CANADA ENERGY PARTNERS INC.

INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2009

(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

MANAGEMENT'S COMMENTS ON UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of Canada Energy Partners Inc. for the six months ended October 31, 2009, have been prepared by management and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

CANADA ENERGY PARTNERS INC.
BALANCE SHEETS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	October 31, 2009 $	April 30, 2009 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	7,975,088	10,280,593
Accounts receivable, prepaids and deposits	111,904	331,145
	8,086,992	10,611,738
INVESTMENT (Note 6)	902,133	932,888
OIL and GAS INTERESTS (Note 3)	83,425,146	82,743,778
	92,414,271	94,288,404
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	117,729	1,258,574
Bank loan (Note 6)	1,376,700	1,376,700
	1,494,429	2,635,274
ASSET RETIREMENT OBLIGATION (Note 4)	236,692	227,588
FUTURE INCOME TAX LIABILITY	11,942,366	11,942,366
	13,673,487	14,805,228
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	79,835,541	79,974,557
CONTRIBUTED SURPLUS (Note 5)	5,278,392	4,932,872
DEFICIT	(6,373,149)	(5,424,253)
	78,740,784	79,483,176
	92,414,271	94,288,404

NATURE OF OPERATIONS (Note 1)
COMMITMENTS (Note 3 and Note 12)
CONTINGENCY (Note 11)

APPROVED BY THE DIRECTORS

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

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

CANADA ENERGY PARTNERS INC.

STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2009 $	**2008** $	**2009** $	**2008** $
GENERAL AND ADMINISTRATIVE EXPENSES				
Administrative and management services (Note 7)	110,466	123,069	241,673	269,234
Accretion and depreciation	5,423	-	10,846	-
Advertising	452	4,943	11,433	17,833
Audit and accounting	31,608	13,250	44,429	39,475
Corporate development	21,780	51,173	45,968	121,443
Filing and regulatory	10,708	14,319	14,084	28,751
General exploration	29,908	804	61,946	3,283
Legal	15,758	14,442	42,768	38,367
Office and miscellaneous	38,143	27,964	69,883	59,055
Professional fees	23,227	42,500	25,814	46,885
Rent	25,037	28,334	62,977	41,775
Stock-based compensation	41,200	643,301	267,800	2,740,291
Travel	12,100	20,633	21,683	97,204
	365,810	984,732	921,304	3,503,596
LOSS BEFORE OTHER ITEMS	(365,810)	(984,732)	(921,304)	(3,503,596)
OTHER (EXPENSES)/ INCOME				
Interest	(31,040)	141,950	(26,343)	221,258
Foreign exchange	17	4,073	(1,249)	4,127
	(31,023)	146,023	(27,592)	225,385
NET LOSS AND COMPREHENSIVE LOSS	(396,833)	(838,709)	(948,896)	(3,278,211)
DEFICIT - BEGINNING OF PERIOD	(5,976,316)	(4,811,816)	(5,424,253)	(2,372,314)
DEFICIT - END OF PERIOD	(6,373,149)	(5,650,525)	(6,373,149)	(5,650,525)
LOSS PER SHARE - BASIC AND DILUTED	(0.01)	(0.01)	(0.01)	(0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	82,253,719	82,305,238	82,297,827	77,679,006

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

CANADA ENERGY PARTNERS INC.

STATEMENTS OF CASH FLOWS

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2009 $	**2008** $	**2009** $	**2008** $
CASH PROVIDED FROM (USED FOR)				
OPERATING ACTIVITIES				
Net loss for the period	(396,833)	(838,709)	(948,896)	(3,278,211)
Items not affecting cash:				
Stock-based compensation	41,200	643,301	267,800	2,740,291
Accretion and depreciation	5,423	-	10,846	-
Interest received from investment	688	-	23,695	-
Changes in non-cash working capital balances:				
Accounts receivable, prepaids and deposits	155,438	(5,966)	232,278	83,904
Accounts payable and accrued liabilities	(61,461)	(54,016)	(125,266)	(458,661)
	(255,545)	(255,390)	(539,543)	(912,677)
FINANCING ACTIVITIES				
Issuance of common shares	-	42,191	-	25,046,921
Share issue costs	-	-	-	(1,685,382)
Issuer bid share repurchase	(45,445)	-	(61,296)	-
	(45,445)	42,191	(61,296)	23,361,539
INVESTING ACTIVITIES				
Oil and gas interests	(270,131)	(3,033,075)	(1,704,666)	(5,989,248)
(DECREASE)/INCREASE IN CASH DURING THE PERIOD	(571,121)	(3,246,274)	(2,305,505)	16,459,614
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	8,546,209	23,522,839	10,280,593	3,816,951
CASH AND CASH EQUIVALENTS - END OF PERIOD	7,975,088	20,276,565	7,975,088	20,276,565
CASH AND CASH EQUIVALENTS IS COMPRISED OF:				
Cash	7,975,088	510,713	7,975,088	510,713
Term deposits	-	19,765,852	-	19,765,852
	7,975,088	20,276,565	7,975,088	20,276,565

Supplemental disclosure with respect to cash flows (Note 8)

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

1. NATURE OF OPERATIONS

Canada Energy Partners Inc. ("the Company") 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, by Certificate of Incorporation and Notice of Articles pursuant to the provisions of the Business Corporations Act (British Columbia) for the purpose of acquiring interests in the Peace River Coalbed Methane ("CBM") Project in the Peace River area in northeast British Columbia. The Company possesses a large (approximately 100 square miles) concentrated land position in a high-impact, multi-zone, natural gas-bearing area in northeast British Columbia.

The amounts shown as oil and gas interests represent exploration and development expenditures incurred to date and acquisition costs for the working interests in the Company's prospects and do not necessarily represent present or future values. The underlying value of oil and gas interests is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the Company's prospects, the ability of the Company to obtain the necessary financing to complete its share of the development, and future profitable production.

2. BASIS OF PRESENTATION

The interim period financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles for the preparation of interim financial statements. These interim period financial statements do not include all disclosures required for annual financial statements and should be read together with the April 30, 2009, audited financial statements and the accompanying notes. The significant accounting policies applied in preparation of these interim financial statements are consistent with those in the audited annual financial statements. All financial summaries included are presented on a comparative and consistent basis showing the figures for the preceding period. In the opinion of the Company, its unaudited interim statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

As for most oil and gas exploration companies, the Company raises financing for its activities using a variety of sources. Based on its current plans, budgeted capital expenditures, and cash requirements, the Company has sufficient cash to finance its current plans for at least 12 months from the date of approval of the financial statements. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue business.

Issued but not Adopted Primary Sources of GAAP

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. 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 January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011. The Company is currently engaged in the scoping phase of its conversion which involves a high level review of major differences between Canadian GAAP and IFRS, setting a timeline for resources and developing a project plan. This scoping phase is intended to provide direction to the Company's management for the second phase of conversion project and will be disclosed in the Company's annual financial statements and management's discussion and analysis.

2. BASIS OF PRESENTATION (continued)

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. Section 1582 replaces Section 1581, “Business Combinations” and establishes standards for the accounting and business combinations. It provides the Canadian equivalent to *International Financial Reporting Standards IFRS 3,* “Business Combinations”. The section applies prospectively to the business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of *International Financial Reporting Standard IAS27,* “Consolidated and Separate Financial Statements” and applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will consider the impact of adopting these pronouncements on its financial statements if future acquisitions are completed.

3. OIL and GAS INTERESTS

For the six months ended October 31, 2009	Peace River Project $	Monias Prospect $	Moberly Prospect $	Total $
Acquisition costs				
Leases acquisitions and rental costs	16,034	22,648	-	38,682
Balance, beginning of period	55,165,292	1,827,048	693,274	57,685,614
Balance, end of the period	55,181,326	1,849,696	693,274	57,724,296
Exploration costs				
Asset retirement costs	(1,743)	-	-	(1,743)
Drilling and completion	30,137	19,136	-	49,273
Geological and consulting	7,330	9,705	1,543	18,578
Reports and other	31,966	6,265	-	38,231
	67,690	35,106	1,543	104,339
Balance, beginning of period	9,499,702	4,443,638	52,281	13,995,621
Balance, end of period	9,567,392	4,478,744	53,824	14,099,960
Development costs				
Drilling and completion	327,759	-	-	327,759
Gas plant	283,251	-	-	283,251
Less: net revenue received in development stage	(72,663)	-	-	(72,663)
	538,347	-	-	538,347
Balance, beginning of period	11,062,543	-	-	11,062,543
Balance, end of year	11,600,890	-	-	11,600,890
Total deferred oil and gas interests	76,349,608	6,328,440	747,098	83,425,146

3. OIL and GAS INTERESTS (continued)

For the year ended April 30, 2009	Peace River Project $	Monias Prospect $	Moberly Prospect $	Total $
Acquisition costs				
Leases acquisitions and rental costs	951	17,312	-	18,263
Balance, beginning of year	55,164,341	1,809,736	693,274	57,667,351
Balance, end of the year	55,165,292	1,827,048	693,274	57,685,614
Exploration costs				
Asset retirement costs	153,532	37,960	18,076	209,568
Drilling and completion	1,335,166	3,556,796	-	4,891,962
Geological and consulting	57,164	64,172	7,222	128,558
Joint interest billing – shallow rights	69,067	-	-	69,067
Reports and other	32,192	12,933	-	45,125
	1,647,121	3,671,861	25,298	5,344,280
Balance, beginning of year	7,852,581	771,777	26,983	8,651,341
Balance, end of year	9,499,702	4,443,638	52,281	13,995,621
Development costs				
Drilling and completion	7,509,005	-	-	7,509,005
Gas plant	3,598,103	-	-	3,598,103
Less: net revenue received in development stage	(44,565)	-	-	(44,565)
	11,062,543	-	-	11,062,543
Balance, beginning of year	-	-	-	-
Balance, end of year	11,062,543	-	-	11,062,543
Total deferred oil and gas interests	75,727,537	6,270,686	745,555	82,743,778

Included in the acquisition costs is $107,000 security bond deposited in the Company's bank account in favour of the regulatory agency to ensure that the Company can complete the reclamation, including shut-down, closure, and post-closure. The security will be released back to the Company once the reclamation has been completed according to the plan and the site is returned to an acceptable state.

Peace River Project, British Columbia

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

Shallow rights

Shallow rights include Peace River CBM Project and Moosebar Shale rights.

Peace River CBM Project consists of approximately 50,788 gross (25,394 net) acres of CBM prospective acreage. The Company owns 50% working interest and an additional 3.71% after payout working interest in the Peace River CBM Project. The operator of the Peace River CBM Project is GeoMet, Inc. The Company's interest in the Peace River CBM Project is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 1.55%.

3. OIL and GAS INTERESTS (continued)

In November 2008 Canada Energy entered into a farm-in agreement (the "Agreement") with GeoMet, Inc. for Moosebar Shale shallow rights on its Peace River Project. The Company drilled an initial Moosebar horizontal test well and has earned a total of 87.5% interest in 2 sections, subject to final completion or plug and abandonment. The Company has relinquished further drilling rights under the Farmout. The Company's interest in the Moosebar Shale is subject to Crown royalties and for certain acreage to geological overriding royalties of up to 1.55%.

Deep rights

Deep rights on the Peace River Project consist of approximately 34,391 gross and net acres of prospective acreage. The Company owns 100% working interest subject to a joint venture agreement with Crew Energy Inc. ("Crew"). According to the joint venture agreement, Crew operates the project and will earn a 50% working interest in the subject lands upon completion of the exploration program. The initial program will consist of a three-dimensional seismic project over the majority of the Peace River Project lands (completed) and the drilling of four (one drilled and one is currently being drilled) exploratory wells.

The Company's interest in the deep rights of the Peace River Project will be subject to Crown royalties, geological overriding royalties of up to 1.55% and back-in interest of 6.6% after project payout plus $2,000,000 on approximately 3,500 acres.

Monias Prospect, British Columbia

The Company's Monias Prospect consisting of approximately 6,517 acres or 10 sections (10 square miles) and located in the Peace River Plains area near Fort St. John, British Columbia. The Company owns 100% working interest in the deep and shallow rights in 8 sections and 70% working interest in the shallow rights on 2 sections. Deep rights on the 4 sections of Monias Prospect are subject to the joint venture agreement with West Energy Ltd. ("West"). According to the joint venture agreement, West operates the project and will earn a 65% working interest in the subject lands upon completion of the exploration program. The exploration program consisted of a three-dimensional seismic project over the majority of the Monias Prospect lands and drilling and completion of one exploratory well. See Note 11.

The Company's interest in the deep rights of the Monias Prospect will be subject to Crown royalties, geological overriding royalties of 1% and back-in interest of 12.5% after project payout plus $2,000,000.

During the year ended April 30, 2008, the Company entered into a farm-in agreement (the "Farm-in Agreement") on the lands adjacent to its Monias Prospect with a major Canadian oil and gas producer. Under the Farm-in Agreement, the Company drilled two exploratory wells and has earned a 70% interest in the Shallow Rights in two sections of the farm-in lands. One of two sections are subject to a 10% royalty on gas, a 5% - 10% royalty on oil production and both sections are subject to a back-in interest of 4.375% after project payout plus $2,000,000.

Moberly Prospect, British Columbia

Moberly Prospect consists of approximately 2,600 gross and net acres of prospective acreage and located in the Peace River Plains area near Hudson's Hope, British Columbia. The Company owns 100% working interest subject to a joint venture agreement with Crew. According to the joint venture agreement, Crew operates the project and will earn a 50% working interest in the subject lands upon completion of the exploration program. The initial program consisted of drilling of one exploratory well (drilled).

The Company's interest in the Moberly Prospect will be subject to Crown royalties, geological overriding royalties of 2.43% and back-in interest of 10.5% after project payout plus $1,000,000.

4. ASSET RETIREMENT OBLIGATION

Total future asset retirement obligations were estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim, and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company estimated the total undiscounted amount of cash flows required to settle the asset retirement obligation to be approximately $668,139, which will be incurred from 2019 to 2035. To calculate the net present value of its asset retirement obligations, the Company used a credit-adjusted risk free rate of 8% and an inflation rate of 2%. The credit-adjusted risk free rate of 8% was based on the cost of borrowing for similar companies in the industry. The following table summarizes the Company's asset retirement obligations:

	$
Balance, beginning of period	227,588
Accretion expense	9,104
Balance, end of period	236,692

The present value of the reclamation liability may be subject to change in future periods. Such changes will be recorded in the accounts of the Company as they occur.

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of shares	Amount, $	Contributed Surplus, $
Authorized			
Unlimited common shares without par value			
Unlimited preferred shares without par value			
Issued			
As at April 30, 2008	61,073,132	57,649,686	2,185,670
Exercise of agent warrants	97,152	58,292	-
Fair value of agent warrants exercised	-	13,601	(13,601)
Private placement	21,186,000	24,999,480	-
Share issuance costs	-	(1,226,494)	-
Net future income taxes on flow-through expenses renounced	-	(1,520,008)	-
Stock-based compensation	-	-	2,760,803
As at April 30, 2009	82,356,284	79,974,557	4,932,872
Stock-based compensation	-	-	267,800
Issuer bid share repurchase	(143,000)	(139,016)	77,720
As at October 31, 2009	82,213,284	79,835,541	5,278,392

During the period ended October 31, 2009, the Company received approval from TSX Venture Exchange to commence a normal course issuer bid (the "Bid") to purchase up to 4,117,814 of its common shares, representing 5% of the Company's then outstanding 82,356,284 issued and outstanding shares. The Bid commenced on May 29, 2009, and will end on the earlier of May 28, 2010, 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.

As of October 31, 2009, the Company had purchased for cancellation 143,000 common shares for $61,296. The difference between the average equity cost of the Company's shares on the repurchase date and the repurchase price was recorded as an increase to contributed capital during the period.

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Stock options and stock-based compensation

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

A summary of the status of the Company's stock options as of October 31, 2009, and changes during the period then ended is presented below:

	Number of Options	Weighted Average Exercise Price, $
Balance, outstanding – April 30, 2009	5,600,000	1.23
Forfeited	(912,500)	1.61
Granted	650,000	0.51
Exercised	-	-
Balance outstanding – October 31, 2009	5,337,500	1.08

Stock options outstanding and exercisable as at October 31, 2009, are as follows:

Number of Options Outstanding and Exercisable	Weighted Average Exercise Price, $	Expiry Date
1,350,000	1.00	August 21, 2011
700,000	1.00	October 26, 2011
1,000,000	1.00	March 26, 2012
500,000	1.10	September 13, 2012
1,087,500	1.61	June 25, 2013
50,000	1.66	August 1, 2013
650,000	0.51	May 5, 2014
5,337,500	1.08	

During the period ended October 31, 2009, 912,500 stock options were forfeited and no stock options were exercised.

During the six months ended October 31, 2009, the Company granted 650,000 stock options. The fair value of stock options granted was estimated on the date of the grant using the Black Scholes Option Pricing Model with the following assumptions: average risk-free interest rate of 2.01%, estimated volatility of 114%, expected life of 5 years, forfeiture rate of Nil, and expected dividend yield of 0%. The stock-based compensation of $267,800 was charged to operations and credited to shareholder's equity to reflect the fair value of stock options granted and vested during the period.

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

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Warrants

There are no warrants outstanding as at October 31, 2009. There were no warrants exercised or expired during the period ended October 31, 2009.

6. INVESTMENT AND BANK LOAN

a) At October 31, 2009, long-term investments included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") held by the Company. These investments were designated as held-for-trading and are accounted for at their fair value.

The market for asset-backed commercial paper not sponsored by banks froze up in early August 2007 after issuers were unable to roll over maturing notes. A Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper (the "Committee) was tasked with overseeing the restructuring of the ABCP. On January 12, 2009, the Ontario Superior Court approved a complicated and controversial deal to swap essentially non-tradable, mortgage-backed debt for new securities. On January 21, 2009, the Committee announced the successful implementation of the restructuring plan. Upon the restructuring old short-term ABCP notes were exchanged for longer-term notes of various classes with maturities that generally approximate those of the assets previously contained in the underlying conduits.

As part of the Plan, the Company received new notes of various classes issued by trusts referred to as MAVII, including senior notes Class A-1, subordinated notes Class C, and ineligible tracking notes Class 13. At the time of the restructuring, DBRS assigned a rating "A" to the MAV II Class A-1 notes. The MAV II Class C and Class 13 notes have not been rated by DBRS. Upon the restructuring, the Company received the replacement notes as follows:

Notes	Maturity Date (1)	Interest Rate (2)	Face Value, $	Fair Value Estimate, $
MAV II Class A-1	December 2056	BA - 0.5%	1,441,880	964,830
MAV II Class C	December 2056	BA + 20%	44,594	4,459
MAV II Class 13 (Ineligible Asset Tracking Notes)			226,263	22,626
Total			1,712,737	991,915
Interest received as at April 30, 2009				(59,026)
Interest received during the six months ended October 31, 2009				(23,695)
Interest receivable as of October 31, 2009				(7,061)
Fair value				902,133

(1) Maturity date reflects legal maturity date. Latest maturity date of underlying assets is December 2016.
(2) BA rate is Canadian dollar Bankers Acceptance interest rate with a maturity of 90 days.

Accounting for the exchange of the ABCP for new notes included removal of the ABCP from the Company's balance sheet and recognition of the new notes at their fair value. The new notes are classified as held-for-trading under the Company's Financial Instruments Policy which requires them to be fair valued at each period end with changes in fair value included in the statement of operations in the period in which they arise. The fair value is determined using a discounted cash flow approach based on the maximum use of inputs observed from the market on reporting dates.

6. INVESTMENT AND BANK LOAN (continued)

The fair value of the Class A-1 notes was established using a discounted cash flow approach based on the following inputs: the notes will pay interest at a rate 0.5% less than the bankers' acceptance ("BA") rate, prospective buyers of these notes estimated to require premium yields 5% over the BA rate, average maturity of Class A -1 Notes estimated to be 7.5 years. The Class C Notes are subordinated to the Class B Notes with respect to payment of interest and principal, and no amounts will be paid with respect to the Class C Notes until the Class B Notes are repaid in full. The Class C notes are viewed as highly speculative with regard to ultimate payment of principal at maturity in 2016. Accordingly, it is expected that Class C notes will trade at approximately 10% of face par value. The fair value of the sub-prime backed Class 13 Notes was calculated as 10% of par value. To date, the Company received a payment of $82,721 which was its share of the accumulated interest and is entitled to receive $7,060 that represents the third and final tranche of accrued interest due under the ABCP Plan of Arrangement. The interest received and receivable was accounted for as a reduction of the Company's investment.

There is significant amount of uncertainty in estimating the amount and timing of cash flows associated with these notes. Until an active market develops for the MAV II notes, the fair value will be determined using a discounted cash flow approach based on the maximum use of inputs observed from market conditions on subsequent reporting dates. Therefore, the fair values may change materially in subsequent periods.

b) The Company secured a $1,376,700 demand non-revolving bridge loan from its bank pending any possible long-term solution to the current liquidity issues affecting the Company's investment in ABCP. The bridge loan is secured by the Company's investment in ABCP. Interest on direct advances is paid at the Bank's prime rate. The Company paid $13,293 in interest and stamping fees on the loan during the six-month period ended October 31, 2009.

7. RELATED PARTY TRANSACTIONS

a) Included in administrative and management services for the six months ended October 31, 2009, is $8,017 paid by the Company to a company controlled by a Director.

b) 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 Director provides administrative, accounting and the services of a chief financial officer to the Company in consideration of a monthly fee of $9,500 plus GST. Included in administrative and management services is $129,000 of fees incurred by the Company according to the agreement.

c) Director of the Company provides services of CEO to the Company pursuant to a consulting agreement for the annual consideration of US$195,000. During the six months ended October 31, 2009, the Company paid $104,656 according to the agreement and this amount is included in administrative and management services.

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.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the six months ended October 31, 2009, the Company had the following significant non-cash transactions:

a) allocated $77,720 to contributed surplus for the shares repurchased for cancellation under the normal course issued bid;

b) included $77,737 (April 30, 2009 - $1,089,316) of accounts payable related to the oil and gas interests expenditures in investing activities;

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company adopted the CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" and designated its financial instruments as follows:

a) Cash and cash equivalents are classified as *"Held-for-trading"*. Their carrying values are equal to its fair values.

b) Accounts receivable are classified as *"Loans and Receivables"*. These financial assets are recorded at values that approximate their amortized cost using the effective interest method.

c) Investments in Master Asset Vehicle II notes are discussed in Note 6.

d) Accounts payable, accrued liabilities and bank loan, are classified as *"Other Financial Liabilities"*. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

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.

Substantial portion of the Company's accounts receivable and prepaids consists of general sale 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 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.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk with respect to investments in Canadian Asset-Backed Commercial Paper ("ABCP") is discussed in Note 6.

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 bridge loan which is secured by the Company's investment in ABCP, resulting in their current classification on the balance sheet.

As at October 31, 2009, the Company had cash balance of $7,975,088 to settle current liabilities of $1,494,429. Management believes that it has sufficient funds to meet its current liabilities as they become due.

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 other 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 held at the financial institutions decreased by 1%, the Company's net income would have decreased by approximately $79,751.

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 $13,767.

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.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

10. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its properties and to maintain a flexible capital structure. The Capital structure of the Company consists of shareholders' equity and working capital, including bank debt. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company has not paid or declared any dividends during the year. There were no changes in the Company's approach to capital management during the year.

11. CONTINGENCY

The Company has commenced legal proceedings in the Court of Queen's Bench of Alberta against West Energy Ltd. ("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.

12. COMMITMENTS

a) The Company has committed to rent office space in the amount of $15,840 during the remainder of fiscal 2010;

b) Oil and gas properties (Note 3).