



**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012**

**INDEX**

Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Operations and Comprehensive Loss	3
Statements of Changes in Shareholders' Equity	4
Statements of Cash Flows	5
Notes to the Financial Statements	6 - 27

**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Shoal Point Energy Ltd.

We have audited the accompanying financial statements of Shoal Point Energy Ltd., which comprise the statements of financial position as at January 31, 2013 and January 31, 2012, and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years 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.

*Auditors' 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 we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of Shoal Point Energy Ltd. as at January 31, 2013 and January 31, 2012, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

*Collins Barrow Toronto LLP*

Licensed Public Accountants  
Chartered Accountants  
April 11, 2013  
Toronto, Ontario

**SHOAL POINT ENERGY LTD.**

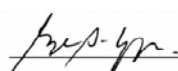
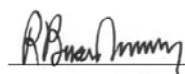
(An Exploration Stage Enterprise)

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

	January 31, 2013	January 31, 2012
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 2,766,285	\$ 857,656
Accounts receivable (Note 6)	54,945	358,571
Loans receivable (Note 7)	-	304,734
Prepaid expenses and deposit (Note 8)	2,212,242	2,223,064
	<b>5,033,472</b>	<b>3,744,025</b>
<b>OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT</b> (Note 10)		
	<b>39,991,637</b>	<b>27,583,038</b>
	<b>\$ 45,025,109</b>	<b>\$ 31,327,063</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	3,053,050	1,916,990
Flow-through share premium	385,343	-
Provision for well suspension (Note 12)	-	200,000
Convertible debt (Note 9)	300,000	300,000
	<b>3,738,393</b>	<b>2,416,990</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11(a))	\$ 56,169,319	45,099,943
Warrants (Note 11(c))	10,447,315	7,236,596
Contributed surplus	2,780,049	2,585,839
Deficit	(28,109,967)	(26,012,305)
	<b>41,286,716</b>	<b>28,910,073</b>
	<b>\$ 45,025,109</b>	<b>\$ 31,327,063</b>

**COMMITMENTS AND CONTINGENCIES (Note 13)****SUBSEQUENT EVENTS (Note 17)**

Approved on behalf of the board:

 President CFO

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****(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31,**

	2013	2012
<b>Expenses</b>		
Office, general and administrative	\$ 709,122	\$ 608,457
Directors' fees	13,000	3,000
Management fees (Note 14)	411,000	285,400
Consulting fees (Note 14)	478,080	877,976
Stock-based compensation (Note 11(b))	206,430	442,664
Professional fees	370,640	315,664
Depreciation	2,065	1,536
Rent	186,814	94,612
Salaries and wages	34,103	-
Interest expense	39	161,045
Part XII.6 interest and taxes	-	510
Loss from operations	2,411,293	2,790,864
Flow-through share premium renunciation	-	(872,178)
Interest and other income	(313,631)	(32,922)
<b>Net loss and comprehensive loss for the year</b>	<b>(2,097,662)</b>	<b>(1,885,764)</b>
<b>Loss per share</b>		
Basic and fully diluted (Note 16)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	275,511,773	185,785,507

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

**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**STATEMENTS 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, 2011	139,183,497	\$ 24,717,298	43,415,579	\$ 5,117,021	\$ 2,152,846	\$ (24,126,541)	\$ 7,860,624
Shares issued for cash	73,617,757	17,362,607	-	-	-	-	17,362,607
Shares issued for property	21,500,000	3,695,000	-	-	-	-	3,695,000
Shares issued upon exercise of warrants	5,365,512	1,165,440	-	-	-	-	1,165,440
Shares issued upon exercise of options	200,000	69,360	-	-	-	-	69,360
Premium on flow-through share issuances	-	(872,178)	-	-	-	-	(872,178)
Fair value of options granted	-	-	-	-	442,664	-	442,664
Options exercised	-	-	-	-	(9,671)	-	(9,671)
Share issuance costs	-	(1,037,584)	-	-	-	-	(1,037,584)
Broker warrants issued	-	-	3,137,487	255,261	-	-	255,261
Warrants issued upon unit financings	-	-	36,808,879	1,734,174	-	-	1,734,174
Warrants issued on settlement of promissory note	-	-	1,000,000	160,734	-	-	160,734
Adjustment for previously issued warrants	-	-	706,568	-	-	-	-
Warrants issued for property	-	-	11,000,000	318,698	-	-	318,698
Warrants exercised/expired	-	-	(9,075,478)	(349,292)	-	-	(349,292)
Net loss for the year	-	-	-	-	-	(1,885,764)	(1,885,764)
<b>Balance, January 31, 2012</b>	<b>240,240,750</b>	<b>\$ 45,099,943</b>	<b>86,993,055</b>	<b>\$ 7,236,596</b>	<b>\$ 2,585,839</b>	<b>\$ (26,012,305)</b>	<b>\$ 28,910,073</b>
Balance, February 1, 2012	240,240,750	\$ 45,099,943	86,993,055	\$ 7,236,596	\$ 2,585,839	\$ (26,012,305)	\$ 28,910,073
Shares issued for cash (Note 11(a)(i)(iii)(iv)(v))	139,582,871	11,945,120	-	-	-	-	11,945,120
Shares issued for property (Note 11(a)(ii)(vii))	1,000,000	280,000	-	-	-	-	280,000
Shares issued for services (Note 11(a)(vi))	1,050,000	94,500	-	-	-	-	94,500
Warrants issued for services (Note 11(a)(vi))	-	-	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	-	-	-	-	206,431	-	206,431
Options exercised	-	-	-	-	(12,221)	-	(12,221)
Premium on flow-through share issuances	-	(385,343)	-	-	-	-	(385,343)
Broker warrants issued (Note 11(a)(i)(iii)(iv)(v))	-	-	4,898,788	307,484	-	-	307,484
Warrants issued upon unit financings (Note 11(a)(i)(iii)(v)(v))	-	-	118,510,711	2,765,113	-	-	2,765,113
Adjustment for previously issued shares	865,000	-	-	-	-	-	-
Warrants issued for property (Note 11(a)(ii)(vi))	-	-	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 11(a)(i)(iii)(iv)(v)(vi))	-	(1,093,528)	-	-	-	-	(1,093,528)
Net loss for the period	-	-	-	-	-	(2,097,662)	(2,097,662)
<b>Balance, January 31, 2013</b>	<b>383,585,180</b>	<b>\$ 56,169,319</b>	<b>160,711,156</b>	<b>\$ 10,447,315</b>	<b>\$ 2,780,049</b>	<b>\$ (28,109,967)</b>	<b>\$ 41,286,716</b>

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

**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**STATEMENTS OF CASH FLOWS****(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31,**

	2013	2012
<b>Cash flows from operating activities</b>		
Net loss for the year	\$ (2,097,662)	\$ (1,885,764)
Adjustments not effecting cash:		
Depreciation	2,065	1,536
Stock-based compensation	206,430	442,664
Flow-through share premium renunciation	-	(872,178)
Accretion expense	-	160,734
Other income (non-cash)	(252,388)	-
	(2,141,555)	(2,153,008)
Changes in non-cash working capital		
Accounts receivable	303,626	673,614
Prepaid expenses and deposits	(989,178)	2,058,638
Accounts payable and accrued liabilities	99,659	334,768
Cash flows provided by (used in) operating activities	(2,727,448)	914,012
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(1,580)	(7,488)
Acquisition of oil and natural gas properties	(9,877,579)	(19,387,946)
Repayment of loans receivable	300,000	-
Issuance of loans	-	(300,000)
Cash flows used in investing activities	(9,579,159)	(19,695,434)
<b>Cash flows from financing activities</b>		
Issuance of common shares	14,875,682	19,990,885
Issuance of promissory note	-	2,200,000
Repayment of promissory note	-	(2,200,000)
Share issuance costs - cash	(660,446)	(782,323)
Cash flows provided by financing activities	14,215,236	19,208,562
Net increase in cash	1,908,629	427,140
Cash, beginning of year	857,656	430,516
Cash, end of year	\$ 2,766,285	\$ 857,656

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

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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#### 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 65 Queen Street West Toronto, Ontario Canada M5H 2M5. 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 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 pre-production 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. The amounts shown as oil and natural gas properties represent net costs to date, 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. It is not possible to predict whether financing efforts will be successful or if the Company will attain 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.

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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## 2. BASIS OF PRESENTATION

### Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements for year ended January 31, 2013 (including comparatives) were approved and authorized for issue by the board of directors on April 3, 2013.

The accounting policies applied in preparing the financial statements for the year ended January 31, 2013 and 2012 are set out in Note 3.

### Basis of Measurement and Principles of Consolidation

The financial statements have been prepared on the historical cost basis, except for cash and property deposits, which are measured at fair value.

### Functional and Presentation Currency

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

### Use of Estimates and Judgement

The preparation of financial statements in conformity with IFRS requires that management make estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results may differ from those estimates.

Significant estimates used in the preparation of these financial statements include, but are not limited to, the recoverability of oil and natural gas properties, useful lives of capital assets, provision for well suspension, valuation of share-based compensation, deferred income taxes and the premium on flow-through shares issued, as well as the bi-furcation of convertible debt between its debt and equity components. Actual results could differ from management's best estimates.

### Recent accounting pronouncements

The IASB has issued IFRS 9 "Financial Instruments" which proposes to replace IAS 39 "Financial Instruments: Recognition and Measurement". The replacement standard has the following significant components: establishes two primary measurement categories for financial assets-amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held-to-maturity, available-for-sale, and loans and receivable categories. This standard is effective for annual years beginning on or after January 1, 2015. The Company will evaluate the impact of the change to its financial statements based on the characteristics of its financial instruments at the time of adoption.

IAS 1, "Presentation of Financial Statements" ("IAS 1") requires grouping of items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, amendments to IAS 1 also require that taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company does not anticipate the amendments to IAS 1 to have a material impact on its financial statements.

The IASB also has issued the following standards, which are effective for annual periods beginning on or after January 1, 2013, for which the Company has not yet determined the impact on its financial statements:



## **SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

### **NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012**

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IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which replaces parts of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") and all of SIC-12, "Consolidation – Special Purpose Entities", changes the definition of control that is the determining factor in whether an entity should be consolidated. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IAS 27, "Separate Financial Statements" was retitled and reissued and now only contains accounting and disclosure requirements for when an entity prepares separate financial statements, as the consolidation guidance is now included in IFRS 10.

IFRS 11, "Joint Arrangements" ("IFRS 11"), which replaces IAS 31, "Interests in Joint Ventures" ("IAS 31") and SIC-13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" ("SIC-13") requires a venturer to classify its interest in a joint arrangement as either a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting. The existing option to account for joint ventures using proportionate consolidation has been removed. For a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

IFRS 12 "Disclosure of Interests in Other Entities" is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and structured entities. This standard carries forward the disclosures that existed under IAS 27, IAS 28 "Investments in Associates" and IAS 31 "Interest in Joint Ventures", and also introduces additional disclosure requirements that address the nature of, and risks associated with, and entity's interests in other entities.

IFRS 13, "Fair Value Measurement" ("IFRS 13") provides guidance on how fair value should be applied where its use is already required or permitted by other IFRS standards, and includes a definition of fair value and is a single source of guidance on fair value measurement and disclosure requirements for use across IFRS.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### **OIL AND NATURAL GAS PROPERTIES**

Exploration and Evaluation expenditures ("E&E") 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.

E&E assets are not depleted and are moved into capital assets when they are determined to meet certain technical feasibility & commercial viability thresholds as determined by management. Upon transfer to property, plant and equipment, E&E assets are assessed for impairment in addition to regular impairment reviews to ensure they are not carried at amounts above their estimated recoverable values.

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 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, 2013 AND 2012**

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Expenditures on developed oil and natural gas properties such as drilling of development wells, tangible costs of facilities and infrastructure construction will be capitalized to developed oil and natural gas properties when it is probable that a future economic benefit will flow to the Company as a result of the expenditure and the cost can be reliably measured.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation associated with the asset and finance charges on qualifying assets.

Oil and natural gas properties are depleted using the unit-of-production method over their reserve life using proven and probable reserves, unless the useful life of the asset is less than the reserve life, in which case the asset is depreciated over its estimated useful life using the straight-line method. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis.

#### **CAPITAL ASSETS**

##### **Recognition and Measurement**

Capital assets are 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**

Capital assets are depreciated annually on a straight-line basis using rates of 20% respectively.

##### **Impairment**

The carrying amounts of the Company's capital assets are 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.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case, the individual assets are grouped together into Cash Generating Units ("CGUs") for impairment purposes. A CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment exists when the carrying amount of the asset, or group of assets, exceeds its recoverable amount. The impairment loss is the amount by which the carrying value exceeds the recoverable amount and such loss is recognized in the consolidated statement of operations and comprehensive loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized such that the recoverable amount has increased. The impairment amount reversed would not be higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

## **SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

### **NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012**

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#### **REVERSE TAKEOVER**

On November 9, 2010, Allied Northern Capital Corporation ("Allied") acquired all of the issued and outstanding common shares of Shoal Point Energy Ltd. ("SPE") in exchange for 79,231,112 common shares of Allied. As the shareholders of SPE controlled the Company once the acquisition was completed, the acquisition was accounted for as a reverse takeover, whereby SPE was the acquirer and Allied was the acquiree. Upon closing of this reverse takeover transaction Allied changed its name to Shoal Point Energy Ltd.

As Allied did not qualify as a business for accounting purposes per IFRS 3 (definition of a business), the transaction has been accounted for as a capital transaction. The transaction is equivalent to the issuance of shares by the non-public operating enterprise (SPE) for the net monetary assets of the non-operating public enterprise (Allied), accompanied by a recapitalization of the non-public operating enterprise (SPE). A reverse takeover transaction is viewed as the issuance of equity by the non-public operating enterprise (SPE) to the extent there is cash in the non-operating public enterprise (Allied). Accordingly transaction costs are charged to equity only to the extent of cash received, while all costs in excess of net assets received should be charged to expense.

#### **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.

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 earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or 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.

## **SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

### **NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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#### **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.

#### **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.

#### **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.

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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## 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. The Company has classified cash and property deposits as financial assets at FVTPL.

#### *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 accounts receivable and loans receivable as loans and receivables.

#### *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.

#### *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.

#### *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.

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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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.

*Financial instruments recorded at fair value through profit or loss (FVTPL)*

Financial instruments recorded at fair value on the statements of financial position are classified using a financial value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices including Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – valuation techniques using inputs for the asset and liability that are not based on observable market data (unobservable inputs).

Cash and property deposits which are recorded at FVTPL, are considered Level 1.

#### 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.

#### FLOW-THROUGH SHARES

Upon the issuance of flow-through shares, the Company records the initial proceeds to share capital and an unrenounced flow-through premium liability. The liability on the statement of financial position represents the premium of the financing price in excess of the market share price on the date of the flow-through share financing. The liability pertaining to the premium is recognized in the statement of operations consistent with expenditure renunciations. As the Company renounces expenditures to meet flow through requirements, the corresponding liability is reversed to net income. The Company applies the accounting treatment regarding the extinguishment of the flow-through premium liability to net income, without recognizing deferred taxes upon renunciation.

#### REVENUE RECOGNITION

Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.



## **SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

### **NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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#### **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.

#### **CASH**

Cash in the statement of financial position comprise cash at banks and short-term deposits with an original maturity of three months or less.

#### **4. 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, 2013 the Company held cash of \$2,766,285 (January 31, 2012 - \$857,656), to settle current liabilities of \$3,738,393.

##### **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 is exposed to interest rate cash flow risk to the extent that its convertible debt bears interest at prime rate.

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

#### 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.

#### 5. CAPITAL MANAGEMENT

The Company defines its capital to manage as the components of shareholders' equity which as at January 31, 2013 was \$41,286,716 (January 31, 2012 - \$28,910,073).

There were no changes in the Company's approach to capital management during the period ended January 31, 2013 and the Company is not subject to any externally imposed capital requirements, other than its expenditure requirements on its flow-through shares of \$135,900.

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.

#### 6. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	January 31, 2013	January 31, 2012
GST/HST receivable	\$ 47,695	\$ 321,843
Subscription receivable	500	20,850
Other receivable	6,750	15,878
	<u>\$ 54,945</u>	<u>\$ 358,571</u>

#### 7. LOANS RECEIVABLE

Loans receivable of \$304,734 as at January 31, 2012 consisted of unsecured loans made to certain officers, directors and employees of the Company. The loans bore interest at 6% per annum.



**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**NOTES TO THE FINANCIAL STATEMENTS****(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012****8. PREPAID EXPENSES AND DEPOSITS**

Prepaid expenses and deposits consist of the following:

	<b>January 31, 2013</b>	January 31, 2012
(i) Property deposits	<b>\$ 2,000,000</b>	\$ 2,000,000
(ii) Property well costs advanced	<b>89,261</b>	200,911
Other	<b>122,981</b>	22,153
	<b><u>\$ 2,212,242</u></b>	<u>\$ 2,223,064</u>

- (i) The property deposits consist of two interest-bearing guaranteed investment certificates that secure two stand-by letters of credit in the amount of \$1,000,000 each (January 31, 2012 - \$2,000,000 total) with the Canada-Newfoundland and Labrador Offshore Petroleum Board ("CNLOPB"). The two guaranteed investment certificates have maturities of January 24, 2014 and December 24, 2013, and bear interest at 0.75% and 0.85%, respectively. Please refer to note 13 for the terms of the letters of credit, which were 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 as a drilling deposit on exploration license #1097R respectively.

During the year, the Company forfeited a \$1,000,000 drilling deposit with the CNLOPB with respect to exploration license #1097R (see Note 10).

- (ii) Amounts advanced to contractors and as of January 31, 2013 have not been spent.

**9. CONVERTIBLE DEBT**

	<b>January 31, 2013</b>	January 31, 2012
Convertible debt	<b>\$ 300,000</b>	\$ 300,000

Convertible debt as at January 31, 2013 consisted of an unsecured convertible promissory note in the amount of \$300,000 that bore interest at the prime rate and was due on demand. The convertible promissory note was issued in prior year to settle a \$300,000 accounts payable balance owing. Any outstanding balance owing on the convertible debt could be converted into shares of the Company by the holder at a price of \$0.20 per a share. In accordance with IAS32, Financial instruments: presentation, the fair value of the convertible promissory note has been entirely attributed to its debt component due to the holder's ability to unilaterally demand repayment from the date of issuance of the note, with the residual amount assigned to the equity component being nil.

Subsequent to year end on March 6, 2013, the terms of the convertible debt were amended. Please refer to the subsequent events note (Note 17) for further details.

**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012****10. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT**

	Oil and natural gas properties	Website	Computer equipment	Computer software	Total
<u>Cost</u>					
Balance at February 1, 2011	\$ 3,205,107	\$ 6,225	\$ 3,798	\$ 1,080	\$ 3,216,210
Additions	24,367,607	-	3,307	4,181	24,375,095
Balance at January 31, 2012	\$ 27,572,714	\$ 6,225	\$ 7,105	\$ 5,261	\$ 27,591,305
Additions	12,409,084	-	1,580	-	12,410,664
<b>Balance at January 31, 2013</b>	<b>\$ 39,981,798</b>	<b>\$ 6,225</b>	<b>\$ 8,685</b>	<b>\$ 5,261</b>	<b>\$ 40,001,969</b>
<u>Accumulated Amortization</u>					
Balance at February 1, 2011	\$ -	\$ 3,237	\$ 2,413	\$ 1,080	\$ 6,730
Amortization for the year	-	598	418	521	1,537
Balance at January 31, 2012	\$ -	\$ 3,835	\$ 2,831	\$ 1,601	\$ 8,267
Amortization for the period	-	478	751	836	2,065
<b>Balance at January 31, 2013</b>	<b>\$ -</b>	<b>\$ 4,313</b>	<b>\$ 3,582</b>	<b>\$ 2,437</b>	<b>\$ 10,332</b>
<u>Carrying Amounts</u>					
As at January 31, 2012	\$ 27,572,714	\$ 2,390	\$ 4,274	\$ 3,660	\$ 27,583,038
<b>As at January 31, 2013</b>	<b>\$ 39,981,798</b>	<b>\$ 1,912</b>	<b>\$ 5,103</b>	<b>\$ 2,824</b>	<b>\$ 39,991,637</b>

The oil and natural gas properties relate to offshore Exploration License #1070, #1120 and #1097R.

**Western Newfoundland**

At January 31, 2013 the Company holds a 100% working interest in the Offshore Exploration License #1070 ("EL #1070") Shallow Rights, a 100% working interest in Offshore Exploration License #1097R ("EL #1097R") and is also earning 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. The total fair value of the consideration received 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 (Note 11(a)(vii)). As at January 31, 2013, the Company had not earned any working interest in EL #1120.

The Company agreed to a transaction with NWest Oil & Gas Inc. ("NWest") to acquire up to a 100% undivided working legal and beneficial interest in and to EL #1097R. A 50% working interest in the license was transferred to the Company in the prior year 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 \$43,408 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.

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

---

During the current year 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. The total fair value of the consideration received from NWest for the acquisition 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.

If the Company spuds a well on the property covered by EL #1097R, the Company is 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 as a further \$1,000,000 refundable property deposit was made to them during the year. The \$1,000,000 originally deposited with the CNLOPB with respect to EL #1097R and included in prepaid expenses and deposits as at January 31, 2012 was forfeited during the year as the Company had not spudded a well on the property as required to do so by January 15, 2013.

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 participated in the Company's January 2013 private placement (Note 11(a)(v)) 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 whereby (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 Company also paid FCC finder's fees for which the Company issued 1,050,000 units, where each unit was comprised of one share of the Company and one common share purchase warrant (see Note 11(a)(vi)). 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 three Offshore Exploration Licenses #1070, #1120 and #1097R, to earn BSE a 50% interest of the Company's interest in these three Offshore Exploration Licenses. This phase is expected to commence by May 1, 2013.

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 three Offshore Exploration Licenses.

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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#### 11. EQUITY INSTRUMENTS

##### (a) Share Capital

###### 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.
- (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.

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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- (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.
- (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.

#### Shares issued during year ended January 31, 2012

- (i) In February 2011, the Company completed a private placement of 13,594,070 units at a subscription price of \$0.35 per unit and 3,087,502 flow-through units at a subscription price of \$0.40 per flow-through unit for aggregate proceeds of \$5,992,925. Each unit consists of one common share of the Company and one-half of one common share purchase warrant (a "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 (a "FT Warrant"). Each Warrant entitles the holder thereof to acquire one common share at a price of \$0.50 per a common share for a period of 18 months from the date of issuance, and each FT Warrant entitles the holder to acquire one common share at a price of \$0.55 per a common share for a period of 18 months from date of issuance. The Company paid cash commission of \$149,247 and issued 393,634 broker warrants with an exercise price of \$0.35 per a common share and term of 18 months valued at \$36,711 pursuant to the financing.
- (ii) In April 2011, the Company completed a private placement of 6,663,668 units at a subscription price of \$0.45 per unit and 1,520,000 flow-through units at a subscription price of \$0.50 per flow-through unit for aggregate proceeds of \$3,758,651. 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 \$0.60 per a common share for a period of 18 months from the date of issuance. The Company paid cash commission of \$199,544 and issued 422,820 broker warrants with an exercise price of \$0.45 per a common share and term of 18 months valued at \$53,840 pursuant to the financing.



## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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- (iii) In July 2011, the Company completed a private placement of 1,785,000 units at a subscription price of \$0.30 per unit and 4,285,000 flow-through units at a subscription price of \$0.35 per flow-through unit for aggregate proceeds of \$2,035,250. 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 \$0.40 per a common share for a period of 18 months from the date of issuance. The Company paid cash commission of \$122,115 and issued 364,200 broker warrants with an exercise price of \$0.30 per a common share and term of 18 months valued at \$34,637 pursuant to the financing.
- (iv) In August 2011, the Company completed a private placement of 355,000 units at a subscription price of \$0.30 per unit and 25,000 flow-through units at a subscription price of \$0.35 per flow-through unit for aggregate proceeds of \$115,250. 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 \$0.40 per a common share for a period of 18 months from the date of issuance. The Company paid cash commission of \$2,775 and issued 21,000 broker warrants with an exercise price of \$0.30 per a common share and term of 18 months valued at \$887 pursuant to the financing.
- (v) In October 2011, the Company completed a private placement of 7,459,376 units at a subscription price of \$0.16 per unit and 9,069,918 flow-through units at a subscription price of \$0.18 per flow-through unit for aggregate proceeds of \$2,826,085. 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 \$0.30 per a common share for a period of 18 months from the date of issuance. The Company paid cash commission of \$117,980 and issued 687,278 broker warrants with an exercise price of \$0.16 per a common share and term of 18 months valued at \$52,630 pursuant to the financing.
- (vi) In October 2011, the Company issued 20,000,000 units to Canadian Imperial Venture Corp. ("CIVC") to close its purchase from CIVC of CIVC's interest in the Green Point oil-in-shale. Each unit consisted of one common share and one-half one common share purchase warrant, where each full warrant entitles the holder to acquire one common share of the Company for a strike price of \$0.40 per a share for a two-year period. Total share consideration for closing of the transaction amounted to \$3,300,000 and the total value of the warrants issued amounted to \$246,177.

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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- (vii) In November 2011, the Company completed a private placement of 5,342,250 units at a subscription price of \$0.16 per unit and 6,718,224 flow-through units at a subscription price of \$0.18 per flow-through unit for aggregate proceeds of \$2,064,040. 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 \$0.30 per a common share for a period of 18 months from the date of issuance. The Company paid cash commission of \$42,973 and issued 690,660 broker warrants with an exercise price of \$0.16 per a common share and term of 18 months valued at \$39,631 pursuant to the financing.
- (viii) In December 2011, the Company completed a private placement of 8,185,750 units at a subscription price of \$0.16 per unit and 5,526,999 flow-through units at a subscription price of \$0.18 per flow-through unit for aggregate proceeds of \$2,304,580. 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 \$0.30 per a common share for a period of 18 months from the date of issuance. The Company paid cash commission of \$147,689 and issued 557,895 broker warrants with an exercise price of \$0.16 per a common share and term of 18 months valued at \$36,925 pursuant to the financing.
- (ix) In January 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 first 50% interest in EL 1097R. Each warrant issued entitles the holder to acquire one common share of the Company for a strike price of \$0.40 per a share for a two-year period. Total share consideration for closing of the 50% transfer amounted to \$270,000 and the total value of the warrants issued amounted to \$72,521.
- (x) In January 2012, the Company issued 500,000 common shares to Nebu Resources Inc. ("Nebu") as partial consideration to reacquire a 1% interest in EL 1070. Total share consideration for the reacquisition amounted to \$125,000.

For accounting purposes, the number of shares issued and outstanding of 240,240,750 as of January 31, 2012 did not include one million contingently issuable shares to Canadian Imperial Venture Corp. ("CIVC") in escrow in connection with the Company's purchase from CIVC of CIVC's interest in the Green Point oil-in-shale in fiscal 2012. The shares placed in escrow were subsequently cancelled in February 2012 as the Company made the final payment of \$200,000 for the acquisition as required to do so on or before April 25, 2012.

#### (b) Stock option plan and stock-based compensation

The Company has a stock option plan to provide employees, directors, officers and others providing services similar to employees 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 summarizes the stock options that have been granted, exercised, expired, vested or cancelled during the year ended January 31, 2013.

**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012**

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

	Number of Options	Weighted Average Exercise Price
Outstanding as at January 31, 2012	16,575,000	\$ 0.27
Exercised	(200,000)	0.25
Expired	(5,925,000)	0.30
Granted	<u>2,550,000</u>	<u>0.40</u>
<b>Outstanding as at January 31, 2013</b>	<b><u>13,000,000</u></b>	<b><u>\$ 0.28</u></b>

The weighted average share price on the date of exercise of the options was \$0.32 per share.

The following common share purchase options are outstanding at January 31, 2013:

	Date of Grant	Number of Shares	Exercise Price	Expiry Date
Directors	October 29, 2010	3,500,000	\$ 0.25	October 29, 2015
	February 22, 2011	900,000	\$ 0.40	February 22, 2016
	October 26, 2011	250,000	\$ 0.30	October 26, 2016
Officers	October 29, 2010	1,850,000	\$ 0.25	October 29, 2015
Service Providers	October 29, 2010	2,100,000	\$ 0.25	October 29, 2015
	December 16, 2010	450,000	\$ 0.28	December 16, 2013
	June 21, 2011	450,000	\$ 0.50	June 21, 2014
	September 6, 2011	450,000	\$ 0.25	September 6, 2014
	October 6, 2011	1,500,000	\$0.20-\$0.30	October 6, 2014
	October 26, 2011	250,000	\$ 0.30	October 26, 2014
	May 1, 2012	600,000	\$ 0.40	May 1, 2017
May 1, 2012	<u>700,000</u>	\$ 0.40	May 1, 2014	
		<u>13,000,000</u>		

The fair value of share purchase options granted during the year ended January 31, 2013 of \$206,430 (2012 - \$442,664) 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.

Stock based compensation recognized during the year ended January 31, 2013 was \$206,430 (2012- \$442,664). All options outstanding on January 31, 2013 are fully vested.

**(c) Warrants**

The following table summarizes warrants that have been issued, exercised or have expired during the year ended January 31, 2013:

	Number of warrants	Amount	Weighted-average Strike Price
Opening, January 31, 2012	86,993,035	\$ 7,236,596	\$ 0.41
Warrants issued upon unit financings	118,510,711	2,765,113	0.18
Broker Warrants issued	4,898,788	307,484	0.16
Warrants issued for property	1,500,000	157,980	0.28
Warrants issued for services	1,050,000	31,100	0.15
Warrants exercised	(646,559)	(50,958)	0.18
Warrants expired or cancelled	(48,653,018)	-	0.39
Broker Warrants expired or cancelled	(2,941,801)	-	0.28
Outstanding and exercisable - January 31, 2013	<u>160,711,156</u>	<u>\$ 10,447,315</u>	<u>\$ 0.24</u>



**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**NOTES TO THE FINANCIAL STATEMENTS****(Expressed in Canadian Dollars)****FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012**

The fair value of warrants issued upon unit financings during the year ended January 31, 2013 of \$2,765,113 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.

The fair value of broker warrants issued during the year ended January 31, 2013 of \$307,484 was also 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 1.07%-1.20%, expected term of 1.5 years, exercise price of the broker warrants of \$0.10-\$0.32; volatility of 100% (based on comparable companies); and expected future dividends of nil.

The fair value of the warrants issued to acquire property during the year ended January 31, 2013 was \$57,980. This amount has also been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of \$0.10-\$0.28; risk free rate of 1.14%-1.28%, expected term of two years; exercise price of \$0.06-\$0.39; volatility of 100% (based on comparable companies); and expected future dividends of nil.

The fair value of warrants granted for finder's fees during the year ended January 31, 2013 of \$31,100 (2012 - \$nil) has been estimated using the Black-Scholes pricing model with the following assumptions: market value of underlying stock of \$0.09; risk free rate of 1.16%; expected term of 1.5 years; exercise price of the warrant of \$0.15 per share; volatility of 100% (based on comparable companies); and expected future dividends of nil.

At January 31, 2013, the following warrants were outstanding. All warrants issued during the year and warrants outstanding as at January 31, 2013, 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
\$0.10	3,129,053	1.42	3,129,053
\$0.14	466,072	0.83	466,072
\$0.15	105,237,884	1.50	105,237,884
\$0.16	1,389,274	0.40	1,389,274
\$0.20	3,933,930	0.83	3,933,930
\$0.27	222,222	0.54	222,222
\$0.30	23,024,235	0.30	23,024,235
\$0.32	1,081,444	0.55	1,081,444
\$0.39	1,000,000	1.14	1,000,000
\$0.40	11,190,000	0.74	11,190,000
\$0.45	9,037,042	0.55	9,037,042
\$0.50	1,000,000	0.24	1,000,000
	<u>160,711,156</u>	<u>1.15</u>	<u>160,711,156</u>

**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012****12. PROVISION FOR WELL SUSPENSION**

The provision for well suspension of \$200,000 as at January 31, 2012 related to costs expected to be incurred in fiscal 2013 with respect to the suspension of the Company's 3K-39 oil well located on the areas covered by EL #1070.

**13. COMMITMENTS AND CONTINGENCIES**

Please refer to note 10 for the Company's commitments with respect to its oil and natural gas property.

Future minimum rentals payable under non-cancellable operating leases as at January 31, 2013 are \$114,905 payable within one year and \$290,308 payable after one year but not more than five years.

The Company also has two stand-by letters of credit in the amount of \$1,000,000 each, as disclosed in note 8. The stand-by letters of credit mature on January 24, 2014 and December 24, 2013, respectively.

The Company was named as a defendant in a lawsuit relating to the NWest transactions (see note 10) 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 accruals have been made as a result.

**14. RELATED PARTY TRANSACTIONS**

The Company had the following related party transactions:

	<b>January 31, 2013</b>	January 31, 2012
Management fees and consulting fees expense:		
Management fees charged by officers for corporate administrative and financial management services	\$ 411,000	\$ 285,400
Consulting fees charged by officers for corporate administrative and financial management services	\$ 97,500	\$ 128,445
Director fees:		
Directors fees charged by directors for corporate governance services	\$ 13,000	\$ 3,000
Rental income:		
Rent (office premises) charged to companies with common directors as the Company.	\$ 46,800	\$ 7,200
Stock based compensation, directors	\$ -	\$ 185,400
Consulting fees charged by officer included in Oil and natural gas properties	\$ 180,000	\$ -

- (a) Included in accounts payable and accrued liabilities is \$100,413 (2012 - \$36,189) to directors and companies with common directors as a result of consulting fees and reimbursement expense payable.

**SHOAL POINT ENERGY LTD.**

(An Exploration Stage Enterprise)

**NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012**

The remuneration of the members of key management personnel during the year was as follows:

	2013	2012
Management fees	\$ 411,000	\$ 285,400
Consulting fees (included in statement of operations and comprehensive loss)	94,500	128,445
Directors fees	13,000	3,000
Stock-based compensation	-	185,400
Consulting fees (included in Oil and natural gas properties)	180,000	-
	<u>\$ 698,500</u>	<u>\$ 602,245</u>

**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	2013	2012
Oil and natural gas property	\$ (333,608)	\$ 917,567
Cumulative eligible capital	38,191	41,066
Deferred financing and share issuance costs	290,621	184,794
Non-capital losses	3,549,644	3,455,430
	<u>3,544,848</u>	<u>4,598,857</u>
Deferred tax assets not recognized	<u>(3,544,848)</u>	<u>(4,598,857)</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.

Income taxes differ from that which would be expected from applying the combined effective Canadian federal and provincial tax rates of 29% (2012- 30.37%) to the loss before income taxes as follows:

	2013	2012
Expected tax recovery	\$ (608,322)	\$ (572,707)
Stock based compensation costs	59,865	134,437
Flow-through share premium renunciation	-	(264,880)
Effect of renouncing flow-through expenditures	1,213,192	2,124,533
Change in tax rate and other	389,274	(147,905)
Change in deferred tax assets not recognized	<u>(1,054,009)</u>	<u>(1,273,478)</u>
	<u>\$ -</u>	<u>\$ -</u>

## SHOAL POINT ENERGY LTD.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

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As at January 31, 2013 the Company has non-capital losses of \$12,240,153 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		2,753,114
2033		2,445,369
	\$	<u>12,240,153</u>

#### 16. 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, 2013 and 2012, 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.

#### 17. SUBSEQUENT EVENTS

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 full warrant entitles the holder to acquire one additional share at a price of \$0.15 for a period of 18 months from the date of issuance. In connection with this financing, the Company paid cash commissions of \$1,860 and issued 31,000 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 from the date of issuance.

On March 6, 2013 the terms of the convertible debt (Note 9) were amended. The amended convertible debt will continue to bear interest at the prime rate, and the principal and interest must be paid in full on demand, for which demand may be made by the holder on the earlier of (i) April 30, 2014; and (ii) 12 months from the date that the Company lists on the TSX Venture Exchange. Any outstanding balance on the convertible debt can now be converted into shares of the Company by the holder at a price of \$0.10 per a share.

In March 2013, the Company also granted an additional 18,500,000 stock options to directors, officers and consultants of the Company. These options are all exercisable at a price of \$0.15 with terms of 5 years.