "Bid") to purchase up to 4,121,664 of its common shares ("Shares"), representing 5% of the Company's 82,433,284 issued and outstanding Shares, as at May 28, 2010. Under the Exchange's policies, the Bid will commence on June 4, 2010 and will end on the earlier of June 3, 2011, or at such time as the Bid has been completed or the Bid is terminated at the Company's discretion. The price paid by the Company for any acquired shares will be the market price at the time of acquisition. All shares purchased under the "Bid" will be cancelled. Funding for the "Bid" will be from the Company's working capital.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements

## Related Party Transactions

Included in administrative and management services for the year ended April 30, 2010, is \$8,000 (2009 - \$69,000) paid for corporate advisory services to a company controlled by a former Officer and Director.

Director of the Company provides management and advisory services pursuant to a consulting agreement, for consideration of \$12,000 plus GST per month. In addition, pursuant to the agreement, a private company controlled by the Director provides administrative, accounting and the services of a chief financial officer to the Company in consideration of a monthly fee of \$11,975. Included in administrative and management services is \$260,300 (2009 - \$240,000) and in audit and accounting is \$7,600 (2009 - \$nil) of fees incurred by the Company according to the agreement.

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

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

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:

Unit	Commencement Date	Term	\$/ month	Fiscal 2011, Total \$
Vancouver #1501 – 885 West Georgia St.	March 1, 2010	April 30, 2011	2,777	33,324
Vancouver #1521 - 885 West Georgia St.	March 1, 2010	April 30, 2011	1,342	16,104
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. Total commitment shown is to March 30, 2011.*

b) Mineral properties commitments are disclosed in Note 3 of the Company's audited financial statements for the year ended April 30, 2010.

c) Asset retirement obligations are disclosed in Note 4 of the Company's audited financial statements for the year ended April 30, 2010.

## Financial Instruments

The Company adopted the CICA amended Section 3862, “Financial Instruments – Disclosures”, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. Upon adoption of this new standard, 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. The principal risks to which the Company is exposed are described below.

### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. Management’s assessment of the Company’s risk for cash is low as it is attributable to cash held in major banks. The Company limits its exposure to credit loss by placing its cash with major financial institutions and invests only in short-term obligations.

A portion of the Company’s accounts receivable and prepaids consists of goods and services tax (GST) due from the Federal Government of Canada. The remaining part of Company’s accounts receivable and prepaids consists of receivables from customers in the energy industry, receivables from purchasers of the Corporation’s natural gas, and other miscellaneous receivables and prepaids and are subject to normal industry credit risk. To date the Company has not experienced any collection issues with its oil and natural gas partner.

Credit risk with respect to investments in Canadian Asset-Backed Commercial Paper (“ABCP”) is discussed in Note 6 of the audited financial statements for the year ended April 30, 2010.

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company’s approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintain sufficient reserves of cash and cash equivalents or have an available credit facility to meet its liquidity requirements in the short and long term. As the industry in which the Company operates is very capital intensive, the majority of the Company’s spending is related to its capital programs. The Company prepares annual budgets, which are regularly monitored and updated as considered necessary.

The Company's short-term financial liabilities are comprised of accounts payable and accrued liabilities which have expected maturities of less than one year and the bank loan which is secured by the Company's investment in ABCP, resulting in their current classification on the balance sheet.

As at April 30, 2010, the Company had cash and cash equivalents balance of \$6,386,141 to settle current liabilities of \$1,517,381. The Company intends to settle these with funds from its positive working capital position.

### ***Market risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: interest rate risk, foreign exchange risk and price risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions and investments included in the Company's cash and cash equivalents are subjects to a floating rate of interest. If the interest rate on the Company's cash and cash equivalents held at the financial institutions decreased by 1%, the Company's net income would have decreased by approximately \$63,861.

The interest rate risks on cash and on the Company's obligations are not considered significant.

The Company is exposed to interest rate risk to the extent that the Company's loan is subject to a floating rate of interest. If the interest rate on the Company's floating rate bank loan increased by 1%, the Company's net income would have decreased by approximately \$13,761.

b) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movement in the level of the stock market.

Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatility. The supply and demand for natural gas, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities can all cause significant fluctuations in commodity prices. The Company closely monitors commodity prices or resources, individual equity movements, and the stock market to determine the appropriate course of actions to be taken by the Company.

c) 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 nominal. Accordingly, the Company does not have a significant exposure to losses arising from fluctuations in exchange rates.

The additional risks to which the Company is exposed are described below.

### **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
- 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.

### **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.

## ***New Accounting Policies and Standards***

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. CICA Section 3862 "Financial Instruments – Disclosure" requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

**Level 1** quoted prices in active markets for identical assets or liabilities.

**Level 2** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

**Level 3** inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value.

The Company adopted this amended standard for the year ended April 30, 2010.

### ***International Financial Reporting Standards (“IFRS”)***

In February 2008, the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canadian generally accepted accounting principles (“GAAP”). The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2010.

The Company has completed its analysis of significant differences between Canadian GAAP and IFRS. As at the date of this report, the Company concluded that there is no significant accounting policy difference between Canadian GAAP and IFRS. The Company will monitor on-going transactions throughout the year and will disclose any difference between the treatment of the transactions under Canadian GAAP and IFRS.

### **Investor Relations Activities**

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

### **Change in Directors and Management**

During the year ended April 30, 2010, the Company announced the resignation of Mr. Winston Purifoy as Director. Mr. Purifoy reduced his directorships in order to pursue his other business interests.

### **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)