

**Shoal Point Energy Ltd.**

Suite 203 – 700 West Pender Street  
Vancouver, B.C. V6C 1G8

**Interim Management Discussion and Analysis**

**For the Three Months Ended**

**April 30, 2019**

The following Management Discussion and Analysis of Shoal Point Energy Ltd. (“Shoal Point” or the “Company”) was prepared as of June 28, 2019 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended April 30, 2019 and the annual audited financial statements for the year ended January 31, 2019. The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com), and on the Company’s website at [www.shoalpointenergy.com](http://www.shoalpointenergy.com).

## **CAUTION REGARDING FORWARD LOOKING STATEMENTS**

*Except for statements of historical fact relating to the Company, certain information contained in this MD&A constitutes “forward-looking information” under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the potential of the Company’s properties; the future price of oil and natural gas; success of exploration activities; cost and timing of future exploration and development; the estimation of oil and natural gas reserves and resources; conclusions of economic evaluations; requirements for additional capital; and other statements relating to the financial and business prospects of the Company.*

*Generally, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, “believes”, or variations of such words and phrases. Forward-looking information may also be identified in statements where certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”.*

*Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made.*

*Forward-looking information is inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to:*

- *The Company’s goal of creating shareholder value by concentrating on the acquisition and development of properties that have the potential to contain economic resources;*
- *Management’s assessment of future plans for the Humber Arm oil-in-shale, Newfoundland, Canada;*
- *Management’s economic outlook regarding future trends;*
- *The Company’s ability to meet its working capital needs at the current level in the short term;*
- *Expectations with respect to raising capital;*
- *Sensitivity analysis on financial instruments may vary from amounts disclosed; and*
- *Governmental regulation and environmental liability.*

*Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, other factors could also cause materially different results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.*

## **COMPANY PROFILE**

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's administrative office is located at suite 203 – 700 West Pender Street, Vancouver, B.C. V6E 3V7. On October 26, 2010, the Company filed articles of continuance in Ontario. On November 23, 2010, the Company began trading on the CNSX (now the CSE) under the symbol SHP.

## **SHARE CONSOLIDATION**

Effective February 7, 2018, the Company consolidated its common shares on the basis of one new common share for every twenty-five old common shares issued and outstanding at that time. All references to share and per share amounts in this MD&A have been retroactively restated to reflect the share consolidation.

## **EXPLORATION ACTIVITIES AND OUTLOOK**

On June 12, 2014, the Company issued an updated NI 51-101 compliant resource estimate, with an effective date of March 31, 2014, and is available on the Company web site at [www.shoalpointenergy.com](http://www.shoalpointenergy.com). The report is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

The following table contains estimates of Total Undiscovered Petroleum Initially in Place (PIIP) and estimates of Prospective (Recoverable) Resources contained in the Humber Arm Allochthon formation within the Exploration License that Shoal Point Energy has rights to in western Newfoundland:

				Gross			Working Interest		
Resource Class				Low MMstb	Best MMstb	High MMstb	Low MMstb	Best MMstb	High MMstb
			Cumulative Production	0	0	0	0	0	0
			Remaining reserves	0	0	0	0	0	0
			Surface loss/shrinkage	0	0	0	0	0	0
			Total Commercial	0	0	0	0	0	0
			Contingent resources	0	0	0	0	0	0
			Unrecoverable	0	0	0	0	0	0
			Total sub-commercial	0	0	0	0	0	0
			Total discovered PIIP	0	0	0	0	0	0
			Prospective resources	177.3	428.4	908.6	177.3	428.4	908.6
			Unrecoverable	2,874.5	6,119.7	10,889.7	2,874.5	6,119.7	10,889.7
			Total undiscovered PIIP	3,051.8	6,548.1	11,798.3	3,051.8	6,548.1	11,798.3
			Total PIIP	3,051.8	6,548.1	11,798.3	3,051.8	6,548.1	11,798.3

Prospective resources are defined as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity. Prospective resources have both an associated chance of discovery (geological chance of success) and a chance of development (economic, regulatory, market, facility, corporate commitment or political risks). The chance of commerciality is the product of these two risk components. The Province of Newfoundland and Labrador currently has a moratorium on hydraulic fracturing in place. The prospective resource estimates referred to herein have not been risked for either the chance of discovery or the chance of development. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

The Low Estimate represents the P<sub>90</sub> values from the probabilistic analysis (i.e. the value is greater than or equal to the P<sub>90</sub> value 90% of the time), while the Best Estimate represents the P<sub>50</sub> values and the High Estimate represents the P<sub>10</sub>. Actual resources may be greater or less than those calculated.

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. Our property may require hydraulic fracturing to achieve commercial production. In October 2014, the Government of Newfoundland appointed five members to the Newfoundland and Labrador Hydraulic Fracturing Review Panel ("NLFRP") to study the socio-economic and environmental impacts of hydraulic fracturing in western Newfoundland. The report was made public on May 31, 2016. The Company is disappointed in the report, which recommends, among other things, significant further study before hydraulic fracturing could be considered.

The Company submitted a summary planning document to the applicable regulators in Newfoundland and Labrador (“C-NLOPB”) which did not involve hydraulic fracturing. The Board of the C-NLOPB met on July 25, 2017 and voted to reject our application to re-enter and test an existing well. The Company has received a written response as to why the planning document was rejected.

After assessing the C-NLOPB decision, the Company, on April 10, 2019, submitted a letter to the Board proposing to do other work on EL 1070 while remaining in diligent pursuit of well 3K-39. The Company awaits a response.

Management of Shoal Point continues to believe EL 1070 in Western Newfoundland represents a tremendous economic opportunity for the shareholders of the Company. The Humber Arm Allochthon also represents an opportunity for the people of Western Newfoundland to develop a significant oil industry that will create jobs and generate revenues for the government from both royalties and taxes.

## **OPERATIONS UPDATE**

Shoal Point Energy holds tenure in EL 1070 by virtue of its “diligent pursuit” of well 3K-39. The Canada Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB), in a letter to then partner Black Spruce Exploration Corp. dated April 12, 2013, extended the target date for recommencing operations on EL 1070 until a reasonable time period following the completion of the regulatory approval process. On July 23, 2014 the Company delivered the end of well report for the 3K-39Z to the C-NLOPB and delivered the first end of well report for the 3K-39 on August 21, 2014. The Company continues to provide regular activity updates to the C-NLOPB.

## **OVERALL PERFORMANCE**

As at April 30, 2019, the Company’s cash and cash equivalents position decreased to \$419,484 from \$538,542 at January 31, 2019 as a direct result of operating costs and oil and natural gas exploration costs incurred.

The Company relies on equity financings to fund its operations. At April 30, 2019, the Company’s working capital was \$399,714. The Company will continue to focus on the maintenance of its interest in EL 1070.

## Summary of Quarterly Results

### Quarterly Financial Information (unaudited)

For the three months ended	April 30, 2019	January 31, 2019	October 31, 2018	July 31, 2018
Net loss (in thousands)	\$ (116)\$	(66)\$	(103) \$	(92)
Net loss per share (basic & fully diluted)	\$ (0.00)\$	(0.00)\$	(0.00) \$	(0.00)
Total assets (in thousands)	\$ 2,609\$	2,726\$	2,820 \$	2,921
Shareholders' equity (in thousands)	\$ 2,578\$	2,688\$	2,798 \$	2,894

  

For the three months ended	April 30, 2018	January 31, 2018	October 31, 2017	July 31, 2017
Net loss (in thousands)	\$ (235)\$	(5,774)\$	(75) \$	(116)
Net loss per share (basic & fully diluted)	\$ (0.01)\$	(0.27)\$	(0.00) \$	(0.01)
Total assets (in thousands)	\$ 3,018\$	2,098\$	7,823 \$	7,939
Shareholders' equity (in thousands)	\$ 2,984\$	2,028\$	7,802 \$	7,876

### Results of Operations

During the three months ended April 30, 2019, the Company recorded a net loss of \$115,801 (\$0.00 per share) compared to a net loss of \$234,838 (\$0.01 per share) for the three months ended April 30, 2018. The 2018 net loss was significantly higher, primarily due to recording the share-based compensation of \$123,503 as a result of stock options granted during the April 30, 2018 fiscal quarter.

Overall, excluding depreciation, impairment and stock based compensation, the loss from operations for the three months ended April 30, 2019 was \$110,451 compared to the loss of \$110,930 for the three months ended April 30, 2018.

#### *Stock-based compensation*

Stock-based compensation expense of \$123,503 in the three months ended April 30, 2018 was higher compared to \$4,888 for the three months ended April 30, 2019, as a result of the stock options granted during the April 30, 2018 fiscal period. There were no stock options granted during the three months ended April 30, 2019.

### FINANCING ACTIVITIES

There were no share issuances for the three months ended April 30, 2019.

On March 13, 2018, the Company completed an equity rights offering and issued a total of 21,770,810 common shares raising total gross proceeds of \$1,088,541. In connection with the financing, the Company incurred \$75,549 in share issue costs. In consideration for providing a standby commitment, certain individuals were granted, in aggregate, 2,500,000 warrants, each entitling the holder to subscribe for one common share at \$0.06 per share until March 13, 2021.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at April 30, 2019, the Company had cash and cash equivalents of \$419,484 and a working capital of \$399,714. As at April 30, 2019, the Company's share capital was \$60,323,128 (January 31, 2019 - \$60,323,128) representing 43,537,160 (January 31, 2019 - 43,537,160) issued and outstanding common shares without par value. The Company's deficit was \$74,308,539 as at April 30, 2019 (January 31, 2019 - \$74,192,738).

During the three months ended April 30, 2019, net cash used in operating activities was \$95,894 while \$23,164 was spent on oil and natural gas exploration expenditures as part of investing activities.

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 its oil and natural gas exploration business and ultimately to achieve positive cash flow from operations. In the current economic market, there is no certainty that management will be successful in these efforts. 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.

## **CAPITAL EXPENDITURES**

The Company incurred oil and natural gas exploration costs of \$22,633 (2018 - \$15,708) and purchased equipment of \$531 (2018 - \$2,404) during the three months ended April 30, 2019. The Company does not currently have any capital expenditure commitments.

## **OFF-BALANCE SHEET TRANSACTIONS**

The Company has no off balance sheet transactions.

## **COMMITMENTS AND CONTINGENCIES**

The Company was named as a defendant in a \$3,414,000 lawsuit relating to seismic data which the litigant, Geophysical Services Inc. claims was disclosed by NWest Oil & Gas Inc. ("NWest") to the Company when the Company acquired certain acreage from NWest in a prior year. Management believes the claim to be frivolous towards the Company and without merit. The Company has filed a Summary Dismissal Application with the Alberta Court. A date for hearing of this Application has not been set. No loss provision has been recorded.

## RELATED PARTY TRANSACTIONS

	April 30, 2019	April 30, 2018
Management salaries	\$ 24,391	\$ 35,497
Professional fees	467	-
Share-based compensation	340	86,985
	<u>\$ 25,198</u>	<u>\$ 122,482</u>

## SUBSEQUENT EVENTS

### Farm in Agreement

On June 7, 2019, the Company entered into a farm in agreement with Shelby Resources LLC in the Mount Evans prospect in Kansas. The farm in agreement has a five year term.

Pursuant to the terms of the agreement, the Company will earn a 65% working interest of an 80% net revenue interest by paying US \$75,000, financing a 3D seismic shoot over approximately 5,700 acres at an estimated cost of U \$420,000, and drilling the first well to casing point to a depth of approximately 4,700 feet or the bottom of the Arbuckle Formation for an estimated cost of US \$135,000. Completing and equipping the first well and all operations on subsequent wells will be paid for by the Company proportionate to its 65% working interest. The Area of Mutual Interest is 121 square miles.

### Stock Options

Subsequent to April 30, 2019, the Company has granted 500,000 options with an exercise of \$0.10 and a term of two years to a consultant.

## CRITICAL ACCOUNTING ESTIMATES

As at April 30, 2019, the Company's financial statements reflect "Oil and Natural Gas Properties and Equipment" with a balance of \$2,127,822. The recoverability of this amount is dependent upon the discovery of economically recoverable reserves, and the ability to attain future profitable production from those reserves, or from their successful disposition. The Company has not determined if its properties contain oil and gas reserves that are economically recoverable.

### *Income taxes*

Preparation of the consolidated financial statements involves determining an estimate of, or provision for, income taxes. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced to the recoverable amount. Judgement is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities.



Management must also exercise judgement in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

## **ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

IFRS 16 “Leases” replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The adoption of this standard did not have a material measurement or disclosure impact on the Company’s consolidated financial statements.

## **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 April 30, 2019 the Company held cash and cash equivalents of \$419,484 to settle current liabilities of \$31,766. The Company’s working capital at April 30, 2019 was \$399,714.

### *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 has cash in term deposits at fixed rates of interest.

### *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 and accounts 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.

## **CAPITAL MANAGEMENT**

The Company identifies capital as share capital and cash. The Company raises capital through private and public share offerings and related party loans and advances. Capital is managed in a manner consistent with the risk criteria and policies provided by the board of directors and followed by management. All sources of financing and major expenditures are analyzed by management and approved by the board of directors.

The Company's primary objectives when managing capital is to safeguard and maintain the Company's financial resources for continued operations and to fund expenditure programs to further advance oil and natural gas property interests

The Company is meeting its objective of managing capital through detailed review and due diligence on all potential acquisitions, preparing short-term and long-term cash flow analysis to maintain sufficient resources.

The Company is able to scale its expenditure programs and the use of capital to address market conditions by reducing expenditure and the scope of operations during periods of commodity pricing decline and economic downturn.

There are no externally imposed capital restrictions and no changes in approach.

## **RISKS AND UNCERTAINTIES**

The Company's principal activity is oil and natural gas exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, commodity prices, political and economic.

The Company has no significant source of operating cash flow and no revenue from operations. The Company has not determined whether its resource properties contain reserves that are economically recoverable. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish reserves. The property interests that the Company has or has an option to earn an interest in are in the exploration stage only. Oil and natural gas exploration involves a high degree of risk and few properties, which are explored, are ultimately developed. Exploration of the Company's properties may not result in any discoveries of commercial bodies of resources. If the Company's efforts do not result in any discovery of

commercial resources, the Company will be forced to look for other exploration projects or cease operations.

The Company may be subject to risks which could not reasonably be predicted in advance. Events such as labour disputes, environmental issues, natural disasters or estimation errors are prime examples of industry related risks.

The Company is in the business of oil and natural gas exploration and as such, its prospects are largely dependent on movements in the price of oil and natural gas. Prices fluctuate on a daily basis and are affected by a number of factors beyond the control of the Company. The resource exploration industry in general is a competitive market and there is no assurance that, even if commercial quantities of proven and probable reserves are discovered, a profitable market may exist. Due to the current grassroots nature of its operations, the Company does not enter into price hedging programs.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters.

## **ENVIRONMENTAL RISKS AND HAZARD**

All phases of the Company's exploration operations are subject to environmental regulations in the jurisdictions it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which the Company holds interests, which are unknown to the Company at present and which may have been caused by previous or existing owners or operators of the properties. The Company may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from proceeding with planned exploration or development of oil and natural gas properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities which may cause operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in oil and natural gas operations may be required to compensate those suffering loss or damage by reason of the oil and natural gas activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of oil and natural gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures and production costs. They may also cause a reduction in levels of production at producing properties or they may require abandonment or delays in development of new oil and natural gas properties.

## OUTSTANDING SHARE DATA

For additional detail, see Note 6 of the consolidated financial statements.

	<b>Number Issued and Outstanding June 28, 2019</b>	<b>Number Issued and Outstanding April 30, 2019</b>
Common Shares issued and outstanding	43,539,160	43,539,160
Warrants to purchase Common shares	5,260,640	5,260,640
Options to purchase Common Shares	3,610,000	3,610,000
Fully Diluted	52,409,800	52,409,800

## OFFICERS CERTIFICATION OF EVALUATION OF DISCLOSURE CONTROLS

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the financial statements for the three months ended April 30, 2019 and this accompanying MD&A.

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Annual Filings on SEDAR at [www.sedar.com](http://www.sedar.com).