



SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

Independent Auditor's Report

Statements of Financial Position

Statements of Operations and Comprehensive Loss

Statement of Changes in Shareholders' Equity

Statements of Cash Flows

Notes to the Financial Statements



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Shoal Point Energy Ltd.:

We have audited the accompanying financial statements of Shoal Point Energy Ltd., which comprise the statement of financial position as at January 31, 2014, and the statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Shoal Point Energy Ltd. as at January 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of Shoal Point Energy Ltd. for the year ended January 31, 2013, were audited by another auditor who expressed an unmodified opinion on those statements on April 11, 2013.

As part of our audit of the financial statements for the year ended January 31, 2014, we also audited the adjustments described in Note 4 that were applied to amend the financial statements for the year ended January 31, 2013. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the financial statements for the year ended January 31, 2013 of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended January 31, 2013 taken as a whole.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describe certain conditions that indicate the existence of a material uncertainty that may give rise to significant doubt about the Company's ability to continue as a going concern.

“DMCL”

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
May 28, 2014

SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

STATEMENTS OF FINANCIAL POSITION**(Expressed in Canadian Dollars)**

	January 31, 2014	January 31, 2013	February 1, 2012
		(Restated - Note 4)	(Restated - Note 4)
ASSETS			
Current			
Cash	\$ 378,661	\$ 2,766,285	\$ 857,656
Term deposit	1,000,247	-	-
Accounts receivable	33,929	54,945	358,571
Loans receivable	-	-	304,734
Prepaid expenses	14,806	212,242	223,064
	1,427,643	3,033,472	1,744,025
RECLAMATION DEPOSIT (Note 7)	1,000,000	1,000,000	1,000,000
OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT (Note 9)	7,009,266	40,991,637	28,583,038
	\$ 9,436,909	\$ 45,025,109	\$ 31,327,063
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$ 264,668	\$ 3,053,050	\$ 1,916,990
Flow-through share premium	-	385,343	-
Provision (Note 11)	25,000	-	200,000
Convertible debt (Note 8)	-	300,000	300,000
	289,668	3,738,393	2,416,990
SHAREHOLDERS' EQUITY			
Share capital (Note 10)	59,096,098	56,169,319	45,099,943
Warrants (Note 10)	11,846,433	10,447,315	7,236,596
Contributed surplus	3,981,028	2,780,049	2,585,839
Deficit	(65,776,318)	(28,109,967)	(26,012,305)
	9,147,241	41,286,716	28,910,073
	\$ 9,436,909	\$ 45,025,109	\$ 31,327,063

GOING CONCERN (Note 1)**COMMITMENTS AND CONTINGENCIES (Note 12)****Approved on behalf of the board:**

"Eric Schneider"
Chairman

"Mark Jarvis"
CEO

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

SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013
(Expressed in Canadian Dollars)**

	2014	2013
Expenses		
Consulting fees (Note 13)	\$ 324,524	\$ 478,080
Depreciation	2,165	2,065
Directors' fees (Note 13)	170,194	13,000
Management fees (Note 13)	788,000	411,000
Office, general and administrative	431,318	709,122
Oil and natural gas property impairment (Note 9)	34,527,854	-
Professional fees	367,634	370,640
Rent	235,199	186,814
Salaries and wages	26,337	34,103
Stock-based compensation (Note 10)	1,173,979	206,430
Loss from operations	38,047,204	2,411,254
Loss on convertible note (Note 8)	27,000	-
Flow-through share premium renunciation	(385,343)	-
Gain on debt settlement	(20,000)	-
Interest expense	9,839	39
Interest and other income	(12,349)	(313,631)
Net loss and comprehensive loss for the year	\$(37,666,351)	\$ (2,097,662)
Loss per share		
Basic and fully diluted (Note 14)	\$ (0.09)	\$ (0.01)
Weighted average number of common shares outstanding	421,474,450	275,511,773

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

SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**(Expressed in Canadian Dollars)**

	Share capital		Warrants		Contributed Surplus	Deficit	Total
	Number of shares	Amount	Number of warrants	Amount			
Balance, February 1, 2012	240,240,750	\$45,099,943	86,993,035	\$ 7,236,596	\$ 2,585,839	\$(26,012,305)	\$28,910,073
Shares issued for cash (Note 10)	139,582,871	11,945,120	-	-	-	-	11,945,120
Shares issued for property (Note 10)	1,000,000	280,000	-	-	-	-	280,000
Shares issued for services (Note 10)	1,050,000	94,500	-	-	-	-	94,500
Warrants issued for services (Note 10)	-	-	1,050,000	31,100	-	-	31,100
Shares issued upon exercise of warrants	646,559	166,407	-	-	-	-	166,407
Shares issued upon exercise of options	200,000	62,220	-	-	-	-	62,220
Fair value of options granted (Note 10)	-	-	-	-	206,431	-	206,431
Options exercised	-	-	-	-	(12,221)	-	(12,221)
Premium on flow-through share issuances	-	(385,343)	-	-	-	-	(385,343)
Broker warrants issued (Note 10)	-	-	4,898,788	307,484	-	-	307,484
Warrants issued upon unit financings (Note 10)	-	-	118,510,711	2,765,113	-	-	2,765,113
Adjustment for previously issued shares	865,000	-	-	-	-	-	-
Warrants issued for property (Note 10)	-	-	1,500,000	157,980	-	-	157,980
Warrants exercised	-	-	(646,559)	(50,958)	-	-	(50,958)
Warrants expired	-	-	(48,653,018)	-	-	-	-
Broker warrants expired	-	-	(2,941,801)	-	-	-	-
Share issuance costs (Note 10)	-	(1,093,528)	-	-	-	-	(1,093,528)
Comprehensive loss for the year	-	-	-	-	-	(2,097,662)	(2,097,662)
Balance, January 31, 2013	383,585,180	56,169,319	160,711,156	10,447,315	2,780,049	(28,109,967)	41,286,716
Shares issued for cash (Note 10)	77,573,563	4,081,700	-	-	-	-	4,081,700
Shares issued for debt (Note 10)	10,000,000	530,000	-	-	-	-	640,000
Shares returned to treasury	(1,500,000)	(90,000)	(1,500,000)	-	-	-	(90,000)
Loss on convertible note (Note 8)	-	-	-	-	27,000	-	27,000
Fair value of options granted	-	-	-	-	1,173,979	-	1,173,979
Broker warrants issued (Note 10)	-	(89,173)	3,324,921	89,173	-	-	-
Warrants issued upon unit financings (Note 10)	-	(1,309,944)	76,073,563	1,309,944	-	-	-
Warrants expired	-	-	(51,247,161)	-	-	-	-
Broker warrants expired	-	-	(97,058)	-	-	-	-
Share issuance costs (Note 10)	-	(195,803)	-	-	-	-	(195,803)
Comprehensive loss for the year	-	-	-	-	-	(37,666,351)	(37,666,351)
Balance, January 31, 2014	469,658,743	\$59,096,098	187,265,421	\$11,846,433	\$ 3,981,028	\$(65,776,318)	\$ 9,147,241

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

(An Exploration Stage Enterprise)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

(Expressed in Canadian Dollars)

	2014	2013
Cash flows from operating activities		
Net loss for the year	\$ (37,666,351)	\$ (2,097,662)
Adjustments not effecting cash:		
Depreciation	2,165	2,065
Stock-based compensation	1,173,979	206,430
Flow-through share premium renunciation	(385,343)	-
Gain on debt settlement	(20,000)	-
Loss on convertible note	27,000	-
Oil and natural gas property impairment	34,527,854	-
Other non-cash income	-	(252,388)
Accrued interest	(247)	-
	(2,340,943)	(2,141,555)
Changes in non-cash working capital		
Accounts receivable	21,016	303,626
Prepaid expenses and deposits	107,436	(989,178)
Accounts payable and accrued liabilities	(2,213,382)	99,659
Cash flows used in operating activities	(4,425,873)	(2,727,448)
Cash flows from investing activities		
Purchase of equipment	(1,592)	(1,580)
Acquisition of oil and natural gas properties	(546,056)	(9,877,579)
Repayment of loan receivable	-	300,000
Term deposit	(1,000,000)	-
Cash flows used in investing activities	(1,547,648)	(9,579,159)
Cash flows from financing activities		
Issuance of common shares	4,021,700	14,875,682
Share issuance costs	(195,807)	(660,446)
Repayment of convertible debt	(240,000)	-
Cash flows provided by financing activities	3,585,897	14,215,236
Net (decrease) increase in cash	(2,387,624)	1,908,629
Cash, beginning of year	2,766,285	857,656
Cash, end of year	\$ 378,661	\$ 2,766,285

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

SHOAL POINT ENERGY LTD.

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

1. REPORTING ENTITY AND GOING CONCERN

Shoal Point Energy Ltd. (the "Company") was incorporated on December 22, 2006 under the Business Corporations Act (Alberta). The Company was incorporated for the purpose of acquisition, exploration and development of oil and natural gas properties in Canada. The Company is headquartered at suite 1060 – 1090 West Georgia St., Vancouver, B.C. V6E 3V7. On October 26, 2010, the Company filed articles of continuance in Ontario under the name of Shoal Point Energy Inc.

On October 14, 2010, Allied Northern Capital Corporation ("Allied") a non-operating public enterprise, agreed on a share exchange transaction with Shoal Point Energy Inc. ("SPE"), a non-public operating enterprise, which was completed on November 9, 2010. The transaction has been accounted for as a reverse takeover acquisition, whereby SPE became a wholly owned subsidiary of Allied. On November 23, 2010, the Canadian National Stock Exchange ("CNSX") authorized the completion of the reverse takeover or qualifying transaction and the name change from Allied to Shoal Point Energy Ltd. (the "Company"). On November 23, 2010, the Company began trading on the CNSX (now the CSE) under the symbol SHP.

Subsequent to the reverse takeover transaction on November 9, 2010, SPE amalgamated with a newly incorporated wholly-owned subsidiary of Allied, 2257054 Ontario Inc. and continued on under the name of Shoal Point Energy Inc. The amalgamation occurred on November 9, 2010. 2257054 Ontario Inc. was incorporated on September 16, 2010.

On October 10, 2012 the Company filed Articles of Amalgamation under the Business Corporations Act (Ontario), whereby the Company was amalgamated with Shoal Point Energy Inc. to form an amalgamated corporation operating under the name of Shoal Point Energy Ltd. (the "Company"). All amounts herein reflect the financial effects of the amalgamation. Comparative figures also reflect the effects of amalgamation.

The Company is in the exploration stage of exploring its oil and natural gas properties and has not yet determined whether these properties contain oil and natural gas resources that are economically recoverable, as a result, it is considered an exploration stage company. The recoverability of amounts shown for oil and natural gas properties is dependent upon the existence of economically recoverable reserves, securing and maintaining the title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from disposition of the oil and natural gas properties. In November of 2013 the Minister of Natural Resources announced that applications for hydraulically fracturing wells would be not be accepted which effectively imposed a moratorium. The amounts shown as oil and natural gas properties represent the estimated net recoverable costs, and do not necessarily represent present or future values.

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Due to continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. To continue as a going concern, the Company needs to raise the capital necessary to continue in oil and natural gas exploration business and to eventually achieve positive cash flow from operations. In the current economic market, there is no certainty that management will be successful in these efforts. Management intends to finance operating costs over the next twelve months with existing cash or private placements. These factors indicate the existence of a material uncertainty that may give rise to significant doubt about the Company's ability to continue as a going concern.

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

2. BASIS OF PRESENTATION

Statement of Compliance

The financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements were authorized for issue by the board of directors on May 28, 2014.

Basis of Measurement

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. These financial statements are presented in Canadian dollars unless otherwise noted.

Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Use of estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and contingent assets and liabilities. Significant estimates include the recoverability of the carrying value of oil and natural gas assets, the fair value measurements and assumptions relating to financial instruments and stock based transactions, financial instruments, the recognition and valuation of provisions for restoration and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities.

The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised. Actual results could significantly differ from those estimates.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company’s financial statements include the classification of expenditures on oil and natural gas assets and the going concern assumption.

Accounting Standards Issued but Not Yet Effective

New standard IFRS 9 “Financial Instruments”

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

SHOAL POINT ENERGY LTD.

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

2. BASIS OF PRESENTATION (cont'd)

Amendments to IAS 32 “Financial Instruments”

These amendments are intended to help address inconsistencies when applying the offsetting criteria and clarify for financial statement users the effect of offsetting arrangements on an entity's financial position. These amendments are mandatory for accounting periods beginning on or after January 1, 2014.

Amendments to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”

This addresses the disclosure information around recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These amendments are mandatory for accounting periods beginning on or after January 1, 2014.

New interpretation IFRS 21 “Levies”

This is an interpretation of IAS 37 “Provisions, contingent liabilities and contingent assets”. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRS 21 is effect for annual periods beginning on or after January 1, 2014.

Other

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied, after the restatement referred to in Note 4, consistently to all periods presented in these financial statements.

OIL AND NATURAL GAS PROPERTIES (exploration and evaluation assets)

Exploration and evaluation (“E&E”) expenditures incurred prior to acquiring the legal right to explore are charged to expense as incurred.

E&E expenditures incurred subsequent to acquisition of the legal right to explore, including license and property acquisition costs, geological and geophysical expenditures, costs of drilling exploratory wells and directly attributable overhead including salaries and employee benefits, are initially capitalized as E&E assets. Certain overhead costs and the unwinding of decommissioning liabilities are included in E&E.

All items currently in oil and natural gas properties are considered E&E properties under IFRS 6, "Exploration for and Evaluation of Mineral Resources". The Company's oil and natural gas properties are not subject to depletion and will be moved into developed oil and natural gas properties when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. Upon transfer to developed oil and natural gas properties, these E&E assets are assessed for impairment in addition to regular impairment reviews to ensure that they are not carried at amounts above their recoverable values.

SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Exploration and evaluation assets are tested for impairment if facts or circumstances indicate that impairment exists. Examples of such facts and circumstances are as follows:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

EQUIPMENT

Recognition and Measurement

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset.

Depreciation

Equipment is depreciated annually on a declining balance basis using rates of 20% respectively.

Impairment

The carrying amounts of the Company's equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

ACCOUNTING FOR INCOME TAXES

Income tax expense is comprised of current and deferred tax expense. Current tax expense is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity. Income taxes are calculated using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax losses and other deductions carried forward.

Deferred income tax assets and liabilities are calculated using substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. An asset is recognized on the statement of financial position when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. The effect on deferred tax assets and liabilities of changes in tax rates are recognized in income in the period in which the change is substantively enacted.

SHOAL POINT ENERGY LTD.

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

BASIC AND DILUTED LOSS PER COMMON SHARE

The Company presents basic and diluted loss per share ("LPS") data for its common shares. Basic LPS is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted LPS is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise the convertible debt, and convertible warrants and share options granted by the Company.

SHARE-BASED PAYMENTS

Share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Under this method, the fair value of the equity-settled share-based payment is measured on the date of grant using the Black-Scholes option pricing model, and is recognized as an expense or capitalized, depending on the nature of the grant, with a corresponding increase in equity, over the period that the employees earn the options. For options that do not vest immediately, the fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest.

Equity-settled, share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service, using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and stock price volatility.

RECLAMATION OBLIGATION

A legal or constructive obligation to incur restoration, rehabilitation, and environmental costs may arise when environmental disturbance is caused by the exploration, development, or ongoing production of an oil and natural gas property interest. The Company's exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive.

The fair value of the liability for a reclamation obligation is recorded when it is incurred and is measured at the net present value. The corresponding increase to the asset is amortized over the life of the asset. The liability is adjusted each period for the unwinding of discount with the associated expense included in net income.

The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations.

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(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

WARRANTS

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value. The fair value of the share component is credited to share capital and the value of the warrant component is credited to the warrants account. Upon exercise of the warrants, consideration paid by the warrant holder together with the amount previously recognized in the warrants account is recorded as an increase to share capital.

RESERVES

Warrant reserve

The warrant reserve records the value recognized of warrants issued with respect to financings, until such time as the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount remains in the reserve account.

Contributed surplus

Contributed surplus records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount remains in the reserve account.

FOREIGN CURRENCY TRANSLATION

The Company's functional and presentation currency is the Canadian dollar. Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing date exchange rate, and non-monetary assets and liabilities at the historical rates. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss.

FINANCIAL INSTRUMENTS

Financial Assets and Liabilities

The Company recognizes a financial asset or financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Fair value through profit and loss

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company has classified cash, term deposit, accounts receivable, reclamation deposit and loans receivable as loans and receivables.

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Available-for-sale

Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counter party; or
- Default or delinquency in interest or principal payments by the borrower; or
- It becomes probable that the borrower will enter into bankruptcy or financial reorganization.

The carrying amount of the financial asset is directly reduced by any impairment loss.

Other liabilities

Accounts payable and accrued liabilities, and convertible debt are classified as other liabilities at amortized cost. The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends to either settle on a net basis or to realize the assets and settle the liability simultaneously.

COMPOUND FINANCIAL INSTRUMENTS

The Company allocates the total proceeds received for convertible debt between the debt and equity components of the convertible debt based on the residual method. The fair value of the equity component of the convertible debt is valued as the proceeds less the fair value of the debt element. The fair value of the debt portion is accreted to its face value through interest expense charges over the term of the convertible debt.

PROVISIONS

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

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FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

FLOW-THROUGH SHARES

On the issuance of flow-through shares, any premium received in excess of the closing market price of the Company's common shares is initially recorded as a liability ("flow-through premium liability"). Provided that the Company has renounced the related expenditures, the flow-through premium liability is reversed and a deferred tax liability is recognized as the expenditures are incurred. The reduction to the flow-through premium liability is recognized in profit or loss as other income.

To the extent that the Company has suitable unrecognized deductible temporary differences, an offsetting recovery of deferred income taxes would be recorded.

SHARE ISSUANCE COSTS

Professional, consulting, regulatory fees and other costs that are directly attributable to the issuance of shares are charged to share capital when the related shares are issued, net of any tax effects. Transaction costs of abandoned equity transactions are recognized in profit and loss.

4. CHANGE IN ACCOUNTING POLICY

These comparative financial statements have been restated to apply a retrospective application of a change in accounting policy relating to the treatment of certain oil and gas property deposits. Previously, the Company classified these deposits as current assets based on the expectation that these deposits were able to be realized within a twelve month period. The new accounting policy is to classify these deposits as non-current assets based on current management's assessment of the ultimate settlement with respect to timing of recovery of these deposits.

Based on the new policy, certain deposits have been reclassified from current to non-current assets. The impact of the change in accounting policy on the Statement of Financial Position is set out below. There was no impact to the Statement of Operations and Comprehensive Loss, Statement of Cash Flows or Statement of Changes in Shareholders' Equity.

	January 31, 2013 (As previously reported) \$	January 31, 2013 (Restated) \$	February 1, 2012 (As previously reported) \$	February 1, 2012 (Restated) \$
Statement of financial position				
(i) Prepaid expenses	2,212,242	212,242	2,223,064	223,064
(ii) Reclamation deposit	-	1,000,000	-	1,000,000
(iii) Oil and natural gas properties and equipment	39,991,637	40,991,637	27,583,038	28,583,038

The accompanying notes have been amended as appropriate.

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5. FINANCIAL INSTRUMENTS

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risks (foreign currency exchange rate and interest rate), credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities and, if required, through the use of derivative financial instruments. The Company does not use derivative financial instruments for purposes other than risk management. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The Company may use derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain exposures, of which there are none outstanding as at year end. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis.

Liquidity Risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main sources of liquidity are cash funds derived from its common stock issuances. These funds are primarily used to finance working capital, operating expenses, capital expenditures, and acquisitions.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities and holding adequate amounts of cash.

Accounts payable and accrued liabilities are current financial instruments expected to be settled in the normal course of operations, and are all due within one year.

As at January 31, 2014 the Company held cash and term deposits of \$1,378,908 to settle current liabilities of \$289,668. The Company's working capital at January 31, 2014 was \$1,137,975.

Interest Rate Risk

Interest rate risk is the risk that the cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company was exposed to interest rate cash flow risk in fiscal 2013 to the extent that its convertible debt bore interest at the bank prime rate.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash, accounts receivable and loans receivable. The Company has reduced its credit risk by investing its cash with a Canadian chartered bank.

Fair Value

The carrying value of the Company's financial instruments are considered to be representative of their fair value due to their short-term nature.

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6. CAPITAL MANAGEMENT

The Company defines its capital to manage as the components of shareholders' equity which as at January 31, 2014 was \$9,147,241 (January 31, 2013 - \$41,286,716).

There were no changes in the Company's approach to capital management during the year ended January 31, 2014 and the Company is not subject to any externally imposed capital requirements, other than its expenditure requirements on its flow-through shares which were \$75,000 as at January 31, 2014.

The Company's objectives when managing capital are:

- a) To safeguard the Company's financial capacity and liquidity for future earnings in order to continue to provide an appropriate return to shareholders and other stakeholders;
- b) To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and
- c) To enable the Company to maximize growth by meeting its capital expenditure budget, to expand its budget to accelerate projects, and to take advantage of acquisition opportunities.

The Company regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debt or equity or similar instruments, reduce debt levels from, or make adjustments to, its capital expenditure program.

7. RECLAMATION DEPOSIT

The reclamation deposit consists of an interest-bearing guaranteed investment certificate that secures a stand-by letter of credit in the amount of \$1,000,000 with the Canada-Newfoundland and Labrador Offshore Petroleum Board ("CNLOPB"). The guaranteed investment certificate has a maturity of December 24, 2014, and bears interest at 0.75%. The letter of credit was issued to the CNLOPB for any future environmental remediation work that may be required with respect to the areas covered by exploration license #1070 and #1120.

8. CONVERTIBLE DEBT

	January 31, 2014	January 31, 2013
\$	-	\$ 300,000

In June 2013, the convertible debt was retired through a cash payment of \$240,000 and conversion of \$60,000 into private placement units. The total interest paid in connection with the terms of this convertible promissory note was \$12,551. Prior to settlement the terms of the debt were amended resulting in an additional loss of \$27,000.

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NOTES TO THE FINANCIAL STATEMENTS**(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013****9. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT**

	Oil and natural gas properties	Website	Computer equipment	Computer software	Total
<u>Cost</u>					
Balance at January 31, 2012	\$ 28,572,714	\$ 6,225	\$ 7,105	\$ 5,261	\$ 28,591,305
Additions	12,409,084	-	1,580	-	12,410,664
Balance at January 31, 2013	40,981,798	6,225	8,685	5,261	41,001,969
Additions	1,841,492	-	1,592	-	1,843,084
Impairment	(34,527,854)	-	-	-	(34,527,854)
Recovery(insurance)	(295,436)	-	-	-	(295,436)
Balance at January 31, 2014	\$ 7,000,000	\$ 6,225	\$ 10,277	\$ 5,261	\$ 7,021,763
<u>Accumulated Depreciation</u>					
Balance at January 31, 2012	\$ -	\$ 3,835	\$ 2,831	\$ 1,601	\$ 8,267
Depreciation for the year	-	478	751	836	2,065
Balance at January 31, 2013	\$ -	\$ 4,313	\$ 3,582	\$ 2,437	\$ 10,332
Depreciation for the year	-	381	1,218	566	1,567
Balance at January 31, 2014	\$ -	\$ 4,694	\$ 4,800	\$ 3,003	\$ 12,497
<u>Carrying Amounts</u>					
As at January 31, 2012	\$ 28,572,714	\$ 2,390	\$ 4,274	\$ 3,660	\$ 28,583,038
As at January 31, 2013	\$ 40,981,798	\$ 1,912	\$ 5,103	\$ 2,824	\$ 40,991,637
As at January 31, 2014	\$ 7,000,000	\$ 1,531	\$ 5,477	\$ 2,258	\$ 7,009,266

The oil and natural gas properties are unproven and consist of offshore Exploration License #1070 and #1120 which are classified as exploration and evaluation assets.

Western Newfoundland

At January 31, 2014 the Company holds a 100% working interest in the Offshore Exploration License #1070 ("EL #1070") Shallow Rights and has the right to earn up to an 80% working interest in the Shallow Rights in the 67,298 acre block in Offshore Exploration License #1120 ("EL #1120").

The Company's working interest in EL #1070 Shallow Rights is subject to a gross overriding royalty to be paid of 1.38% for any monthly extraction and production of petroleum from the areas covered by this exploration license.

In order to earn its working interest in EL #1120, the Company was originally required on or before December 31, 2012, to spud a test well and thereafter drill the test well to assess the petroleum potential of the Green Point formation. At the time that the Company spuds the well, the Company was required to make a payment of \$300,000 within two business days of such date. In January 2013, the Company paid cash of \$300,000 and issued 500,000 warrants for total fair value consideration of \$332,173, to extend the drilling date on which they were required to spud a test well on the Green Point formation from December 31, 2012 to January 15, 2015. As at January 31, 2014, the Company had not earned any working interest in EL #1120.

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9. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT (cont'd)

The Company agreed to acquire up to a 100% undivided working legal and beneficial interest in and to EL #1097R from NWest Oil & Gas Inc. ("NWest"). A 50% working interest in the license was transferred to the Company on January 16, 2012 (the "First Transfer") in consideration for which the Company issued 1 million common shares to NWest, 1 million common share purchase warrants which entitle the holder to acquire a common share of the Company at a price of \$0.40 per a share for a period of two years, and assumption of NWest's obligation to pay the Environmental Studies Research Fund ("ESRF"), to a maximum of \$43,404 to the date of the agreement and assume all payments to ESRF from the date thereof. Total consideration paid for the First Transfer amounted to \$385,929.

On March 21, 2012 the shareholders of NWest approved the second transfer (the "Second Transfer") of the remaining 50% interest in EL #1097R to the Company. In consideration for this transfer, the Company issued 1,000,000 common shares and 1,000,000 purchase warrants to NWest, with each warrant entitling NWest to acquire one common share at \$0.39 for a period of two years from the date of issuance. Total consideration paid for the Second Transfer amounted to \$405,807.

If the Company had proceeded to spud a well on the property covered by EL #1097R, it was required to make an additional payment of 4,000,000 common shares to NWest; issue an additional 4,000,000 common share purchase warrants to NWest, where each additional warrant entitles NWest to acquire one common share at an exercise price equal to the 20 day weighted average price of the common shares prior to the date of issuance of the additional payment plus an additional 20% for an exercise period of two years from the date of issuance; and grant to NWest a 2% royalty on the property, with the Company having the right to purchase 0.75% of the royalty for \$2,000,000 at any time. A well was required to be spudded on the property by January 15, 2013, for which an extension was given to January 15, 2014 by the Canada-Newfoundland and Labrador Petroleum Board. The \$1,000,000 originally deposited with the CNLOPB with respect to EL #1097R was forfeited during the year ended January 31, 2013 as the Company had not spudded a well on the property as required to do so by January 15, 2013. A further \$1,000,000 refundable property deposit was made to them during the fiscal year ended January 31, 2013 in order to receive the extension to January 15, 2014. The property deposit consisted of an interest-bearing guaranteed investment certificate that secured a stand-by letter of credit in the amount of \$1,000,000 with the CNLOPB. The guaranteed investment certificate had a maturity of January 24, 2014 and bore interest at 0.85%.

On December 12, 2013, the Company reported The Canada Newfoundland Labrador Offshore Petroleum Board (C-NLOPB) had rejected the Company's application to extend part of exploration license 1097R (EL 1097R) until Jan. 15, 2015. As a result, the company lost the license and recorded an impairment loss of \$2,791,732 inclusive of the two forfeited \$1,000,000 property deposits.

Shoal Point currently has one exploration license and farm-in rights to a second contiguous exploration licence off the west coast of Newfoundland which total approximately 220,000 acres contained in EL 1070 and EL 1120. In November of 2013 the Minister of Natural Resources announced that applications for hydraulically fracturing wells would be not be accepted which effectively imposed a moratorium. The Green Point Shale is covered under both EL 1070 and EL 1120 and will likely require hydraulic fracturing to achieve commercial production. The moratorium has brought exploration activity on Shoal Point Energy's Exploration Licences to a standstill. As a result, the Company has recorded an impairment of \$31,736,122 to reduce the carrying value to an estimated net realizable amount of \$7,000,000 as at January 31, 2014.

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9. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT (cont'd)

In December 2012, the Company signed a Letter of Intent regarding a proposed transaction between the Company, and Foothills Capital Corp. ("FCC") and its subsidiaries, Black Spruce Exploration Corp. ("BSE"), and Foothills North West Holdings Corp. ("FNW"). BSE and FNW entered into Definitive Agreements with the Company on January 11, 2013, whereby (1) FNW would participate in the Company's January 2013 private placement for 35 million units at a price of \$0.06 per unit (representing a \$2.1 million investment) where each unit consists of a common share of the Company and a common share purchase warrant exercisable for 18 months from the date of issuance at a price of \$0.15 per common share, and (2) BSE executed a farm-in agreement giving it the right to earn up to a 60% interest of the Company's interests in its three Offshore Exploration Licenses #1070, #1120 and #1097R. The earn-in will occur by a staged work program whereby BSE can earn incremental components of interest by drilling on the Company's lands as follows:

Phase I Earning (2013-2014): During this phase BSE will pay 100% of the costs of drilling, testing and completing four wells on the Company's two Offshore Exploration Licenses #1070 and #1120, to earn BSE a 50% interest of the Company's interest in these two Offshore Exploration Licenses. As of January 31, 2014, BSE has not earned any interest in either of the two licenses.

Phase II Earning (2014-2015): During this phase BSE will pay 100% of the costs of drilling, testing and completing up to eight wells to earn up to an additional 10% of the Company's interest in these two Offshore Exploration Licenses.

10. EQUITY INSTRUMENTS

(a) Share Capital

Shares issued during year ended January 31, 2014

- (i) In February 2013, the Company completed a private placement of 576,667 units at a price of \$0.06 per unit for aggregate proceeds of \$34,600. Each unit consisted of one common share and one common share purchase warrant where a warrant entitles the holder to acquire one additional share at a price of \$0.15 for 18 months. In connection with this financing, the Company paid cash commissions of \$1,860 and issued 43,000 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.10 for a period of 18 months valued at \$1,839.
- (ii) In March 2013, the Company issued 250,000 units at a price of \$0.06 per unit for aggregate proceeds of \$15,000. Each unit consisted of one common share and one common share purchase warrant where a warrant entitles the holder to acquire one additional share at a price of \$0.15 for a period of 18 months valued at \$4,608.
- (iii) On April 17, 2013, the Company settled \$100,000 of trade payables by issuing 1,000,000 common shares.
- (iv) In June 2013, the Company issued 19,475,556 units at a price of \$0.06 per unit for aggregate proceeds of \$1,168,533. Each unit consisted of one common share and one common share purchase warrant where a warrant entitles the holder to acquire one additional share at a price of \$0.15 for a period of 24 months valued at \$297,221. In connection with this financing, the Company paid cash commissions of \$16,791 and issued 541,533 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.10 for a period of 18 months valued at \$12,153.

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10. EQUITY INSTRUMENTS (cont'd)

(a) Share Capital (cont'd)

Shares issued during year ended January 31, 2014 (cont'd)

- (v) On June 25, 2013, the Company settled \$540,000 of trade payables by issuing 9,000,000 common shares of the Company.
- (vi) In September 2013, the Company issued 41,717,840 units at a price of \$0.05 per unit for gross proceeds of \$2,085,892 of which 38,717,840 units consisted of one common share and one common share purchase warrant where a warrant entitles the holder to acquire one additional share at a price of \$0.06 for a period of 24 months and 3,000,000 flow-through units consisting of one common share and one half common share purchase warrant where a full warrant entitles the holder to acquire one additional share at a price of \$0.06 for a period of 24 months. The flow-through premium was determined to be nominal. In connection with this financing, the Company paid cash commissions of \$93,959 and issued 1,879,178 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.06 for a period of 24 months valued at \$51,552.
- (vii) In October 2013, the Company issued 15,553,500 units at a price of \$0.05 per unit for gross proceeds of \$777,675. Each unit consisted of one common share and one common share purchase warrant where a full warrant entitles the holder to acquire one additional share at a price of \$0.06 for a period of 24 months. In connection with this financing, the Company paid cash commissions of \$43,709 and issued 861,210 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.06 for a period of 24 months valued at \$23,628.

Shares issued during year ended January 31, 2013

- (i) In February 2012, the Company completed two financings to raise a total of \$7,000,000. The first financing was for \$1 million for which the Company issued 3,703,704 flow-through units at \$0.27 per flow-through unit where each flow-through unit is comprised of one flow-through common share and one-half warrant where a full warrant entitles the holder to acquire one additional common share at a price of \$0.30 for 18 months. In connection with this financing, the Company paid cash commissions of \$60,000 and issued 222,222 broker warrants, where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.27 for a period of 18 months valued at \$33,685 pursuant to the financing. The second financing raised gross proceeds of \$6,000,000. This second financing included the issuance of 10,864,375 units at a price of \$0.32 per unit where each unit included a common share and one-half warrant whereby a full warrant entitles the holder to acquire an additional common share at a price of \$0.45 for a period of 18 months. The balance of this second financing was comprised of 7,209,714 flow-through units at a price of \$0.35 per flow-through unit where each unit included a flow-through common share and one-half warrant whereby a full warrant entitles the holder to acquire one additional common share at a price of \$0.45 for 18 months. In connection with this second financing, the Company paid cash commissions of \$357,003 and issued 1,081,444 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.32 for a period of 18 months valued at \$144,975 pursuant to the financing.
- (ii) On March 21, 2012, the Company issued 1,000,000 common shares and 1,000,000 purchase warrants to NWest Oil and Gas Inc. ("NWest") as partial consideration to close its acquisition of the second 50% interest in EL#1097R (see Note 10). Each warrant issued entitles the holder to acquire one common share of the Company for a strike price of \$0.39 per a share for a two-year period from the date of issuance. Total share consideration for the 50% transfer amounted to \$280,000 and the total value of the warrants issued amounted to \$125,807.

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10. EQUITY INSTRUMENTS (cont'd)

(a) Share Capital (cont'd)

Shares issued during year ended January 31, 2013 (cont'd)

- (iii) In June 2012, the Company completed a private placement of 7,242,860 units at a price of \$0.14 per unit and 625,000 flow-through units at a price of \$0.16 per flow-through unit for aggregate proceeds of \$1,114,000. Each unit consists of one common share of the Company and one-half of one common share purchase warrant, and each flow-through unit consists of one common share to be purchased on a flow-through basis and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at a price of \$0.20 per a common share for a period of 18 months from the date of issuance. The Company paid cash commissions of \$66,000 and issued 466,072 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.14 for a period of 18 months valued at \$30,276 pursuant to the financing.
- (iv) In October 2012, the Company completed a private placement of 2,016,664 units at a price of \$0.06 per unit and 200,000 flow-through units at a price of \$0.06 per flow-through unit for aggregate proceeds of \$133,000. Each unit consists of one common share of the Company and one common share purchase warrant, and each flow-through unit consists of one common share to be purchased on a flow-through basis and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at a price of \$0.15 per a common share for a period of 18 months from the date of issuance. The Company paid cash commissions of \$6,960 and issued 57,000 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.15 for a period of 18 months valued at \$1,365 pursuant to the financing.
- (v) During the fourth quarter of the year, the Company completed a private placement of 95,421,887 units at a price of \$0.06 per unit and 12,298,667 flow-through units at a price of \$0.06 per flow-through unit for aggregate proceeds of \$6,463,233. Each unit consists of one common share of the Company and one common share purchase warrant, and each flow-through unit consists of one common share to be purchased on a flow-through basis and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at a price of \$0.15 per a common share for a period of 18 months from the date of issuance. The Company paid cash commissions of \$170,483 and issued 3,072,050 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of \$0.10 for a period of 18 months valued at \$97,182 pursuant to the financing.
- (vi) In January 2013, in respect of the fourth quarter private placement noted above the Company paid finder's fees for which they issued 1,050,000 units valued at \$125,600. Each unit was comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.15 for a period of 18 months. The total fair value of the consideration received from the holders for the services provided could not be reliably measured and accordingly, the Company measured the fair value of the consideration received indirectly by reference to the fair value of the share-based payment consideration that the Company issued. The total fair value of the common shares issued as part of the units was \$94,500, with the total value of the warrants being \$31,100.

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- (vii) In January 2013, the Company paid cash of \$300,000 and issued 500,000 warrants valued at \$32,173 to Ptarmigan Energy Inc. ("Ptarmigan") to extend the drilling date on which they were required to spud a test well on the Green Point formation from December 31, 2012 to January 15, 2015 (see Note 10). Each warrant entitles Ptarmigan to acquire one common share of the Company at a price of \$0.06 for a period of two years. The total fair value of the consideration received from Ptarmigan for the extension could not be reliably measured and accordingly, the Company measured the fair value of the consideration received indirectly by reference to the fair value of the share-based payment consideration that the Company issued.

(b) Stock option plan and stock-based compensation

The Company has a stock option plan to provide employees, directors, officers and others providing consulting services with options to purchase common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock on the day of grant and the maximum term of an option is five years. The maximum number of shares which may be issued under the program shall not exceed 10% of the issued and outstanding shares.

The following table summarizes information concerning the Company's stock options outstanding as at January 31, 2014 and 2013:

	Year ended January 31, 2014		Year ended January 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning	13,000,000	\$ 0.28	16,575,000	\$ 0.27
Options granted	18,500,000	0.15	2,550,000	0.40
Options exercised	-	-	(200,000)	0.25
Options expired	(29,250,000)	0.20	(5,925,000)	0.30
Options outstanding, ending	2,250,000	\$ 0.23	13,000,000	\$ 0.28
Options exercisable, ending	2,250,000	\$ 0.23	13,000,000	\$ 0.28

Details of options outstanding as at January 31, 2014 are as follows:

Weighted average exercise price	Weighted average contractual life	Number of options outstanding
\$0.15 - \$0.25	2.94 years	1,750,000
\$0.26 - \$0.50	0.25 years	500,000
\$0.23	2.73 years	2,250,000

Subsequent to January 31, 2014, 500,000 options expired without exercise.

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NOTES TO THE FINANCIAL STATEMENTS**(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013****10. EQUITY INSTRUMENTS (cont'd)****(b) Stock option plan and stock-based compensation (cont'd)**

The fair value of share purchase options granted during the year ended January 31, 2014 of \$1,173,979 has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of \$0.10; risk free rate of 1.37%; expected term of 5 years; exercise price of the option of \$0.15 per share; volatility of 100% (based on comparable companies); and expected future dividends of nil.

The fair value of share purchase options granted during the year ended January 31, 2013 of \$206,430 has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of \$0.21; risk free rate of 1.33%-1.84%; expected term of 0.5-5 years; exercise price of the option of \$0.40 per share; volatility of 100% (based on comparable companies); and expected future dividends of nil.

(c) Warrants

The following table summarizes warrants that have been issued, exercised or have expired during the year ended January 31, 2014:

	Year ended January 31, 2014		Year ended January 31, 2013	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning	160,711,156	\$ 0.24	86,993,035	\$ 0.41
Warrants issued	79,398,484	0.08	125,959,499	0.18
Warrants exercised	-	-	(646,559)	0.18
Warrants expired	(52,844,219)	0.34	(51,594,819)	0.38
Warrants outstanding, ending	187,265,421	\$ 0.12	160,711,156	\$ 0.24

The fair value of warrants issued during the year ended January 31, 2014 of \$1,399,118 has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of \$0.05 - \$0.10; risk free rate of 1.05%-1.23%; expected term of 1.5 - 2 years; exercise price of the warrants of \$0.06-\$0.15; volatility of 100% - 162%; and expected future dividends of nil.

The fair value of warrants issued during the year ended January 31, 2013 of \$3,261,677 has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of \$0.06-\$0.31; risk free rate of 1.06%-1.20%; expected term of 1.5 years; exercise price of the warrants of \$0.15-\$0.45; volatility of 100% (based on comparable companies); and expected future dividends of nil.

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NOTES TO THE FINANCIAL STATEMENTS**(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013****10. EQUITY INSTRUMENTS (cont'd)****(c) Warrants (cont'd)**

At January 31, 2014, the following warrants were outstanding. All warrants issued during the period and warrants outstanding as at January 31, 2014, vested on the grant date. The warrants entitle the holders to purchase the stated number of common shares at the exercise price on or before the expiry date:

Exercise price	Number outstanding	Weighted average remaining contractual life (in years)	Number exercisable
\$0.06	58,511,728	1.67	58,511,728
\$0.10	3,307,353	0.47	3,670,586
\$0.15	124,446,340	0.67	124,083,107
\$0.39	1,000,000	0.14	1,000,000
	<u>187,265,421</u>	<u>0.95</u>	<u>187,265,421</u>

Subsequent to January 31, 2014, 1,000,000 warrants expired without exercise.

11. PROVISION

The provision of \$25,000 as at January 31, 2014 relates to costs expected to be incurred in fiscal 2015 with respect to the site clean-up and end of well report for the Company's 3K-39 oil well located on the areas covered by EL #1070.

12. COMMITMENTS AND CONTINGENCIES

Please refer to note 9 for the Company's commitments with respect to its oil and natural gas property.

The Company was named as a defendant in a \$2,000,000 lawsuit (subsequent to January 31, 2014 amended to \$3,414,000) relating to the NWest transactions (see note 9) by a third party relating to certain provisions made between NWest and this third party. Management believes the claim to be frivolous towards the Company and without merit. No loss provision has been recorded as a result.

On June 26, 2013 the Company announced a debt settlement with the designated operator of the 3K-39 well by issuing 9 million common shares at a value of \$540,000. Current management became aware that the Canada Revenue Agency ("CRA") had issued three Requirements to Pay orders in the amount of \$791,000 which require the Company to pay any monies owing to this operator directly to CRA. The Company contacted CRA to disclose this debt settlement agreement and provided them with the associated documentation. At January 31, 2014, there has been no assessments issued by CRA and no amounts have been recorded as payable to the CRA.

The Company is committed to spend a further \$75,000 in qualified exploration expenditures by December 31, 2014 as a requirement on its flow-through share financings.

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NOTES TO THE FINANCIAL STATEMENTS**(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013****13. RELATED PARTY TRANSACTIONS**

The Company had the following related party transactions:

	2014	2013
Management fees	\$ 788,000	\$ 411,000
Consulting fees	6,000	97,500
Director fees	170,194	13,000
Consulting fees (included in oil and natural gas properties)	-	180,000
	<u>\$ 964,194</u>	<u>\$ 701,500</u>

Management fees for the year ended January 31, 2014 includes termination payments of \$630,000 to former management.

Stock-based compensation for the year ended January 31, 2014 includes \$526,704 to former management.

14. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share has been calculated by dividing the net loss per the financial statements by the weighted average number of common shares outstanding during the period. The fully diluted loss per share would be calculated using a common share balance increased by the number of common shares that could be issued on the exercise of outstanding warrants and options of the Company, and upon conversion of the convertible debt. As the Company is in a loss position for the years ended January 31, 2014 and 2013, the inclusion of options, warrants and convertible debt in the calculation of diluted earnings per share would be anti-dilutive, and accordingly, were excluded from the diluted loss per share calculation.

15. INCOME TAXES

The movement in deferred tax in the statement of financial position and the Company's deferred tax assets and liabilities are as follows:

Nature of temporary differences	2014	2013
Oil and natural gas property	\$ 10,865,745	\$ (333,608)
Cumulative eligible capital	38,162	38,191
Share issuance costs and other	251,095	290,621
Non-capital losses	4,237,141	3,549,644
	<u>15,392,143</u>	<u>3,544,848</u>
Deferred tax assets not recognized	<u>(15,392,143)</u>	<u>(3,544,848)</u>
	<u>\$ -</u>	<u>\$ -</u>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available against which the Company can utilize the benefits.

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NOTES TO THE FINANCIAL STATEMENTS**(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31, 2014 AND 2013****15. INCOME TAXES (cont'd)**

Income taxes differ from that which would be expected from applying the combined effective Canadian federal and provincial tax rates of 29% (2013- 29%) to the loss before income taxes as follows:

	2014	2013
Expected tax recovery	\$ (10,923,242)	\$ (608,322)
Stock based compensation costs and other non-deductible expenses	327,632	59,865
Flow-through share premium renunciation	(111,749)	-
Effect of renouncing flow-through expenditures	81,079	1,213,192
Change in tax rate and other	(1,221,015)	389,274
Change in deferred tax assets not recognized	11,847,295	(1,054,009)
	<u>\$ -</u>	<u>\$ -</u>

As at January 31, 2014 the Company has non-capital losses of \$14,610,833 that can be used to reduce future taxable income. These losses expire as follows:

2027	\$ 877,951
2028	1,587,145
2029	2,720,988
2030	1,854,814
2031	772
2032	4,079,928
2033	555,806
2034	2,933,429
	<u>\$ 14,610,833</u>